



CAPITAL MARKETS

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**Connor, Clark & Lunn Capital Class Inc.
(Balanced Portfolio Class, Series 1)**

Annual Report
June 30, 2011

Connor, Clark & Lunn Capital Class Inc., Balanced Portfolio Class, Series 1 (Balanced Portfolio Class) Message to Shareholders

September 28, 2011

Dear Investor,

I am pleased to provide the second annual report for the Connor, Clark & Lunn Capital Class Inc., Balanced Portfolio Class, Series 1 (Balanced Portfolio Class) (the “Fund”) for the year ended June 30, 2011. The Fund was established as an additional class of Connor, Clark & Lunn Capital Class Inc. on April 20, 2010. In order to be more cost effective, the new Fund invests in the institutional class of the Connor, Clark & Lunn Balanced Portfolio (the “Portfolio”) that is managed by Connor, Clark & Lunn Managed Portfolios Inc. (“MPI”). There is no duplication of fees as MPI is paid out of the Fund’s management fee.

The Portfolio seeks to generate modest growth of capital while utilizing fixed income investments to stabilize returns. The Portfolio is broadly diversified across different types of equity and fixed income securities. Equity securities are employed to provide capital growth while fixed income investments limit year to year variability of returns. MPI has retained the services of a number of specialized portfolio managers to help it achieve these objectives, each with its own specialised area of investment expertise. Connor, Clark & Lunn Private Capital Ltd. (“CCLPC”) has been retained to determine the appropriate asset allocation of invested funds across the various asset classes. Each of the following portfolio managers have been retained to determine asset allocation or to invest the assets allocated to their asset class with full authority and responsibility for security selection:

- Connor, Clark & Lunn Investment Management Ltd. – Canadian equities (growth at a reasonable price, known as GARP), fixed income and income trusts
- Connor, Clark & Lunn Private Capital Ltd. – asset allocation
- New Star Canada Inc. – EAFE equities
- PCJ Investment Counsel Ltd. – Canadian equities (small cap)
- Scheer, Rowlett & Associates Investment Management Ltd. – Canadian equities (value)
- Baker Gilmore & Associates Inc. – Fixed income (short term)
- Gyrus Investment Management Inc. – U.S. equities

In its capacity as portfolio manager responsible for asset allocation, CCLPC will monitor and periodically rebalance the Portfolio’s underlying investments in order to maintain the strategic target asset allocation and, CCLPC may, in its sole discretion, based in part upon any modelling, testing and asset allocation services, change the strategic target allocations and/or add or remove asset classes in order to meet the objectives of the Portfolio.

The Fund is available for sale through investment dealers and financial planners via Fundserv code CCL200. Please check our web site for quarterly investment updates and other timely information. We appreciate your investment in the Fund and look forward to good performance as the Fund matures.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Natural Resources Fund Inc.

Management Report of Fund Performance

This annual management report of fund performance for Connor, Clark & Lunn Capital Class Inc., Balanced Portfolio Class, Series 1 (Balanced Portfolio Class) (the “Fund”), contains financial highlights but does not contain the complete annual financial statements of the Fund.

You can obtain a copy of the annual financial statements at no cost by writing to Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) to the following address: Connor, Clark & Lunn Capital Markets Inc., Suite 300, 181 University Avenue, Toronto, Ontario M5H 3M7, or calling (416) 862-2020 or visiting the Manager’s website at www.cclcapitalmarkets.com or by visiting www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure

Any reference to “Net Assets” or “Net Assets per Share” or “GAAP Net Assets” means that the value was determined in accordance with the Canadian Generally Accepted Principles “GAAP” for financial statements purposes. Any reference to “Net Asset Value” or “Net Asset Value per Share” or “Transactional NAV” means that the value was determined for valuation and transactional purposes in accordance with Canadian Securities Administrators.

Investment Objectives and Strategy

The Fund is a class of shares issued by Connor, Clark & Lunn Capital Class Inc. (the “Corporation”) (a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation). The Fund seeks to generate modest growth of capital by investing in a broadly diversified portfolio of equity and fixed income securities. Investors in Connor, Clark & Lunn’s flow-through limited partnerships received Connor, Clark & Lunn Capital Class Inc., Natural Resources Class Shares (the “Natural Resources Class”) pursuant to mutual fund roll-over transactions. Holders of Natural Resources Class Shares can switch into Balanced Portfolio Class Shares on a tax-deferred basis and vice versa.

In order to invest the portfolio in a cost efficient manner proceeds from the issuance of Balanced Portfolio Class Shares were invested in the institutional class (Series I) of CC&L Balanced Portfolio (the “Portfolio”), an open ended mutual fund organized under the laws of Ontario and managed by Connor, Clark & Lunn Managed Portfolios Inc. (the “Investment Manager”). The Portfolio seeks to generate modest growth of capital while utilizing fixed income investments to stabilize returns. The Portfolio is broadly diversified across different types of equity and fixed income securities. Equity securities are employed to provide capital growth while fixed income investments limit year to year variability of returns.

To achieve these objectives the Investment Manager has retained the services of a number of specialized portfolio managers, each with its own specialized area of investment expertise. Each of the following portfolio managers have been retained to determine asset allocation or to invest the assets allocated to their asset class with full authority and responsibility for security selection:

- Baker Gilmore & Associates Inc. (“BGA”): Fixed income (short-term)
- Connor, Clark & Lunn Investment Management Ltd. (“CCLIM”): Canadian equities (growth at a reasonable price, known as “GARP” and income trusts and dividend paying shares, known as “Income & Growth”) and fixed income (core)
- Connor, Clark & Lunn Private Capital Ltd. (“CCLPC”): Asset allocation
- Gyrus Investment Management Ltd. (“Gyrus”): U.S. equities
- New Star Canada Inc. (“New Star”): Europe, Australia and Far East (“EAFE”) equities
- PCJ Investment Counsel Ltd. (“PCJ”): Canadian equities (small capitalization or “small-cap”)
- Scheer, Rowlett & Associates Investment Management Ltd. (“SRA”): Canadian equities (value)

In its capacity as portfolio manager responsible for asset allocation, CCLPC monitors and periodically rebalances the Portfolio’s underlying investments in order to maintain the strategic target asset allocations and, CCLPC may, in its sole discretion, based in part upon any modeling, testing and asset allocation services, change the strategic target allocations

and/or add or remove asset classes in order to meet the objectives of the Portfolio.

Risk

The risks of investing in the Fund remain as discussed in the Fund's Simplified Prospectus.

