



CAPITAL MARKETS

1

1

0

2

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

Semi-Annual Report
December 31, 2010

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

February 28, 2010

Dear Investor,

I am pleased to provide the semi-annual report for the Connor, Clark & Lunn Balanced Portfolio Class (the “Fund”) for the six month period ended December 31, 2010. 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 performance of the Fund has been very strong during this period. Its net assets per share have gone from \$9.63 as of June 30, 2010 to \$10.54 as of December 31, 2010. Its 9.5% return compares favourably with the benchmark (40% DEX Universe Bond, 30% MSCI World (excluding Canada), 25% S&P/TSX Composite, 5% DEX 91 Day T-bill) return of 10.7%.

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 continued good performance.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Capital Class Inc.,
Balanced Portfolio Class, Series 1

Management Report of Fund Performance

This semi-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 semi-annual financial statements of the Fund. **The semi-annual financial statements and accompanying notes are attached to this report.**

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.

Investment Objectives and Strategy

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). 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 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 rebalance 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 Fund, 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. 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 July 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 NAV of the Funds. Management has presently determined that there will be no significant impact to NAV 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 (February 2011)

The Investment Manager's commentary was prepared for the Portfolio that the Fund invests in. It encompasses the whole year even though the Fund commenced in April 2010. As of December 31, 2010, the Portfolio held \$52.6 million in total net assets. Of this amount, the Fund held \$1,026,249, or 1.95% of the Portfolio. The following commentary reflects performance of and changes to the Portfolio for the year ending December 31, 2010. During the year, investors that held Series I units of the Portfolio experienced a return of 11.03%, slightly outperforming 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 9.13% over the same period.

The Portfolio is broadly diversified across a number of asset classes. The chart below shows the asset allocation of the portfolio as at the end December 2010 and at the end of December 2009. 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.

Asset Class	Manager	Asset Allocation (Dec. 31, 2010)	Asset Allocation (Dec. 31, 2009)	Change
Canadian equities (GARP)	CCLIM	10.09%	4.97%	+5.12%
Canadian equities (value)	SRA	10.06%	15.75%	-5.69%
Canadian equities (small-cap)	PCJ	5.00%	5.38%	-0.38%
Fixed income (core)	CCLIM	38.45%	42.58%	-4.13%
Fixed income (short-term)	BGA	4.91%	1.98%	+2.93%
Income & Growth	CCLIM	4.99%	3.92%	+1.07%
U.S. equities	Gyrus	14.69%	12.70%	+1.99%
EAFE equities	New Star	10.79%	12.61%	-1.82%
Cash		1.02%	0.11%	+0.91%

The individual managers of the various asset classes will have achieved various levels of performance throughout the past year. 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

For 2010, the Canadian equity (GARP) manager underperformed their benchmark, returning 14.03% while the benchmark S&P/TSX Composite Index returned 17.61%.

At the beginning of the year, the economic news pointed to signs of slower global economic growth. As a result, a number of trades were undertaken to reduce the Portfolio's overweight to the economically sensitive sectors, for example, the reduction in the position of Canadian Pacific Railway Ltd. Despite the weak equity market performance in the second quarter, a number of stocks reached the target prices that were established for them and were sold into strength.

Two of the better performers were Rogers Communications Inc. and Bank of Montreal. Rogers Communications Inc., now removed by the portfolio manager, was the top pick in the communications sector at the beginning of the year and performed very well. It was purchased when the market had concerns over the impending impact of new entrants into the Canadian wireless market. The Bank of Montreal was purchased with the expectation that its credit portfolio would improve along with the economy and the valuation discount it carried relative to its peers would begin to shrink. This happened and its weight in the Portfolio was subsequently reduced.

During the second half of the year, new economic data continued to point to a future of slower global economic growth. As a result, the portfolio manager continued the process of reducing the Portfolio's overweight to economically sensitive sectors. The largest addition to a particular sector during the third quarter was to gold stocks, which resulted in the Portfolio being in an overweight position. A broad theme that the portfolio manager believed would continue to play out through the balance of 2010 was the outperformance from dividend-paying companies. The portfolio manager expected bank stocks to do well, believing they would be able to improve their earnings growth. The addition of Bank of Nova Scotia was a reflection of this positive view.

Equity markets continued their rally during the fourth quarter as investors finally started to receive encouraging economic news on several fronts and became increasingly confident that the global economic recovery was on a solid footing. The Portfolio was positioned more towards cyclical growth as the manager sees improvements in the areas of manufacturing, employment growth, business lending activities, and business confidence. The improved economic outlook also impacted the level of interest rates and as a result a number of changes were made to the holdings in the financial sector. The weighting in bank stocks was lowered and funds were redeployed by adding Manulife Financial Corporation to the Portfolio.

The portfolio manager remains positive on the outlook for commodities in an environment where the global economy is recovering and increased the weights in select areas of the commodity space. The portfolio manager believes that a dominant theme that will play out in 2011 will be corporate spending. As business confidence improves, companies will start to undertake acquisitions, increase capital spending, and return capital to shareholders through share buybacks and dividends. High quality companies that can deliver earnings and dividend growth in 2011 should be the best performing stocks.

