



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn
Conservative Income Fund**

Semi-Annual Report

April 30, 2010

June 21, 2010

Dear Investor,

These semi-annual financial statements are in respect of the six-month period ended April 30, 2010. We welcome the opportunity to provide you with an update.

The Fund delivered strong performance during the period. The Net Asset Value per unit was \$9.38 on April 30, 2010, up from \$8.31 as at October 31, 2009, representing a total return of 17.33% over the six month period. Since its inception in December 2004 the Fund has delivered an annualised return of 7.72% including distributions totalling \$3.76 per unit. The current distribution of \$0.70 per unit represents a yield of 8.3% based on the June 18th closing price. The composition of the portfolio is currently 43% income trusts, 29% REITS, and a 25% weighting in bonds. Over the course of the period the weighting in bonds was lowered with the proceeds being invested in REITS.

Connor, Clark & Lunn Investment Management Ltd's (the "Investment Manager") prime objective is to deliver a yield to investors that is both attractive and sustainable. Therefore the prime focus of their team is to find solid companies that have demonstrated the ability and commitment to return a predictable level of capital to shareholders and bondholders in all market conditions, whether it is a business trust, REIT or corporate bond.

The economic recovery has continued to unfold over the past several months, with some headwinds emerging more recently in terms of the outlook for global growth and European fiscal positions. While this may cause volatility in markets, these concerns are likely to keep interest rates low for an extended period and income-oriented securities, such as those held by the Fund, should continue to benefit.

The income trust market generally continues its transition to corporate models by January 1, 2011. The market has shifted from a negative view of income trust distribution cuts to a realization that they are fully reflected in unit prices. This shift and the provision of clarity on the distribution outlook has typically been a positive influence on unit price performance. . With distributions in many cases sustained, or at least kept at relatively high levels, the market has realized that these securities will continue to provide solid yields and greater tax efficiency as they move to dividend tax treatment.

REITs are poised to become a large segment of the Canadian market. They will be the sole tax-exempt asset class beyond 2011. Fundamentals have proven to be stable in even the worst of credit conditions, backstopped by conservative balance sheets. As a result, the Investment Manager is encouraged by what appears to be a broadening and deepening of the REIT and real estate market in Canada. First of all, existing REITs have begun to make significant acquisitions funded in part by equity and this, combined with rising share prices, has greatly increased the market capitalization of the REIT sector. Secondly, a pipeline of REIT and real estate IPOs is beginning to develop. This should lead to additional REIT and real estate investment opportunities. The Fund's focus has been on apartment REITs, which are historically the most defensive property class in the market, and are also benefitting from low utility costs, rising rents and most importantly exceptionally low borrowing costs.

In anticipation of the changes to the tax laws affecting income trusts that come into force in 2011, we, in conjunction with the Investment Manager, are actively exploring possible changes to the investment mandate of the Fund. We expect to be in a position to present a plan to unitholders before the end of the year.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Conservative Income Fund

Management Report of Fund Performance

This semi-annual management report of fund performance for Connor, Clark & Lunn Conservative Income Fund (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 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.

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.

Note that any reference to “Net Assets” or “Net Assets per Unit” or “GAAP Net Assets” means that the value was determined in accordance with the Canadian Generally Accounting Principles “GAAP” for financial statements purposes. Also any reference to “Net Asset Value” or “Net Asset Value per Unit” or “Transactional NAV” means that the value was determined for valuation and transactional purposes. An explanation of the difference between both values can be found in note 3 to the financial statements.

Investment Objectives and Strategy

The Fund is a closed-end investment Fund that is listed on the Toronto Stock Exchange under the symbol CCQ.UN.

The Fund’s investment objectives are to:

- (i) provide a stable stream of monthly cash distributions targeted to yield approximately 7.0% per annum on the issue price of \$10.00 per Unit; preserve the net asset value per Unit in order to return at least \$10.00 per Unit on or about December 15, 2014; and
- (ii) provide an opportunity for capital appreciation above the original issue price.

In order to achieve the Fund’s investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”), the Fund’s investment manager, invests the net proceeds of the original offering, together with any borrowings under the Fund’s loan facility or other leverage transactions (if any), in a portfolio (the “Portfolio”) consisting of income producing securities including Canadian business income trusts, real estate investment trusts, utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents.

Risk

Changes in the risk exposure of the Fund occurred in the following areas:

Use of Derivatives

The Fund has employed derivatives for the purpose of hedging interest rate exposure. Such exposure has involved the use of short U.S. and Canadian 10-year Bond Futures and has been limited to less than 10% of the portfolio.

The Fund has also actively hedged foreign currency exposure, in particular the market value exposure associated with the positions in US dollar-denominated bonds.

For full disclosure of risks associated with an investment in the Fund’s units, please refer to the Prospectus dated November 29, 2004 and to the Fund’s most recent Annual Information Form.

Recent Developments

Future accounting changes

In February 2008, the Canadian Accounting Standards Board (“CASB”) confirmed that the International Financial Reporting Standards (“IFRS”) will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on January 1, 2011. Management 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.

In May 2010, the CASB proposed to defer IFRS for entities that currently apply AcG-18, *Investment Companies*, under Canadian GAAP. The Fund currently applies AcG-18. If this proposal is adopted, the Fund will delay adoption of IFRS until January 1, 2012.

Results of Operations

Investment Manager’s Commentary

The economic recovery has continued to unfold over the past several months, with some headwinds emerging more recently in terms of the outlook for global growth and European fiscal positions. While this may cause volatility in markets, these concerns are likely to keep interest rates low indefinitely and income-oriented securities, such as those held by the Fund, should continue to benefit.