Caution regarding forward-looking statements

The analysis in this document includes forward looking statements. The use of any of the words anticipate, may, will, expect, estimate, should, believe and similar expressions are intended to identify forward-looking statements. Such statements reflect the opinion of Manager and the Balanced Portfolio's portfolio managers regarding factors that might be reasonably expected to affect the performance and the distributions on units of the Portfolio, and are based on information available at the time of writing. The Fund's Manager believes that the expectations reflected in these forward-looking statements and in the analysis are reasonable, but no assurance can be given that these expectations or the analysis will prove to be correct and accordingly they should not be unduly relied on. These statements speak only as of the date of this report. Actual events and outcomes may differ materially from those described in these forward-looking statements or analysis.

Recent Developments

Future accounting changes

The Canadian Accounting Standards Board ("AcSB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the AcSB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the AcSB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises for one additional year to 2013. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of mandatory adoption of IFRS for these entities. As a result, the Fund will delay implementation of IFRS until January 1, 2013.

The Fund's Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the net assets of the Fund. Management has presently determined that there will be no significant impact to net assets per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Results of Operations

The Investment Manager's Commentary of the CC&L Balanced Portfolio

As of June 30, 2011, the Portfolio held \$25.1 million in total net assets. During the first half of 2011, investors in Series I units of the Portfolio experienced a return of 1.2%, underperforming the blended benchmark for the portfolio (40% DEX Universe Bond, 30% MSCI World (excluding Canada), 25% S&P/TSX Composite, 5% DEX 91 Day T-bill) which returned 1.8% over the same period.

The Portfolio remains broadly diversified across a number of asset classes. The changes in the composition of the Portfolio are carefully monitored and managed by the team of investment specialists at CCLPC, to whom the manager has entrusted

the responsibility for actively managing asset allocation.

The individual managers of the various asset classes will have achieved various levels of performance throughout the period. The impact of their out or underperformance of their policy benchmarks will impact the Portfolio returns as a whole, but because of the active nature of the asset allocation strategy, it is important to note that the magnitude of their performance relative to the Portfolio will vary depending on the asset allocation weight at any point in time.

Canadian Equities

During the first half of 2011, CCLIM, the large-cap Canadian equity (GARP) manager, underperformed its benchmark, returning -0.6% while the benchmark (S&P/TSX Composite Index) returned 0.2%.

CCLIM feels that macro events set the tone for financial markets during the second quarter. Concerns over supply disruptions out of Japan, monetary policy tightening in China, resurrection of the Greek debt crisis, and rising energy and food prices put investors in a defensive mood for most of the quarter. From its peak in mid-April, the TSX Composite Index had declined by more than 10% as investors reconsidered their enthusiasm for risky assets. A market rally in late June cut that decline in half.

An overweight in technology and underweight in the financials, telecom, and health care sectors through the second quarter all proved to be a drag on performance. Positive security selection in technology and energy was more than offset by weak performance in consumer discretionary, consumer staples, and materials. Mid-cycle market corrections of the magnitude witnessed in the second quarter of 2011 are not unusual but CCLIM is not expecting to see the current slowdown turn into a full-blown recession. The slowdown that we are currently experiencing is similar in magnitude to previous difficult environments and CCLIM expects the economic recovery will re-accelerate during the second half of 2011. From a strategy point of view, the Portfolio's positioning remains largely unchanged. The key themes that CCLIM is focused on are modest but positive economic growth led by emerging economies, business capital spending and M&A activity continuing to build, and companies that can grow their dividends over time.

On the Canadian equity value side, SRA underperformed the broader market for the six month period ending June 30, 2011. The investments returned -0.2%, trailing the benchmark (S&P/TSX Composite Index) which returned 0.2%.

The second quarter of 2011 was challenging for equity markets as fears on several fronts gripped the markets. According to SRA, these challenges included continued debt difficulties amongst debt-laden countries of Europe (namely Greece), the end of the quantitative easing stimulus ('QE2') in the U.S., concerns about the weak U.S. housing and labour markets, and the vulnerability in China's economic growth. All global equity markets except Japan and Germany finished lower during the quarter.

The overweight in energy producers hurt performance as share prices fell in conjunction with oil prices during the quarter. Blackberry maker Research In Motion Limited was a drag on performance as they continue to face a number of challenges. SRA believes these challenges are product specific and that the valuation on the stock remains attractive so they will maintain an overweight position. When fears grip the market, not only are the over-priced stocks hit hard, but the reasonably valued ones are as well. SRA expects volatility to continue as the global economic recovery hits speed bumps along the way, but that volatility does not change the longer term earnings ability of companies. The patience of the broader market will likely be tested as investors focus and react (or overreact) to every bit of financial or political news making headlines. Overall the Portfolio is positioned for an economic recovery because of the longer term values that reside in many of the Portfolio's names in materials and energy, with diversification and dividend support through overweight positions in banks, consumer discretionary, and telecom sectors.

Canadian equity small-cap managers PCJ were challenged in June as a difficult quarter for equities came to a close. A nearly 6% retreat for Canadian small cap equities during June alone capped off an 8% decline for the second quarter and an almost 5% decline year-to-date. The continuation of negative macroeconomic factors led to the decline, in particular, the continued weakness in the U.S. employment picture and the relative weakness of Chinese GDP growth. Underlying these trends, metal prices, oil prices, and agricultural products declined in June largely due to the impact of the potential slowdown in global economic growth. Add in the uncertainty surrounding the end of second quarter of 2011 in the U.S. and market participants were clearly signalling their bearish view towards equities. Small caps underperformed large caps during the quarter as relatively higher risk assets tend to underperform during falling markets.

Stock selection in the materials sector was the prime detractor from added-value. Specifically, stocks with gold, silver, and precious metals exposure were the hardest hit during the second quarter. On the positive side, security selection in the information technology sector added value to performance. The range of returns within the portfolio and benchmark continues to be very wide, allowing for stock selection gains albeit with increased volatility. Despite the market pullback, PCJ is still confident that small caps represent excellent potential. While some investor pessimism is warranted given the tepid macro environment, equity valuations continue to be very attractive. Working through this soft period will require some patience but there is considerable upside considering equity valuations and forecast earnings growth. PCJ's strategic direction continues to favour economically sensitive industry groups.

The small-cap portion of the portfolio returned -4.7% during the first six months of 2011 versus the benchmark (TSX SmallCap Index) return of -4.3% over the same period.

For the six-month period ending June 30, 2011, our Income & Growth asset class returned 7.7%, easily outpacing the benchmark (S&P/TSX Composite Index) which returned 0.2%. This is the asset class that seeks to generate yield for investors by purchasing equities investments, REITs, and trusts.

CCLIM believes that macro events set the tone for financial markets during the second quarter of 2011. Concerns over supply disruptions out of Japan, monetary policy tightening in China, resurrection of the Greek debt crisis, and rising energy and food prices put investors in a defensive mood for most of the quarter. Expectations for growth turned negative as economic releases confirmed that the global economy was entering a 'soft patch'.