On the Canadian equity (value) side, the portfolio manager underperformed the broader market to the end of December 2010 returning 15.08%. While strong in absolute terms, this performance still trailed the benchmark S&P/TSX Composite Index which returned 17.61%.

A reversal in market sentiment mid-June had a negative impact on the Portfolio's performance. Despite the portfolio managers' view that compelling valuations had positioned the Portfolio to take advantage of an economic recovery and a return to normalcy, this did not materialize during the period. Performance from security selection was mixed during the period. Gains in Materials were aided by a decision by Gerdau SA (Brazil) to purchase the remaining 33% of Gerdau Ameristeel Corp. at a 50% premium.

In Telecommunication Services sector, the portfolio manager's decision to sector overweight (preference for wireless) added value as the sector outperformed the market by 9%. With the decline in Research In Motion Ltd. ("RIM") (-30%), SRA took the opportunity to reduce its underweight (after the decline) and move to a market weight position. At those levels the valuation was cheap and while the portfolio manager continues to believe RIM's outlook is unclear given the speed of change in technology and the competition from Apple's iPhone, at such a large discount and valuation it was felt the increased weighting was warranted.

Global equity markets ended the third quarter on a positive note as bourses throughout North America and Europe all finished higher. The Canadian market, in particular, strung together three back-to-back months of positive performance. The Portfolio outperformed for the third quarter on the back of security selection gains in the Materials sector. The Portfolio's position in Potash Corp. of Saskatchewan added value as the company gained 61% following a surprise BHP takeover bid. The portfolio manager also added value on Agrium Inc.'s 48% rise. As investor sentiment returned to recovery, the gold subsector (in which the portfolio manager is underweight) rose only 4%, while base materials companies in which the Portfolio was overweight all rallied higher and provided added value to this sector. With the continuing price decline in RIM, the portfolio manager took the opportunity to move to an overweight position. At these levels, the stock continues to be discounting negative growth but at such a large discount and attractive valuation, the increased weighting was warranted.

While generating positive returns in the fourth quarter, the portfolio underperformed the benchmark during the period as strong returns in the energy sector combined with a performance rebound of Manulife Financial Corporation were both insufficient to make up for losses from security selection (financials) and security and sector weakness (telecommunications). In energy, the senior producers played "catch up" after underperforming for most of the year. Both Talisman Energy Inc. (+24%) and Canadian Natural Resources Ltd. (+25%) increased on the back of higher oil and gas prices and a partial realization of the value that exists in these names. In materials, despite gains in Agrium Inc. (+19%) and Methanex Corp. (+21%), the Portfolio underperformed due to not owning other companies that really benefited from the strength in commodity prices. In the financials, Manulife Financial Corporation (+33%) added value as the stock recovered on surprising third quarter results and the recent rise in interest rates. However, the Portfolio's overweight in banks hurt performance as investors remained concerned over short term capital market growth expectations. The overweight exposure in the telecommunications sector, through the holdings of Telus Corp. and Rogers Communications Inc., also underperformed other more economically sensitive sectors.

Canadian equity (small-cap) portfolio manager PCJ was concerned as the slowdown in the global economic recovery took its toll on equity markets during latter stages of the first half of the year. The Eurozone had its hands full with the sovereign debt crisis and England enacted its own austerity budget. The market mood turned decidedly negative as fears of a double dip recession gained greater traction. Meanwhile, corporations were reporting strong earnings and were in excellent financial shape with record levels of cash on their balance sheets.

The second half of 2010 started strong. Major markets around the world posted double-digit returns as investor sentiment seemed to improve. Equity markets staged a very strong rally since June in part because of strong earnings and a growing recognition that stocks had become quite cheap relative to bond valuations. Stocks benefited from low interest rates, increased levels of mergers and acquisition activity, and dividend hikes. Excluding natural gas, commodities fared well in the third quarter on the back of a weakening U.S. dollar and the continued prospects for improving global demand of base and precious metals.

Positive market momentum continued into the fourth quarter. Indeed, December saw yet another positive month that capped the end of a solid quarter and a very good year for equities. As positive economic data continued to make headlines, the sentiment shifted towards manageable growth and away from imminent declines. This has increased investors' risk tolerance and the appetite remains robust.

Canadian equities have enjoyed a very strong second half of the year. Helped by receding fears of a double dip recession,

better corporate earnings, U.S. Federal Reserve policies towards price stability and low interest rates, and continued mergers & acquisitions activity, stocks managed to overcome the negative sentiment that has plagued the overall macro environment. Small and midcap Canadian equities outperformed most other asset classes during the month, quarter, and year. For all of 2010, the small cap benchmark index posted a 35.1% return as compared to a 17.6% return for the larger cap S&P/TSX Composite Index.