This moderating outlook pressured the Canadian equity market as economically-sensitive sectors such as technology, energy, and materials all posted significant losses. The Portfolio had limited exposure in these sectors and more emphasis on income-oriented securities which helped to preserve capital and performance. The strong outperformance was also attributable to successful security selection within the energy and utilities sectors. Within the banking sector, CCLIM expects that higher quality banks will begin to outperform and has concentrated the Portfolio's exposure in the three largest banks (Royal Bank of Canada, Toronto-Dominion Bank, and Bank of Nova Scotia).

As noted previously, mid-cycle market corrections of the magnitude witnessed in the second quarter are not unusual but CCLIM does not expect to see the current slowdown turn into a full-blown recession. The slowdown that we are currently experiencing is similar in magnitude to previous difficult environments and CCLIM expects the economic recovery will re-accelerate during the second half of 2011.

Global Equities

According to EAFE equity manager Newstar, global equity markets were impacted by several macro events that led to softening global growth and lower investor confidence. Performance across the Eurozone countries was diverse and included both the best and worst performing markets globally: Ireland, Germany and France ranked at the top while Greece, Denmark and Finland were the laggards.

The size of the country level exposures within the Portfolio continued to be reduced. The underweight in Germany was reduced because of its improving basket level momentum which was reflected in the Portfolio through new positions in health care company Bayer AG as well as an increase in Deutsche Telekom AG. In Japan, country level macroeconomic signals improved as many companies were successful at restoring production much earlier than anticipated and the underweight in Japan was cut in half.

Meanwhile, because of weakening basket level earnings signals, the underweight in Switzerland was increased with the sale of insurer Zurich Financial Services AG. At the sector level, the portfolio shifted away from cyclical stocks as the exposures to energy, materials, industrials and technology were all reduced. Within the energy sector, Norwegian Statoil ASA, Italian Eni SpA and British Petroleum plc were all exited. The proceeds were re-invested mostly in the health care, telecom and consumer staples sectors. The largest purchase in the health care sector was in French pharmaceutical company Sanofi SA.

For the six-month period ending June 30, 2011, the EAFE Foreign equity portion of the portfolio underperformed its benchmark, returning -2.1% to the benchmark (MSCI EAFE index) return of 2.3%.

In the United States and for the six-month period ending June 30, 2011, Gyrus underperformed the S&P 500 Index. The U.S. equity portion of the portfolio returned 1.6% against the benchmark's 3.0%.

According to Gyrus, the S&P 500 was flat during the second quarter. Clearly this continues to be a substandard recovery in the U.S. economy. U.S. GDP in the first quarter came in at 1.9% and economists are expecting it to remain at that level for Q2. Many economic indicators are moderating as well, including the oft-watched ISM Manufacturing Index. While it has remained above an economic expansion level of 50 since August 2009 the Index has fallen lower from earlier this year. Gyrus continues to believe that a moderate growth trajectory is the most likely scenario as inflation remains low and central banks will keep interest rates low to stimulate growth.

Employment growth is the key to the sustainability of the recovery. Recent weak employment data can be explained by supply chain issues arising from Japan, severe weather in Q1, and uncertainty engendered by the sovereign debt crisis in Europe. Markets globally have been responding to the continuing debt issues in Europe. Some budget austerity actions were taken by the Greek government but it is unlikely to be sufficient to solve the problem. The day of reckoning has merely been postponed as Greece, Ireland, and probably Portugal will have to restructure their debt. In contrast, American companies continue to post strong earnings that will add to their already healthy balance sheets. Capital management through dividend increases and share buybacks with selective mergers and acquisitions activity should provide continued support to the market.

Health care and utilities sectors had strong quarters while financials and energy lagged behind. During the second quarter, the Portfolio initiated a position in Transocean Ltd. and sold Hewlett Packard Company. The CCLPC approach for the U.S. equity portion of the Portfolio is to maintain value characteristics that are similar to the S&P 500 while exhibiting superior growth metrics and remaining sector neutral.

Fixed Income

Our short-term bond manager, BGA, outperformed their benchmark DEX Short-term Bond Index in the first half of 2011. BGA returned 2.1% against the benchmark's (DEX Short Term Bond Index) 1.8%.

According to BGA, risk aversion returned to global capital markets in the second quarter of 2011, as rising concerns over the potential for a Greek debt default combined with softer economic data and rising oil prices helped push government bond yields lower. Stock markets fell and investors in the credit markets focused more on quality in an environment of rising economic uncertainty. The U.S. economy has continued to soften with business sentiment pointing to more subdued growth. Canada has also been impacted by global events. Although business confidence has remained strong, consumer spending has begun to decelerate, impacted by rising oil prices and efforts by households to pare debt levels in anticipation of rising global interest rates.

While fiscal spending provided important support to domestic demand during the credit crisis, government expenditure is now expected to become a drag on growth as Canada's newly elected Conservative majority government commits to eliminating the deficit by 2014. Despite a surprising jump in core inflation to 1.8% in May, the Bank of Canada ("BoC") left interest rates unchanged and maintained its cautious outlook highlighted by the strength of the Canadian dollar and the sovereign debt crisis in Europe.

Interest rates remain at very low levels globally, especially in Canada, where solid business confidence is expected to drive investment and hiring gains. We expect the BoC will begin raising overnight rates again in the latter half of the year. For the period, yields on two-year Government of Canada (GoC) bonds fell 27 basis points to 1.60%, while yields on five-year GoC bonds fell 41 basis points to 2.36%. The portfolio remains overweight high-grade financials and AAA-rated securities. The Portfolio remains underweight BBB-rated securities as BGA believes that risks to the global economy remain and in this environment it prefers higher quality exposures.

On the core bond side, CCLIM believes that the global economy hit a significant soft patch during the second quarter of 2011 as the effects from the Japanese supply-chain disruption, the resurrection of the European sovereign debt crisis, and severe weather all negatively impacted the pace of growth. Weaker-than-expected economic growth and European debt concerns caused longer-term yields to approach their previous lows. In the U.S., growth moderated as strong business spending was mitigated by the headwind created by rising food and energy prices and a loss of momentum in job creation. Canada fared better with strong business spending and strong employment growth despite pressure from an appreciating Canadian dollar.

Looking ahead, CCLIM expects that economic growth in North America will re-accelerate resulting in a moderately positive economic outlook for the remainder of 2011. While many positive factors support this outlook, CCLIM expects that the influence of monetary tightening in emerging markets to control inflation will most likely keep a lid on the pace of overall global growth. A confluence of external factors, such as the risk of contagion from the European debt situation or the possible resolution to the U.S. debt ceiling problem, could also lead to heightened market volatility in the near term.

For the six-month period ending June 30, 2011, the core bond portfolio outperformed its benchmark DEX Universe Bond Index. The portfolio returned 2.9% for the period while the benchmark returned 2.2%.