From a sector standpoint, materials, information technology, and energy performed best while utilities lagged. Better than expected economic data in the U.S. and China kept commodity prices in the spotlight. The appreciation in base metals, precious metals, coal, and oil provided the spark for the equity markets' performance. Strong relative and absolute returns were generated from security selection and overweight positions in securities within energy, industrials, and materials sectors were the prime contributors to added value. Overall, small cap performance benefited from a low interest rate environment, exposure to cyclical commodities, and the resurgence in global economic activity.

While this performance has been heartening, the portfolio manager believes that stocks still represent excellent appreciation potential. Canadian equities are set to benefit from the unfolding economic recovery and the portfolio manager intends to remain well exposed to the more economically sensitive sectors. Despite the significant small/midcap outperformance relative to large caps, there remains attractive opportunities in light of the earnings growth story.

Investors benefited from the Portfolio's exposure to small caps and from the outperformance generated by PCJ. The small-cap portion of the portfolio returned 39.86% during the year versus the benchmark S&P/TSX Small Cap Index's return of 35.10% over the same period.

For the year ending December 31, 2010, the Income & Growth asset class returned 20.43%, easily outpacing its benchmark S&P/TSX Composite Index which returned 17.61%. This is the asset class that seeks to generate yield for investors buy purchasing dividend yielding equity investments, real estate investment trusts ("REITs") and income trusts.

During the first half of 2010, the portfolio manager reduced their exposure to dividend-paying equities in favour of trusts and REITs to further enhancing the defensive positioning within each of the components. The Portfolio was focused on companies with limited exposures to commodities, favoured utilities over materials within the equities space, and the manager was looking at apartments within the trust sector as apartment REITs and real estate were benefitting from low utility costs and rising rents.

As fears of an economic slowdown abated during the third quarter, the portfolio manager began to shift the Portfolio to capture two prevalent market themes: dividend yield and growth. As a result, the exposure to REITs was reduced as were certain dividend-paying equities in favour of a greater emphasis on banks and income trusts, including energy trusts. The portfolio established a position in the Bank of Nova Scotia, which had a solid yield of 3.8%.

Equity markets continued their rally during the fourth quarter as investors received encouraging economic news on several fronts and became increasingly confident that the global economic recovery was on a solid footing. The portfolio manager is seeing improvements in the areas of manufacturing, employment growth, business lending activities, and business confidence. Interest rates moved higher as money flowed out of bonds and into the more risky equities asset class. At the same time, the end of the income trust era in Canada has arrived and a significant number of income trusts converted into corporations in the latter days of 2010.

Within the Income & Growth asset class, the portfolio began shifting from stocks with high, but stable dividend yields, to stocks with lower yields but exhibiting dividend growth potential. The portfolio manager expects that high quality companies that can deliver dividend growth in 2011 will outperform. For example, the Portfolio added Groupe Aeroplan Inc. after management signalled a return to dividend growth. Great West Lifeco was also added based on yield and valuation. The portfolio manager expects that high yielding stocks, which performed so well in 2010, will likely come under pressure as it becomes apparent they will be unable to grow their dividends in the near future.

Global Equities

According to EAFE equity managers New Star, international equity markets had much to contend with during the first half of 2010. Concerns over the fiscal crisis in Greece threatened contagion throughout the European bloc and created a risk-averse environment across multiple asset classes. Matters were not helped by economic data that suggested a moderation in the economic recovery, volcanic dust clouds grounding flights over much of Europe, and a badly managed oil leak in the Gulf of Mexico. All this, combined with a less supportive liquidity backdrop, led to a 9.66% decline in EAFE (Canadian dollar terms). Five out of nine sectors outperformed. New Star continued to favour Industrials and Consumer Discretionary against

underweight positions in European commercial banks and low growth areas such as Telecommunications and Utilities. The U.K. weighting was moved to an overweight position and strategically, the manager still favours Asia ex-Japan and Emerging Markets. The manager believed that continental Europe could potentially show signs of recovery relative to other markets as they benefit from domestic liquidity and a weaker currency.

Equity markets recovered during the third quarter, foreshadowing a strong fourth quarter. This was a reversal the sovereign risk inspired weakness of the previous period. Investor confidence returned as European Union (“EU”) and International Monetary Fund support of peripheral European bond markets stabilized yields during the summer trading lull. The recovery in stocks came despite a negative liquidity backdrop although New Star held the view that market fears of a ‘double dip’ recession were misplaced. In the third quarter there were no significant adjustments to the regional or sector construction of the Portfolio. The portfolio manager continued to favour Asia ex-Japan and emerging markets but was becoming more concerned about continental Europe as a result of Euro strength and further deterioration in the economic fundamentals of peripheral countries, most notably Spain. Asia ex-Japan and Europe both outperformed Japan as the strength of the Japanese Yen hurt export driven stocks.

International equity markets performed well in the fourth quarter despite the EU bailout of Ireland. World growth output recovered strongly in 2010 with emerging and developing economies contributing 70% of the estimated 4.8% gross domestic product (“GDP”) growth. All of the G7 countries’ GDP growth beat their respective consensus expectations from a year ago. Monetary indicators suggest growth will slow in 2011 as Europe is likely to struggle and emerging economies will likely decelerate as interest rates are forced to rise to counter inflationary pressures. Japan recovered relative to other regions after a poor summer and investor’s optimism was high at the end of 2010. New Star favours information technology, industrials, and energy with an underweight in low growth areas such as telecommunications, utilities, and health care. They are more cautious on materials as the need to tighten monetary policy in China and emerging markets increases. Relative performance was positive every month driven by strong stock selection across the regions. Sector and country selections were also positive contributors.

For the twelve-month period ending December 31, 2010, the EAFE equity portion of the Portfolio outperformed its benchmark through this challenging period, returning 5.89% to the benchmark MSCI EAFE Index return of 2.56%.

In the United States and for the year ending December 31, 2010, Gyrus underperformed the S&P500 Index . The U.S. equity portion of the Portfolio returned 7.96% against the benchmark’s 9.06%. Despite positive gains in the first quarter, the S&P500 Index lost nearly 12% during the second quarter. The quarter started well as earnings fulfilled expectations, however, events in Europe and the Gulf of Mexico oil spill have taken their toll on investor sentiment. Materials (-15.7%), Financials (-13.6%), and Energy (-13.2%) were the worst performing sectors for the quarter.

It appears that the second quarter economic data provided a breathing space as many of those indicators rebounded in the third quarter. For example, third quarter gross domestic product (“GDP”) grew 2.6% while consumer prices rose by just 1%. Other economic indicators are slowly turning positive again including industrial production, factory orders, and employment. 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. A second round of quantitative easing (dubbed “QE2”) coincided with a rise in the US 10-year bond rates to 3.5%.

Employment and job growth are the keys to the sustainability of this recovery and while there have been positive signs in the weekly initial jobless claims data, further improvement is required and the portfolio manager anticipates this will occur in early 2011. The S&P500 Index gained 10.2% during the fourth quarter with Energy and Basic Materials adding 17% and 19% respectively. Health Care and Utilities were the lagging sectors adding only 3% and 0%. Corporate earnings growth continued to surprise on the upside the portfolio manager anticipates that fourth quarter corporate results will continue this positive trend. Mergers and acquisition transactions are increasing as companies have plenty of cash on their balance sheets and the credit markets are more receptive to leveraged transactions.

Fixed Income

The short-term fixed income portfolio manager, BGA, outperformed their benchmark DEX 91-day T-bill index during 2010. BGA returned 4.26% against the benchmark’s 3.56%.

From the portfolio manager’s perspective, the jump in volatility and risk aversion pushed government bond prices higher and credit spreads modestly wider during the first half of 2011. The real economy in the U.S. had shown limited impact from the crisis in Europe, while the Canadian economy continued to outpace expectations. The Bank of Canada raised its overnight rate by 25 basis points to 0.50% on June 1, 2010, in response to the solid domestic economic performance. However, it

adopted a more cautious outlook in the statement accompanying the rate announcement given the ongoing crisis in Europe and the rise in market volatility. Closing out the first half of 2010, the portfolio manager was overweight high-grade Financials and AAA-rated asset-backed securities as they continue to be more attractive relative to Sovereign bonds and BBB-rated corporate bonds.

In the second half of 2010 and especially in the fourth quarter, growth in the global economy accelerated even as activity became increasingly more unsynchronized. While growth in most developed economies remained low and unemployment rates remain stuck at politically unpalatable levels, central banks (especially the U.S. Federal Reserve) have continued to provide aggressive levels of monetary stimulus. In contrast, many emerging economies have been expanding at unsustainable rates, pushing inflation rates higher, and prompting policy makers to begin raising interest rates. The improving economic outlook for 2011 and reduced fear of a double dip recession helped push global government bond yields higher along with stock and commodity prices.

The U.S. economy showed increased signs of improvement in the final months of the year and the launching of a second round of quantitative easing (QE2) by the Fed boosted investor risk appetite and sentiment. While significant job growth has remained elusive and core inflation continues to be muted, consumer spending surprised to the upside in late 2010, suggesting consumer confidence may have bottomed. The Canadian economy continued to downshift in the fourth quarter, following the strong gains experienced earlier in the year. Employment growth slowed and core inflation fell to just 1.4% in November. After raising interest rates three times and seeing the Canadian dollar move to parity with the U.S. dollar, the Bank of Canada policymakers have been unwilling to raise rates further until possible 2011.

The portfolio manager's duration strategy and an overweight exposure to AAA-rated commercial mortgage-backed securities ("CMBS") contributed to the added value. Interest rates remain at very low levels globally, especially in Canada, where improving business confidence is expected to drive investment and job growth. The portfolio manager continues to believe that default and downgrade risks for high-grade credits remain low. Therefore, the Portfolio remains overweight high-grade financials, utilities, and AAA-rated securities. The Portfolio remains underweight BBB-rated securities as the portfolio manager believes the risks to the global economy remain and in this environment, prefer higher quality, less cyclical exposures.