Exposure to high-yield bonds was added to the Portfolio in March 2011. With respect to high-yield bonds, CCLIM felt that weakness in the pace of the global economic recovery and European debt concerns reversed the positive investor sentiment towards credit that had prevailed since last summer. While this produced a positive outcome for government bonds in North America and many other countries as yields declined considerably, it had the opposite effect on the high yield market where credit spreads widened. The widening then intensified driven by increased supply caused by investors exiting the marketplace.

Despite all this recent pressure in the high yield market, overall rates remained near historic lows. Issuers were more timid during the quarter, especially in the U.S. where the overall issuance level declined considerably, especially in June. The situation was similar in Canada where new issues were also light. Heightened volatility should continue for at least the near term as several headwinds such as European sovereign debt woes and the U.S. debt ceiling situation may persist. However, CCLIM continues to be optimistic about the high yield market, where current elevated yields have become increasingly attractive.

Between March 2, 2011 (when high-yield bond exposure was introduced) and June 30, 2011, investments in high-yield bonds returned 1.0%. The benchmark (DEX Universe Bond Index) returned 2.4% over the same period.

Capital transactions

The Fund is authorized to issue unlimited number of Balanced Portfolio Class Shares pursuant to the simplified prospectus dated March 26, 2010. On April 20, 2010, \$150,000 was raised through the issue of 15,000 Shares at \$10.00 per Share.

Holder of Natural Resources Class Shares can switch into Balanced Portfolio Class Shares on a tax-deferred basis and vice versa. During the year ended June 30, 2011, \$664,246 was transferred from Natural Resources Class in exchange for 63,684 of Balanced Portfolio Class Shares (\$495,938 for 50,985 of Balanced Portfolio Class Shares during the period from April 20, 2010 (commencement of operations) to June 30, 2010). There were also 29,433 of Balanced Portfolio Class Shares redeemed for a total cost of \$308,012 during the year ended June 30, 2011 (There were no redemptions during the period from April 20, 2010 (commencement of operations) to June 30, 2010).

Distributions

From time to time, the Fund may choose to make distributions to shareholders. The Fund will make payable each year its income for tax purposes and capital gains to ensure that the Fund will not be liable for income tax under the Tax Act (Canada). These distributions are made in the form of shares.

During the year ended June 30, 2011, the Fund declared a non-cash distributions of \$311,295 (\$nil during the period from April 20, 2010 (commencement of operations) to June 30, 2010). Immediately after this non-cash distribution, the number of shares was consolidated such that each shareholder held, following the consolidation, the same number of shares of the Fund as such shareholder held before this non-cash distribution.

Related Party Transactions

Management Fees

Pursuant to a management agreement (“the Management Agreement”) the Fund retained the Manager to act as manager of the Fund. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 2.00% per annum of the net asset value of the Fund to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Fund during the year ended June 30, 2011 were \$21,363 (\$697 during the period from April 20, 2010 (commencement of operations) to June 30, 2010).

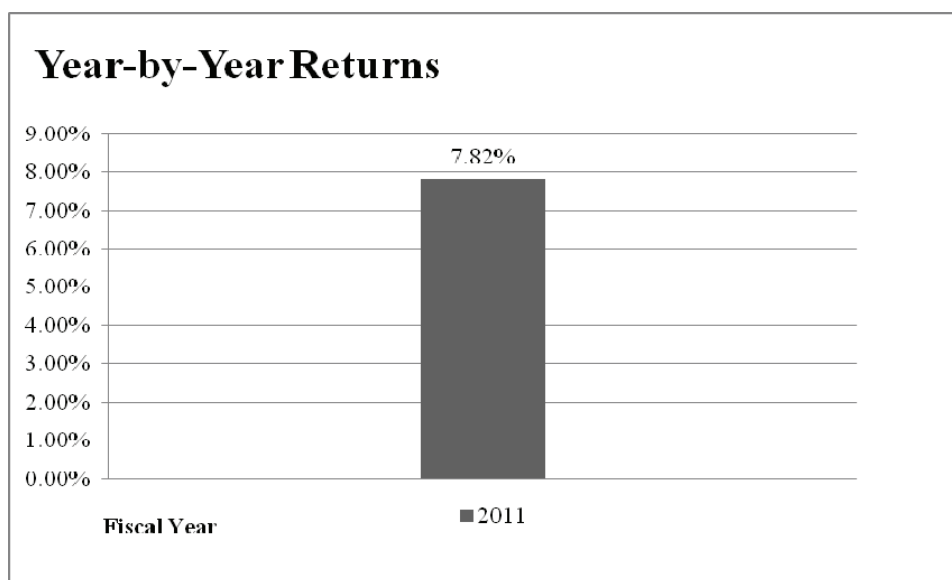
The Manager pays the Investment Manager out of the above management fees. Both the Manager and the Investment Manager are affiliated with Connor, Clark & Lunn Financial Group. Each of the portfolio managers employed by the Investment Manager is also affiliated with Connor, Clark & Lunn financial Group. The Investment Manager pays the portfolio managers from the fees it receives from the Fund’s Manager.

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended June 30, 2011.

Past Performance

The following bar and table indicate the performance of the Fund's units by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Fund in the year shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance is not necessarily indicative of future performance.



Annual Compound Returns

	Past Year	Since Inception
Based on NAV	7.82%	3.32%
Benchmark ⁽¹⁾	12.87%	8.17 %

⁽¹⁾ 40% Scotia Universe, 30% MSCI World (ex Canada) 25% TSX/S&P Composite, 5% 91-day T-bill

The underlying CC&L Balanced Portfolio held by the Fund has shown that over the long-term to hold approximately 30% in Canadian Equities. On the fixed income side, it also held approximately and average of 42% across three bond asset classes. The balance of 27% of holdings is split between US and foreign equities.

Summary of Investment Portfolio as of June 30, 2011

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund.

A quarterly update is available at www.cclcapitalmarkets.com and www.sedar.com.