On the core fixed income side, the Portfolio benefitted from strong outperformance of 8.40% over the benchmark DEX Universe Bond Index, which returned 6.74%. During the first half of 2010, the portfolio manager, CCLIM, was able to successfully navigate volatile markets as interest rates reached both extremes of their expected range during the period. After climbing towards the upper end of the range, longer-term rates fell to the lower end of the range as a combination of heightened volatility and mixed economic news led to increased demand for the relative safety of bonds. Shorter-term yields lifted higher after the Bank of Canada raised their key interest rates at the beginning of June 2010. In the first half of the year, provincial exposure was also increased to an overweight position as valuations became more attractive. The portfolio manager's preference is for provinces with relatively strong fundamentals such as British Columbia and Alberta. The Portfolio's overweight in corporate bonds was reduced.

Interest rates continued to drop during the third quarter as economic indicators pointing to subpar economic growth continued to surface and pushed investors towards the relative safety of bonds. Rates declined right across the curve but were mostly led by mid to longer term maturities. The Portfolio's positioning in the 7 to 10 year range made a positive contribution and the portfolio manager maintained their focus in this range as they believe that they would continue to provide the most attractive risk and reward opportunities. The managers continued to diversify the exposure within financials with increases to U.S. bank holdings.

Equity markets rallied during the fourth quarter as investors became increasingly comfortable that the global economic recovery was well under way. Interest rates moved higher as money flowed out of bonds and into the more risky equities asset class. The quarter began with rates hitting their lows for the year at the beginning of October. But as both investor sentiment and economic data showed encouraging signs of improvement, the stock market pushed interest rates back higher. Since interest rates and bond prices move inversely to each other, bond prices came under pressure and the Canadian bond market generated a negative return for the quarter. The portfolio manager added to the Portfolio's exposure to provincials and their preference continues to be British Columbia and Alberta, but have also added to Ontario as they expect that it will benefit from the current phase of economic expansion. The manager increased slightly the corporate overweight during the quarter and continued to diversify within the financial sector. The performance of the Canadian bond market exceeded that of the rest of the world due to the record foreign purchases of Canadian fixed income products and the Canadian economy continues to be relatively strong.

Recent Developments

Equity markets continued their rally into the fourth quarter and the appetite for risk returned as investors received encouraging economic news and data. Confidence in the current global recovery gained momentum and investors sold bonds to buy riskier assets including equities. In the U.S., the Federal Reserve announced the details of its second round of quantitative easing policies (QE2) and President Obama introduced a broad tax package that included extending the Bush-era income tax cuts as a stimulus to promote further economic growth. While housing prices remain depressed, there are signs that the employment picture is improving which should spur consumption and ultimately growth.

Strong commodity price movements in gold and oil resulted in both the materials and energy sectors being the best-performing of the ten S&P/TSX subsectors. As confidence returns, the pace of merger and acquisition activity should increase. Improved investor sentiment pushed rates higher and the bond markets generated a negative return for the fourth quarter of 2010. However, it should be noted that the performance of the Canadian bond market exceeded that of the rest of the world. After three consecutive rate hikes, the Bank of Canada paused in the fourth quarter and the manager does not anticipate the next increase until well into 2011. Rate hikes, combined with a stronger economic outlook, lifted the Canadian dollar past parity against the U.S. dollar by the end of 2010.

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.

Holdes of Natural Resources Class Shares can switch into Balanced Portfolio Class Shares on a tax-deferred basis and vice versa. During the six month period ended December 31, 2010, \$137,300 was transferred from Natural Resources Class in exchange for 13,119 Balanced Portfolio Class Shares. There were also 25,100 Balanced Portfolio Class Shares issued for \$254,742, and 7,821 Balanced Portfolio Class Shares were redeemed for a total cost of \$78,432 during the six month period ended December 31, 2010.

Distributions

During the six month period ended December 31, 2010, the Fund declared distributions of \$311,295. The entire distribution amount was automatically consolidated so there is no change in the number of Balanced Portfolio Class Shares outstanding as a result of the distribution.

Related Party Transactions

Management Fees

Pursuant to a management agreement (“the Management Agreement”) the Fund retained Connor, Clark & Lunn Capital Markets Inc. to act as manager. 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 six month period ended December 31, 2010 were \$8,526.

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 are also affiliated with Connor, Clark & Lunn Financial Group. The Investment Manger pays the portfolio manager from the fees it receives from the 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 six month period ended December 31, 2010.