Portfolio by Category	Market Value	% of NAV
Mutual funds	1,050,968	100.8%
Cash (bank overdraft)	-2,088	-0.2%
Top 25 Holdings		
CC&L Balanced Portfolio, Series I	1,050,968	100.8%
Cash (bank overdraft)	-2,088	-0.2%
Net asset value (NAV)	1,040,599	

Summary of Investment Portfolio of the CC&L Balanced Portfolio as of June 30, 2011

Note that the proceeds from the issuance of the Fund's Shares were invested in the securities of the CC&L Balanced Portfolio, Series I. The following is a summary of the investment portfolio of the CC&L Balanced Portfolio as of June 30, 2011:

Portfolio by Category	Market Value \$	% of NAV
Canadian equity	7,699,515	30.6%
U.S. equity	3,886,578	15.5%
International equity	2,906,056	11.6%
Canadian fixed income	6,721,805	26.7%
International fixed income	2,278,361	9.1%
Cash and cash equivalents	1,646,982	6.5%
Other assets (liabilities)	11,039	0.0%
Net asset value (NAV)	25,150,336	100.0%
Top 25 Holdings		
iShares US High Yield bond Index Fund (CAD hedged)	1,907,565	7.6%
Toronto-Dominion Bank	495,178	2.0%
Bank of Nova Scotia	411,929	1.6%
Royal Bank of Canada	404,103	1.6%
Cash	349,479	1.4%
National Bank B/A September 8, 2011	349,059	1.4%
Suncor Energy Inc.	340,124	1.4%
CIBC 3.150% November 2, 2015	339,968	1.4%
Ontario 7.600% June 2, 2027	318,020	1.3%
TD Capital Trust (CATS III) 7.243% December 31, 2018	287,883	1.1%
Alberta 4.000% December 1, 2019	280,267	1.1%
Royal Bank of Canada 4.350% June 15, 2015	279,162	1.1%
Canadian Natural Resources Ltd.	275,328	1.1%
Bank of Nova Scotia BDN September 6, 2011	249,265	1.0%
Quebec 4.500% December 1, 2019	237,868	0.9%
Telus Corp. Non-voting	224,879	0.9%
GE Capital Canada Funding 5.530% August 17, 2017	220,097	0.9%
Potash Corp. of Saskatchewan	218,943	0.9%
TD Bank (CGR III) 5.763% December 18, 2017	213,269	0.8%
Brookfield Asset Management inc. 5.290% April 25, 2017	209,418	0.8%
New Brunswick 4.500% June 2, 2020	195,266	0.8%
Bank of Montreal 3.979% July 8, 2016	189,170	0.8%
Morgan Stanley 4.900% February 23, 2017	187,601	0.7%
Ontario 4.650% June 2, 2041	187,029	0.7%
Manulife Financial Corp.	184,122	0.7%

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements:

The Fund's Net Assets per Share:

	June 30, 2011	June 30, 2010 ⁽¹⁾
Net Assets, beginning of period	9.62	10.00
Increase (decrease) from operations:		
Total revenues	0.21	0.15
Total expenses	(0.47)	(0.13)
Realized gains (losses) for the period	0.22	—
Unrealized gains (losses) for the period	0.57	(0.64)
Total increase (decrease) from operations ⁽²⁾	0.53	(0.62)
Distributions:		
From income (excluding dividends)	—	—
From dividends	—	—
From capital gains	—	—
Return of capital	—	—
Total Distributions	—	—
Net Assets, end of period ⁽³⁾	10.36	9.62

⁽¹⁾ Results for the period from April 20, 2010 (commencement of operations) to June 30, 2010.

⁽²⁾ Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of shares of 90,066 shares outstanding as of June 30, 2011 (June 30, 2010 – 18,232).

⁽³⁾ This is not reconciliation between the opening and the closing net assets per share.

Ratios and Supplemental Data:

	June 30, 2011	June 30, 2010 ⁽¹⁾
Net asset value (000's)	1,041	635
Number of shares outstanding	100,236	65,985
Management expense ratio (annualized) ⁽²⁾	4.56%	6.84%
Management expense ratio before waivers or absorptions (annualized) ⁽²⁾	4.56%	6.84%
Portfolio turnover rate ⁽³⁾	41.72%	0.00%
Trading expense ratio ⁽⁴⁾	0.00%	0.00%
Net asset value Share ⁽⁵⁾	10.38	9.63

⁽¹⁾ Results for the period from April 20, 2010 (commencement of operations) to June 30, 2010.

⁽²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

⁽³⁾ The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

⁽⁴⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

⁽⁵⁾ Reconciliation between GAAP Net Assets and Transactional NAV is available in note 3 of the financial statements.

Management's Responsibility for Financial Reporting

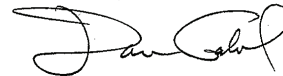
The accompanying financial statements of **Connor, Clark & Lunn Capital Class Inc., Balanced Portfolio Class, Series 1 (CC&L Balanced Portfolio Class) (the "Fund")** and all the information have been prepared by Connor, Clark & Lunn Capital Markets Inc. in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. The Fund's Manager is responsible for all the information and representations contained in these financial statements and other sections of the Annual Report.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the shareholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements.



W. Neil Murdoch
President and Chief Executive Officer
Connor, Clark & Lunn Capital Markets Inc.



Darren N. Cabral
Vice President and Chief Financial Officer
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

September 28, 2011

September 28, 2011

Independent Auditor's Report

**To the Shareholders of
Connor, Clark & Lunn Capital Class Inc. (Balanced Portfolio Class Series 1)
(the Fund)**

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at June 30, 2011, the statements of net assets as at June 30, 2011 and 2010 and the statements of operations and changes in net assets for the year ended June 30, 2011 and period from April 20, 2010 (commencement of operations) to June 30, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2011 and 2010 and the results of its operations and the changes in its net assets for the year ended June 30, 2011 and for the period from April 20, 2010 (commencement of operations) to June 30, 2010 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Connor, Clark & Lunn Capital Class Inc.

(Balanced Portfolio Class, Series 1)

Statements of Net Assets

As at June 30, 2011 and 2010

	2011	2010
	\$	\$
Assets		
Cash	-	247,213
Investments at fair value (cost - \$1,008,877; 2010 - \$643,250)	1,049,023	631,630
Mutual fund distributions receivable	-	1,812
	<u>1,049,023</u>	<u>880,655</u>
Liabilities		
Payable for investment purchases	-	245,000
Bank overdraft	2,088	-
Accounts payable and accrued liabilities	6,520	357
Management fees payable	1,760	697
	<u>10,368</u>	<u>246,054</u>
Net Assets and Shareholders' Equity	<u>1,038,655</u>	<u>634,601</u>
Shares issued and outstanding (note 4)	<u>100,236</u>	<u>65,985</u>
Net assets per share	<u>10.36</u>	<u>9.62</u>

Approved by the Manager



Director



Director

(The accompanying notes are an integral part of these financial statements)

Connor, Clark & Lunn Capital Class Inc.**(Balanced Portfolio Class, Series 1)**

Statements of Operations

For the year ended June 30, 2011 and period from April 20, 2010 (inception date) to June 30, 2010

	2011	2010
	\$	
Income		
Mutual fund distributions	19,003	2,653
Expenses		
Management fees (note 6)	21,363	697
Custodial and other shareholders' fees (note 5)	13,825	561
Service fees (note 6)	5,029	172
IRC fees	942	-
Printing fees	915	-
Transfer agent fees	524	828
Interest expense	96	-
Filing fees	44	-
Legal fees	-	112
	42,738	2,370
Investment income (loss) for the year	(23,735)	283
Net realized and unrealized gain (loss) on investments		
Net realized gain (loss) on investments	19,789	-
Unrealized gain (loss) on investments	51,766	(11,620)
Net gain (loss) on investments	71,555	(11,620)
Increase (decrease) in net assets from operations	47,820	(11,337)
Increase (decrease) in net assets from operations per share *	0.53	(0.62)

* (based on average number of shares outstanding during the year)

Connor, Clark & Lunn Capital Class Inc.