Summary of Investment Portfolio as of December 31, 2010

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	1,025,249	100.9%
Cash	1,487	0.1%
Top 25 Holdings		
CC&L Balanced Portfolio, Series I	1,025,249	100.9%
Cash	1,487	0.1%
Net asset value (NAV)	1,016,050	

Summary of Investment Portfolio of the CC&L Balanced Portfolio as of December 31, 2010

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 December 31, 2010:

Portfolio by Category	Market Value \$	% of NAV
Canadian equity	15,806,633	30.0%
U.S. equity	7,726,795	14.7%
International equity	5,599,873	10.6%
Canadian fixed income	19,821,604	37.7%
International fixed income	962,214	1.8%
Cash and cash equivalents	2,782,662	5.3%
Other assets (liabilities)	-70,486	-0.1%
Top 25 Holdings		
Ontario 4.200% June 2, 2020	1,268,984	2.4%
Toronto-Dominion Bank	915,503	1.7%
Cash	887,856	1.7%
Royal Bank of Canada	882,377	1.7%
TD Capital Trust (CATS III) 7.243% December 31, 2018	874,555	1.7%
Ontario 6.500% March 8, 2029	847,923	1.6%
Canada 3.750% June 1, 2019	753,855	1.4%
Quebec 6.000% October 1, 2029	746,861	1.4%
Suncor Energy Inc.	635,946	1.2%
Canadian Natural Resources Ltd.	620,457	1.2%
Bank of Nova Scotia	613,540	1.2%
Canadian Imperial Bank of Commerce	578,467	1.1%
Royal Bank BDN March 23, 2011	548,273	1.0%
Ontario 4.400% June 2, 2019	541,175	1.0%
GE Capital Canada Funding 5.530% August 17, 2017	515,570	1.0%
Bank of Nova Scotia BDN March 25, 2011	498,513	0.9%
Sun Life Financial Inc 4.950% June 1, 2016	483,379	0.9%
Canada Housing Trust FRN 1.426% September 15, 2015	470,825	0.9%
Manulife Financial Corporation 7.768% April 8, 2019	424,013	0.8%
Citigroup Finance Canada Inc. 6.750% September 22, 2014	407,206	0.8%
Potash Corp. of Saskatchewan	396,937	0.8%
Telus Corp. Non-voting	394,656	0.7%
Canada Housing Trust 4.550% December 15, 2012	368,322	0.7%
Talisman Energy Inc.	366,860	0.7%
Research In Motion Ltd.	363,228	0.7%
Net asset value (NAV)	52,629,295	

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 Balanced Portfolio Class Share:

	December 31, 2010 ⁽²⁾	June 30, 2010 ⁽¹⁾
Net Assets, beginning of period	9.62	10.00
Increase (decrease) from operations:		
Total revenues	0.09	0.15
Total expenses	(0.23)	(0.13)
Realized gains (losses) for the period	0.08	–
Unrealized gains (losses) for the period	0.98	(0.64)
Total increase (decrease) from operations ⁽³⁾	0.92	(0.62)
Distributions:		
From income (excluding dividends)	–	–
From dividends	–	–
From capital gains	(4.20)	–
Return of capital	–	–
Total Distributions	(4.20)	–
Net Assets, end of period ⁽⁴⁾	10.54	9.62

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

(2) Results for the six month period ended December 31, 2010.

(3) 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 outstanding over the financial period.

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

Ratios and Supplemental Data:

	December 31, 2010 ⁽²⁾	June 30, 2010 ⁽¹⁾
Net asset value (000's)	1,016	635
Number of shares outstanding	96,383	65,985
Management expense ratio (annualized) ⁽³⁾	4.56%	6.84%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	4.56%	6.84%
Portfolio turnover rate ⁽⁴⁾	18.88%	0.00%
Trading expense ratio ⁽⁵⁾	–	–
Net asset value per Balanced Portfolio Class Share ⁽⁶⁾	10.54	9.63

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

(2) Results for the six month period ended December 31, 2010.

(3) 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.

(4) 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.

(5) 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. As the only holding of the Fund is an investment in a mutual fund for which no transaction commissions are incurred, the trading expense ratio is currently not applicable.

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

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

Financial Statements (Unaudited)
December 31, 2010

Notice to Reader:

These interim financial statements and related notes for the six month period ended December 31, 2010 have been prepared by management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Fund have not audited or reviewed these interim financial statements.

Connor, Clark & Lunn Capital Class Inc.

(Balanced Portfolio Class, Series 1)

Statements of Net Assets (Unaudited)

As at December 31, 2010 and June 30, 2010

	December 31, 2010	June 30, 2010
	\$	\$
Assets		
Cash	1,487	247,213
Investments at fair value (cost - \$964,307; June 30, 2010 - \$643,250)	1,024,964	631,630
Mutual fund distributions receivable	2,261	1,812
	<u>1,028,712</u>	<u>880,655</u>
Liabilities		
Payable for investment purchases	-	245,000
Accounts payable and accrued liabilities	4,699	357
Management fees payable	8,248	697
	<u>12,947</u>	<u>246,054</u>
Net Assets and Shareholders' Equity	<u>1,015,765</u>	<u>634,601</u>
Shares issued and outstanding (note 5)	<u>96,383</u>	<u>65,985</u>
Net assets per Balanced Portfolio Class share	<u>10.54</u>	<u>9.62</u>
Shareholders' Equity		
Share capital (note 5)	1,272,710	645,938
Contributed surplus (deficit)	(1,867)	-
Surplus (deficit)	<u>(255,078)</u>	<u>(11,337)</u>
Total Shareholders' Equity	<u>1,015,765</u>	<u>634,601</u>

Approved by the Manager



Director



Director

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

Statement of Operations (Unaudited)