(Balanced Portfolio Class, Series 1)

Statements of Changes in Net Assets

For the year ended June 30, 2011 and period from April 20, 2010 (inception date) to June 30, 2010

	\$	\$
Increase (decrease) in net assets from operations	47,820	(11,337)
Distributions to unitholders (note 7)	<u>-</u>	<u>-</u>
Shareholders' transactions (note 4):		
Sale of shares	-	150,000
Transfers from Class A shares	664,246	495,938
Payments on redemption of shares	<u>(308,012)</u>	<u>-</u>
	<u>356,234</u>	<u>645,938</u>
Change in net assets during the year	<u>404,054</u>	<u>634,601</u>
Net assets - Beginning of year	<u>634,601</u>	<u>-</u>
Net assets - End of year	<u>1,038,655</u>	<u>634,601</u>

(The accompanying notes are an integral part of these financial statements)

Connor, Clark & Lunn Capital Class Inc.
(Balanced Portfolio Class, Series 1)
Statement of Investment Portfolio
As at June 30, 2011

	Quantity	Average Cost \$	Fair Value \$	% of Net Assets
Investments				
Mutual funds				
CC&L Balanced Portfolio, Series I (*)	117,169	<u>1,008,877</u>	<u>1,049,023</u>	<u>101.0%</u>
Total investments		<u>1,008,877</u>	<u>1,049,023</u>	<u>101.0%</u>
Other liabilities less other assets			<u>(10,368)</u>	<u>-1.0%</u>
Net assets			<u>1,038,655</u>	<u>100.0%</u>

(*) Segment breakdown of the CC&L Balanced Portfolio

	Fair Value \$	% of Net Assets	Fair Value \$	% of Net Assets
	June 30, 2010		June 30, 2011	
Canadian equity	13,613,917	27.1%	9,580,131	38.1%
U.S. equity	7,108,962	14.2%	3,884,711	15.5%
International equity	5,168,603	10.3%	2,902,922	11.6%
Canadian fixed income	19,087,639	38.0%	6,708,758	26.7%
International fixed income	1,369,023	2.7%	369,419	1.5%
Cash and cash equivalents	5,490,452	10.9%	1,646,720	6.6%
Other assets (liabilities)	<u>(1,612,312)</u>	<u>(3.2)%</u>	<u>11,039</u>	<u>0.0%</u>
Total CC&L Balanced Portfolio	<u>50,226,284</u>	<u>100.0%</u>	<u>25,103,700</u>	<u>100.0%</u>
Percentage ownership		1.3%		4.2%

Connor, Clark & Lunn Capital Class Inc. (Balanced Portfolio Class, Series 1)

Notes to Financial Statements

June 30, 2011 and 2010

1 Formation of Partnership

Connor, Clark & Lunn Capital Class Inc., Balanced Portfolio Class, Series 1 (Balanced Portfolio Class) (the "Fund") is a class of shares issued by Connor, Clark & Lunn Capital Class Inc. (the "Corporation") (a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation). Investors in Connor, Clark & Lunn's flow-through limited partnerships receive Connor, Clark & Lunn Capital Class Inc., Natural Resources Class Shares (the "Natural Resources Class") pursuant to a mutual fund roll-over transaction. Holders of Natural Resources Class Shares can switch into Balanced Portfolio Class Shares on a tax-deferred basis and vice versa.

Pursuant to a management agreement dated September 30, 2009, Connor, Clark & Lunn Capital Markets Inc. (the "Manager") (The Manager is part of the Connor, Clark & Lunn Financial Group) has been retained by the Fund to provide investment advisory and portfolio management services to the Fund and to manage the ongoing business and administrative affairs of the Fund.

2 Investment objectives

The Fund seeks to generate modest growth of capital by investing in a broadly diversified portfolio of equity and fixed income securities. Proceeds from the issuance of Balanced Portfolio Class Shares are invested in the securities of the CC&L Balanced Portfolio (the "Balanced Portfolio"), an open-end trust organized under the laws of Ontario. The Balanced Portfolio seeks to generate modest growth of capital while utilizing fixed income investments to stabilize returns. The Balanced Portfolio is broadly diversified across different types of equity and fixed income securities. Equity securities are employed to provide capital growth while fixed income investments limit year to year variability of returns.

To achieve the objectives of the Balanced Portfolio, its manager, Connor, Clark & Lunn Managed Portfolios Inc. (the "Investment Manager"), has retained the services of a number of specialized portfolio managers, each with its own specialized area of investment expertise. Each of the following portfolio managers have been retained to determine asset allocation or to invest the assets allocated to their asset class with full authority and responsibility for security selection:

- Baker Gilmore & Associates Inc. ("BGA"): Fixed income (short-term)
- Connor, Clark & Lunn Investment Management Ltd. ("CCLIM"): Canadian equities (growth at a reasonable price, known as "GARP" and income trusts and dividend paying shares, known as "Income & Growth") and fixed income (core)
- Connor, Clark & Lunn Private Capital Ltd. ("CCLPC"): Asset allocation
- Gyrus Investment Management Ltd. ("Gyrus"): U.S. equities
- New Star Canada Inc. ("New Star"): Europe, Australia and Far East ("EAFE") equities
- PCJ Investment Counsel Ltd. ("PCJ"): Canadian equities (small capitalization or "small-cap")
- Scheer, Rowlett & Associates Investment Management Ltd. ("SRA"): Canadian equities (value)

As of June 30, 2011, the Balanced Portfolio held \$25.1 million in total net assets (June 30, 2010 - \$50.3 million).

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Valuation of Investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the last bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Fund calculates its daily Net Asset Value for the purchase and redemption of shares ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day). The Fund did not change its methodology in this respect.

The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Section 3855 is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Per Share			
at June 30, 2010	9.63	(0.01)	9.62
at June 30, 2011	10.38	(0.02)	10.36

Cash & Short Term Investments

Cash includes cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

Connor, Clark & Lunn Capital Class Inc. (Balanced Portfolio Class, Series 1)

Notes to Financial Statements

June 30, 2011 and 2010

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. Income and capital gains distributions from mutual funds are recorded as at the distribution date, in the same form that they were distributed. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments which are deemed held for trading.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars "the functional currency of the Fund" at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Increase (decrease) in net assets from operations per share

Increase (decrease) in net assets from operations per share in the statement of operations represents the increase (decrease) in net assets from operations, divided by the weighted average shares outstanding for the financial period.

Expense recognition

Expenses that are directly attributable to the Fund are recorded on an accrual basis as incurred. The Manager indemnified the Fund with approximately \$9,308 (June 30, 2010 - \$2,389) of legal, audit and filing expenses during the year. Such procedure may be terminated by the Manager at any time without notice.

Valuation of Shares

Net assets per share and/or NAVPS on any given day is equivalent to the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities of the Fund, divided by the number of Shares outstanding on that day. A NAVPS is determined as of the close of business each day that the Toronto Stock Exchange is open for trading. Net assets per share is determined twice annually for financial statement purposes.

Designation of financial assets and liabilities

For the purpose of measuring and recognizing assets and liabilities, the following designations have been made: All investments, including derivatives, if any, are initially recognized at fair value and are designated as held for trading. Accrued interest and dividends receivable, amounts receivable for capital shares sold and securities sold, and other assets are designated as loans and receivables and reported at cost or amortized cost. Amounts payable for securities purchased and capital shares redeemed, other liabilities and accrued expenses, are designated as other financial liabilities and reported at amortized cost.

Related party transactions

All related party transactions occur in the normal course of operations and are recorded at an amount of consideration agreed to by the parties.

Accounting estimates

The preparation of financial statements in accordance with Canadian GAAP may require the Manager to make estimates and assumptions that effect the reporting amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense reported during the periods. Actual results may differ from those estimates.

Future accounting changes

The Canadian Accounting Standards Board ("AcSB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the AcSB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the AcSB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises for one additional year to 2013. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of mandatory adoption of IFRS for these entities. As a result, the Fund will delay implementation of IFRS until January 1, 2013.

The Fund's Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the net assets of the Fund. Management has presently determined that there will be no significant impact to net assets per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

4 Shareholders' Equity

The Fund is authorized to issue an unlimited number of Balanced Portfolio Class shares. Investors in Connor, Clark & Lunn's flow-through limited partnerships receive Connor, Clark & Lunn Capital Class Inc., Natural Resources Class Shares (the "Natural Resources Class") pursuant to a mutual fund roll-over transaction. Holders of Natural Resources Class Shares can switch into Balanced Portfolio Class Shares on a tax-deferred basis and vice versa.

Connor, Clark & Lunn Capital Class Inc. (Balanced Portfolio Class, Series 1)

Notes to Financial Statements

June 30, 2011 and 2010

The Fund has no restrictions or specific requirements on the subscription and redemption of Balanced Portfolio Class shares. Balanced Portfolio Class shares can be purchased and/or redeemed through a dealer as outlined in the prospectus dated March 26, 2010.

Holder of Natural Resources Class Shares can switch into Balanced Portfolio Class Shares on a tax-deferred basis and vice versa. During the year ended June 30, 2011, \$664,246 was transferred from Natural Resources Class in exchange for 63,684 of Balanced Portfolio Class Shares (\$495,938 for 50,985 of Balanced Portfolio Class Shares during the period from April 20, 2010 (commencement of operations) to June 30, 2010). There were also 29,433 of Balanced Portfolio Class Shares redeemed for a total cost of \$308,012 during the year ended June 30, 2011 (There were no redemptions during the period from April 20, 2010 (commencement of operations) to June 30, 2010).

Changes in outstanding shares during the year ended June 30, 2011 and during the period from April 20, 2010 (commencement of operation) to June 30, 2010 are summarized as follows:

	Number of Balanced Portfolio Class Share	
	2011	2010
Opening balance	65,985	–
Sales	–	15,000
Transfers from Natural Resources Class shares	63,684	50,985
Redemptions	<u>(29,433)</u>	<u>–</u>
Ending balance	<u>100,236</u>	<u>65,985</u>

The Fund considers capital to include all shares issued and outstanding. The Fund manages its capital in accordance with the objectives outlined in Note (2).

5 Custodian

Pursuant to the Trust Agreement RBC Dexia Investor Services Trust (“the Custodian”) acts as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund’s day-to-day operations, including calculating the Net Asset Value (“NAV”), net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian.

6 Management fees and other expenses

The Manager receives a Management Fee from the Fund equal to 2.00% per annum of the Net Asset Value of the Fund, which is accrued daily and paid monthly. The total management fees charged to the Fund during the year ended June 30, 2011 were \$21,363 (\$697 during the period from April 20, 2010 (commencement of operations) to June 30, 2010). The Manager pays the Investment Manager out of the above management fees.

The Fund also pays a service fee to dealers whose clients hold Balanced Portfolio Class Shares in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.50% annually of the Net Asset Value of the Balanced Portfolio Class Shares held by clients of the dealers. The service fee charged to the Fund during the year ended June 30, 2011 was \$5,029 (\$172 during the period from April 20, 2010 (commencement of operations) to June 30, 2010).

7 Distributions

From time to time, the Fund may choose to make distributions to shareholders. The Fund will make payable each year its income for tax purposes and capital gains to ensure that the Fund will not be liable for income tax under the Tax Act (Canada). These distributions are made in the form of shares.

During the year ended June 30, 2011, the Fund declared a non-cash distributions of \$311,295 (\$nil during the period from April 20, 2010 (commencement of operations) to June 30, 2010). Immediately after this non-cash distribution, the number of shares was consolidated such that each shareholder held, following the consolidation, the same number of shares of the Fund as such shareholder held before this non-cash distribution.

8 Broker commission charges and soft dollar services

There were no broker commissions paid during the year ended June 30, 2011 (\$nil commissions paid during the period from April 20, 2010 (commencement of operation) to June 30, 2010) in connection with portfolio transactions.

9 Income taxes

The Corporation presently qualifies as a “mutual fund corporation” as defined in the Income Tax Act (Canada) (the “Act”).

Connor, Clark & Lunn Capital Class Inc. (Balanced Portfolio Class, Series 1)

Notes to Financial Statements

June 30, 2011 and 2010

The Corporation computes its income (loss) and net capital gains (losses) for income purposes as a single entity. Net losses of one Class may be used to offset net gains of another Class to reduce the net income or net gain of the Corporation as a whole. As a mutual fund corporation, taxable dividends received from taxable Canadian corporations are subject to a tax of 33 $\frac{1}{3}$ %. Such taxes are fully refundable upon payment of taxable dividends to its shareholders on a basis of \$1 for every \$3 of dividends paid. Any such tax paid is reported as an amount receivable until recovered through the payment to shareholders of dividends out of net investment income. Interest income and foreign dividends, net of applicable expenses, are taxed at full corporate rates applicable to mutual fund corporations with credits, subject to certain limitations, for foreign taxes paid. All tax on net taxable realized capital gains is refundable when the gains are distributed to shareholders as capital gains dividends or through redemption of shares at the request of shareholders, while the Corporation qualifies as a mutual fund corporation. Income taxes (if any) are allocated to the Classes of the corporation on a reasonable basis.