For the six month period ended December 31, 2010

	\$
Income	
Mutual fund distributions	6,760
	<u>6,760</u>
Expenses	
Transfer agent fees	314
Management fees (note 6)	8,526
Custodial and other shareholders' fees	2,243
Service fees (note 6)	1,825
Other	4,387
Interest expense	51
	<u>17,346</u>
Investment income (loss) for the period	(10,586)
Net realized gain (loss) on investments	
Net realized gain (loss) on investments	5,863
	<u>5,863</u>
Net unrealized gain (loss) on investments	
Change in unrealized gain (loss) on investments	72,277
	<u>72,277</u>
Increase (decrease) in net assets from operations	67,554
	<u>67,554</u>
Increase (decrease) in net assets from operations per share *	0.92
	<u>0.92</u>

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

Connor, Clark & Lunn Capital Class Inc.

(Balanced Portfolio Class, Series 1)

Statement of Changes in Net Assets (Unaudited)

For the six month period ended December 31, 2010

	\$
Increase (decrease) in net assets from operations	<u>67,554</u>
Distributions to unitholders from:	
Net realized gain on investments	<u>(311,295)</u>
Shareholders' transactions (note 4):	
Sale of shares	254,742
Transfers from Natural Resources Class shares	137,300
Distributions reinvested	311,295
Payments on redemption of shares	<u>(78,432)</u>
	<u>624,905</u>
Change in net assets during the period	<u>381,164</u>
Net assets - Beginning of period	<u>634,601</u>
Net assets - End of period	<u><u>1,015,765</u></u>
Surplus (deficit), beginning of period	(11,337)
Increase (decrease) in net assets from operations	67,554
Distributions to unitholders	<u>(311,295)</u>
Surplus (deficit), end of period	<u>(255,078)</u>
Contributed surplus (deficit), beginning of period	-
Cost of shares redeemed at less than original issue price	<u>(1,867)</u>
Contributed surplus (deficit), end of period	<u>(1,867)</u>

Connor, Clark & Lunn Capital Class Inc.
(Balanced Portfolio Class, Series 1)
Statement of Investment Portfolio (Unaudited)
As at December 31, 2010

	Quantity	Average Cost \$	Fair Value \$	% of Net Assets
Investments				
Mutual funds				
CC&L Balanced Portfolio, Series I ^(*)	113,982	<u>964,307</u>	<u>1,024,964</u>	<u>100.9%</u>
Total investments		<u>964,307</u>	<u>1,024,964</u>	<u>100.9%</u>
Liabilities less other assets			<u>(9,199)</u>	<u>-0.9%</u>
Net assets			<u>1,015,765</u>	<u>100.0%</u>

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

Canadian equity			15,830,373	30.1%
U.S. equity			7,725,901	14.7%
International equity			5,595,190	10.6%
Canadian fixed income			19,788,413	37.6%
International fixed income			959,021	1.8%
Cash and cash equivalents			2,782,662	5.3%
Other assets (liabilities)			<u>(70,486)</u>	<u>-0.1%</u>
			<u>52,611,074</u>	<u>100.0%</u>

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

Notes to Financial Statements (Unaudited)

December 31, 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 the 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 December 31, 2010, the Balanced Portfolio held \$52.6 million in total net assets.

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.

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. 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 July 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 NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

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:

Connor, Clark & Lunn Capital Class Inc.
(Balanced Portfolio Class, Series 1)
Notes to Financial Statements (Unaudited)
December 31, 2010

	<u>Transactional</u>	<u>Section 3855</u>	<u>GAAP</u>
	NAV	Adjustment	Net Assets
Per Share			
Opening Value – June 30, 2010	9.63	(0.01)	9.62
Closing Value – December 31, 2010	10.54	-	10.54

Cash & Short Term Investments

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

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

Valuation of Shares

Net assets per share and/or NAV per share ("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.

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 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

If the redemption price is lower than the original issue price the difference is included in "Contributed surplus" on the statement of net assets. If the redemption price is greater than the original issue price, the difference is first charged to "Contributed surplus" until the entire account is eliminated, and the remaining amount is charged to retained earnings (deficit).

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.

Connor, Clark & Lunn Financial Group has subscribed for \$150,000 of Balanced Portfolio Class Shares. Connor, Clark & Lunn Financial Group will not redeem its Balanced Portfolio Class Shares until subscriptions aggregating at least \$500,000 have been received by the Fund for Balanced Portfolio Class Shares from investors (other than the Manager, all the other affiliate companies or their partners, directors, officers or security holders) and accepted by the Fund. As of December 31, 2010, these shares were still outstanding.

During the six month period ended December 31, 2010, \$137,300 was transferred from Natural Resources Class Shares in exchange for 13,119 Balanced Portfolio Class Shares. There were also 25,100 Balanced Portfolio Class Shares issued for \$254,742, and 7,821 Balanced Portfolio Class Shares were redeemed for a total cost of \$78,432 during the six month period ended December 31, 2010.