10 Financial instruments

	June 30, 2011	June 30, 2010
Assets	\$	\$
Cash	–	247,213
Held for trading	1,049,023	631,630
Loans and receivables at amortized cost	–	1,812
Total assets	1,049,023	880,655
Liabilities		
Held for trading	–	–
Financial liabilities at amortized cost	10,368	246,054
Total liabilities	10,368	246,054

For the purposes of categorization in accordance with Section 3862, mutual fund distributions receivable is deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, payable for investment purchases, accounts payable and accrued liabilities and management fees payable are deemed to be financial liabilities and reported at amortized cost.

The following table illustrates the classification of the Fund's financial instruments within the fair value hierarchy as at June 30, 2011 and 2010:

Assets at fair value as at June 30, 2011 (\$)	Level 1	Level 2	Level 3	Total
Mutual fund	1,049,023	–	–	1,049,023
Total	1,049,023	–	–	1,049,023
Assets at fair value as at June 30, 2010 (\$)	Level 1	Level 2	Level 3	Total
Mutual fund	631,630	–	–	631,630
Total	631,630	–	–	631,630

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

Mutual funds: The Fund's mutual fund investment position is classified as Level 1 as these fund units are actively traded and a reliable quote is observable.

There were no transfers among the three levels during the year ended June 30, 2011 and during the period from April 20, 2010 (commencement of operation) to June 30, 2010.

11 Management of financial risks

The Fund may be exposed to a variety of financial risks which are described below. The Fund's exposure to these risks is concentrated in its investment holdings. In determining the risks that apply, and the extent to which they apply, reference should be made to the Statement of Investment Portfolio. The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio subadvisors that regularly monitor the Fund's holdings, market events and overall economic conditions.

The subadvisors use a variety of means to monitor the Fund including the measurement of specific financial and economic variables pertinent to the Fund. The Fund's risk management program is based on monitoring compliance against investment guidelines contained in the Statements of Investment Policy ("SIPs"). The SIPs are internal documents that outline how each Portfolio is managed. The SIPs state the investment objectives of the Fund (see below) and the investment guidelines. The guidelines include permitted investments, acceptable levels of diversification and the permitted uses of derivatives.

Securities are selected with the intent of maximizing returns within the risk parameters defined in the SIPs. On a daily basis, these guidelines and other restrictions are monitored against the positions in the Fund using an electronic compliance system to confirm there are no violations and to ensure market movements do not leave the Fund's holdings outside specified ranges. Corrective action is taken when necessary and any guideline violations are reported to the Manager.

Currency risk

Connor, Clark & Lunn Capital Class Inc. (Balanced Portfolio Class, Series 1)

Notes to Financial Statements

June 30, 2011 and 2010

Currency risk is the risk that the value of monetary assets and liabilities denominated in currencies other than the Canadian dollar (the functional currency of the Fund) will fluctuate due to changes in foreign exchange rates. Bonds and short-term investments issued in foreign countries are exposed to that country's currency unless otherwise noted. Bonds, short-term investments and derivatives denominated in foreign currencies are exposed to currency risk as prices are converted to the Fund's functional currency in determining fair value. Foreign equities are not exposed to currency risk for the purposes of Section 3862 since they are considered non-monetary investments. Changes in the market value of these securities due to fluctuations in exchange rates are considered a component of other price risk (see below).

As at June 30, 2011, the Fund's direct exposure to currency risk was negligible as the units of the underlying Balanced Portfolio are valued in Canadian dollars. The Fund was exposed to indirect currency risk to the extent the underlying Balanced Portfolio holding invests in financial instruments denominated in a foreign currency. If prevailing exchange rates had been raised or lowered by 5.0%, with all other factors remaining constant, net assets would have decreased or increased by approximately \$300 (2010 - \$400). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Interest rate risk

Interest rate risk is the risk that the market value of the Fund's interest-bearing investments will fluctuate due to changes in prevailing interest rates. The longer the term to maturity, all else being equal, the more sensitive a security is to interest rate risk. The Fund's exposure to interest rate risk is concentrated in their investments in debt securities (such as bonds and short-term investments) and interest rate derivative instruments (if any). Other assets and liabilities are short-term in nature and non-interest bearing.

As at June 30, 2011, the Fund's direct exposure to interest risk was negligible as the Fund had no significant exposure to long-term interest-bearing investments. The Fund was exposed to indirect interest rate risk to the extent the underlying Balanced Portfolio holding invests in debt-based securities and interest rate derivative instruments.

If prevailing interest rates had been raised or lowered by 1.0%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets of the fund would have decreased or increased by approximately \$19,000 (2010 - \$16,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Other price risk

Other price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature and not subject to other price risk.

As at June 30, 2011, the Fund was exposed to other price risk to the extent the underlying Balanced Portfolio invests in securities subject to market fluctuations (not caused by other factors mentioned above). Approximately 65.9% (2010 - 51.3%) of the Fund's net assets were exposed to other price risk. If stock exchange prices had increased or decreased by 10%, with all other factors remaining constant, net assets of the fund would have increased or decreased by approximately \$69,000 (2010 - \$32,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

If the portfolio's net assets had increased or decreased by 10%, with all other factors remaining constant, net assets of the fund would have increased or decreased by approximately \$105,000 (2010 - \$63,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. To maximize the credit quality of their investments, the Fund's subadvisors perform ongoing credit evaluations of debt issuers. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Fund's unrealized gain on the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by their carrying amount.

As at June 30, 2011, the Fund's direct exposure to credit risk was negligible as the Fund had no significant exposure to debt or derivative instruments. The Fund was exposed to indirect credit risk to the extent the underlying Balanced Portfolio invests in such instruments. Approximately 33.4% (2010 - 48.6%) of the Fund's net assets were exposed to credit risk.

The Fund is also exposed to the credit risk of the custodian whose credit rating as of June 30, 2010 and 2011 was AA-.

The table below summarizes the Fund's exposure to indirect credit risk resulting from investments in underlying Balanced Portfolio:

Rating ⁽¹⁾	2011 (% of Net Assets)	2010 (% of Net Assets)
AAA	7.0%	12.5%
AA	13.3%	18.2%
A	9.1%	15.3%
BBB	4.0%	2.6%
Total	33.4%	48.6%

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Liquidity risk

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of shares. The Fund invests primarily in securities that can be readily disposed. In addition, the Fund retains sufficient cash and cash equivalents to maintain liquidity. Liquidity risk is considered negligible. All liabilities are due within three months.