Changes in outstanding shares during the six month period ended December 31, 2010 are summarized as follows:

Connor, Clark & Lunn Capital Class Inc.
(Balanced Portfolio Class, Series 1)
Notes to Financial Statements (Unaudited)
December 31, 2010

	Number of shares Balanced Portfolio Class
Opening balance	65,985
Sales	25,100
Transfers from Natural Resources Class Shares	13,119
Redemptions	<u>(7,821)</u>
Ending balance	<u>96,383</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 management fees charged to the Fund during the six month period ended December 31, 2010 were \$8,526. 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 six month period ended December 31, 2010 was \$1,825.

7 Broker commission charges and soft dollar services

There were no broker commissions paid during the six month period ended December 31, 2010 in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

8 Income taxes

The Fund intends to qualify as a mutual fund corporation as defined by the Income Tax Act (Canada). As a mutual fund corporation the Fund is entitled to capital gains refunds in respect of (i) capital gains dividends paid by it; and (ii) qualifying redemptions to the extent that the Fund has paid or is liable to pay Canadian federal income tax on its taxable capital gains. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

9 Financial instruments

	December 31, 2010	June 30, 2010
Assets	\$	\$
Held for trading	1,026,451	878,843
Loans and receivables	2,261	1,812
Total assets	1,028,712	880,655
Liabilities		
Held for trading	-	-
Financial liabilities at amortized cost	12,947	246,054
Total liabilities	12,947	246,054

Connor, Clark & Lunn Capital Class Inc.
(Balanced Portfolio Class, Series 1)
Notes to Financial Statements (Unaudited)
December 31, 2010

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 tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy as at December 31, 2010 and June 30, 2010:

Assets at fair value as at December 31, 2010 (\$)	Level 1	Level 2	Level 3	Total
Mutual fund	1,024,964	–	–	1,024,964
Total	1,024,964	–	–	1,024,964

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 six month period ended December 31, 2010.

10 Management of financial risks

Investment Objectives: 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.

The Fund, through its investment in the Balanced Portfolio, may be exposed to a variety of financial risks which are described below. The Balanced Portfolio'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 Statements of Investment Portfolio. The Investment Manager manages the potential effects of these financial risks on the Balanced Portfolio's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Balanced Portfolio's holdings, market events and overall economic conditions.

The portfolio managers use a variety of means to monitor the Balanced Portfolio including the measurement of specific financial and economic variables pertinent to the Balanced Portfolio. The Balanced Portfolio'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 the Balanced Portfolio is managed. The SIPs state the investment objectives of the Balanced Portfolio (see above) and the investment guidelines. The guidelines include permitted investments, acceptable levels of diversification and the permitted uses of derivatives. Readers are cautioned that the Balanced Portfolio's auditor has not audited or reviewed the SIP, nor has the auditor reviewed compliance with the SIP by the Investment Manager and portfolio managers.

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 Balanced Portfolio using an electronic compliance system to confirm there are no violations and to ensure market movements do not leave the Balanced Portfolio's holdings outside specified ranges. Corrective action is taken when necessary and any guideline violations are reported to the Manager.

Currency risk

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 December 31, 2010 and June 30, 2010, the Fund's direct exposure to currency risk was negligible as the units of the underlying Balanced Portfolio and other investments 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 interest rates had been raised or lowered by 5.0%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets would have decreased or increased by approximately \$100 (June 30, 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 December 31, 2010 and June 30, 2010, 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 \$26,000 (June 30, 2010 - \$16,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Connor, Clark & Lunn Capital Class Inc.

(Balanced Portfolio Class, Series 1)

Notes to Financial Statements (Unaudited)

December 31, 2010

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 December 31, 2010 and June 30, 2010, 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 55.9% (June 30, 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 \$57,000 (June 30, 2010 - \$32,000). 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 December 31, 2010, 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 43.5% (June 30, 2010 - \$48.4%) of the Fund's net assets were exposed to credit risk.

The tables below summarize the Fund's exposure to indirect credit risk resulting from investments in underlying Balanced Portfolio at December 31, 2010 and June 30, 2010:

December 31, 2010

Rating ⁽¹⁾	(% of Net Assets)
AAA	11.3%
AA	15.9%
A	13.1%
BBB	3.1%
Total	43.5%

June 30, 2010

Rating ⁽¹⁾	(% of Net Assets)
AAA	12.5%
AA	18.2%
A	15.3%
BBB	2.6%
Total	48.6%

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.

The tables below list the Fund's financial liabilities into relevant maturity groupings based on the remaining period between December 31, 2010 and June 30, 2010 and the expected maturity date.

December 31, 2010

	Less than 3 months	3 months to 1 year	Greater than 1 year
Accounts payable and accrued liabilities	\$ 4,699	-	-
Management fees payable	8,248	-	-
Total	12,947	-	-

June 30, 2010

	Less than 3 months	3 months to 1 year	Greater than 1 year
Payable for investment purchases	\$ 245,000	-	-
Accounts payable and accrued liabilities	357	-	-
Management fees payable	697	-	-
Total	246,054	-	-