Income Trusts

The income trust market continues its transition to corporate models by January 1, 2011. The market has shifted from a negative view of income trust distribution cuts to a realization that they are fully reflected in unit prices and providing clarity on the distribution outlook has become a positive influence on unit price performance in most cases. With distributions in many cases sustained, or at least kept at relatively high levels, the market has realized that these securities will continue to provide solid yields and greater tax efficiency as they move to dividend tax treatment.

The Investment Manager continues to see the income trust space evolve, with three different avenues being pursued:

1. *Conversion to a corporation:* We are just few months away from the deadline for most income trusts to convert to corporations. Income trusts, other than real estate income trusts, that do not convert will be subject to tax of approximately 31.51% on income flowed out to investors.
2. *Acquisition targets:* With solid free cash flow yields and credit markets improving dramatically, we are starting to see takeover activity re-commence with Livingston International acquired by CPP Investment Board and Sterling Partners and Harvest Energy Trust acquired by Korean National Oil Corporation .
3. *Other:* Recently we have seen tax-driven takeovers of biotech and other loss-heavy companies by the likes of Premium Brands, Colabor and Superior Plus. It remains unclear whether such structures will survive government scrutiny.

Recent New Addition

Northland Power (NPI.UN) - Stable power trust with solid portfolio of co-generation and wind power assets. The company is expected to generate some reasonable growth from new project development as well. The key to the investment in Northland was our view that the distribution was sustainable and that the market had not yet identified this key factor. Management has since confirmed that the distribution will be sustained at its present attractive level.

REITs

It has been our view for the past couple of years that the REIT and real estate market in Canada is poised to become a large very public market due to a scarcity of yield-oriented securities, made more acute by the upcoming taxation of income trusts and energy trusts. In addition, fundamentals have proven to be stable in even the worst of credit conditions, backstopped by conservative balance sheets.

While it has taken some time, we are encouraged by what appears to be a broadening and deepening of the REIT and real estate market in Canada. First of all, existing REITs such as Allied Properties, RioCan, Primaris and Dundee have begun to make significant acquisitions funded in part by equity and this, combined with rising share prices, has greatly increased the market capitalization of the REIT sector. Secondly, a pipeline of REIT and real estate IPOs is beginning to develop including Northwest Healthcare Properties REIT, Leisureworld Senior Care Corp., Transglobe Apartment REIT, Homburg Canada REIT and the conversion to a REIT by Brookfield Office Properties Canada.

We are encouraged by these developments and expect REITs to continue to be a core part of the Fund. Recent new additions:

Cominar REIT (CUF.UN) – The REIT is focused on Quebec and is diversified with roughly 33% in each of industrial, office and retail categories. We particularly like the well-aligned structure of the REIT with management owning 15%. The yield is attractive with a low payout ratio.

Northern Properties REIT (NPR.UN) – An apartment REIT focused on northern markets (BC, Northwest Territories, Nunavut, Newfoundland, Alberta). Those markets have proven to be resilient and are an indirect plan on key resource markets in Canada. The yield is attractive with a low payout ratio.

Bonds

The high yield market has come under some pressure over the past month and a half as fiscal concerns out of Europe, financial sector reform and the expiry of the home buyer's tax credit in the US have encouraged a de-risking by investors. Meanwhile the Canadian High Yield market continues to develop as demand for high yield bonds from Canadian investors remains substantial. Recent additions have included a subordinated Bell Canada Hybrid security, trucking company WestCan and Kimco Realty Corp.

Leverage

The Investment Manager employs leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The Fund has entered into a Revolving Term Credit Facility Agreement with Bank of Montreal ("BMO"). The aggregate amount of borrowings under the loan facility and other leverage transactions may not exceed 15% of the gross asset value of the Fund.

Leverage has not been used since early October 2006.

Capital transactions

On December 15, 2004, the Fund completed an initial public offering pursuant to the prospectus dated November 29, 2004. \$140,000,000 was raised through the issue of 14 million Units at \$10.00 per Unit. On December 23, 2004, the Agents exercised an over-allotment option in respect of 0.375 million Units, raising a further \$3,750,000. Total proceeds from these two transactions after Agents' fees and issue expense were \$135,573,135.

In January 2010, on the Fund's annual Redemption Date, unitholders exercised their right to redeem 704,042 units at January 31, 2009 NAV per unit price totalling \$6,308,282 less the costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the portfolio (the amount of \$8,336,484 was paid to redeem 1,183,995 units at January 31, 2009).

Market repurchases

As set out in the Prospectus, the Fund is obligated, under certain conditions, to purchase Units in the market for cancellation. If, on any day, the Units closing price is less than 95% of the net asset value per unit determined on the most recent valuation

date, the Fund must purchase any Units offered in the market the following day at 95% of net asset value per unit or less.

During the six month period ended April 30 2010 the Fund purchased 4,280 Units for cancellation at a total cost of \$35,648 (58,200 units at a cost of \$366,074 during the six month period ended April 30, 2009). All units purchased by the Fund were subsequently cancelled.

Distributions

The Fund has made all its scheduled distributions during the six month period ended April 30, 2010 paying regular monthly distributions of \$0.0583 to holders of record on the last business day of each month totalling \$0.3498 per unit (\$0.3498 per unit during the six month period ended April 30, 2009).

Related Party Transactions

Management Fees

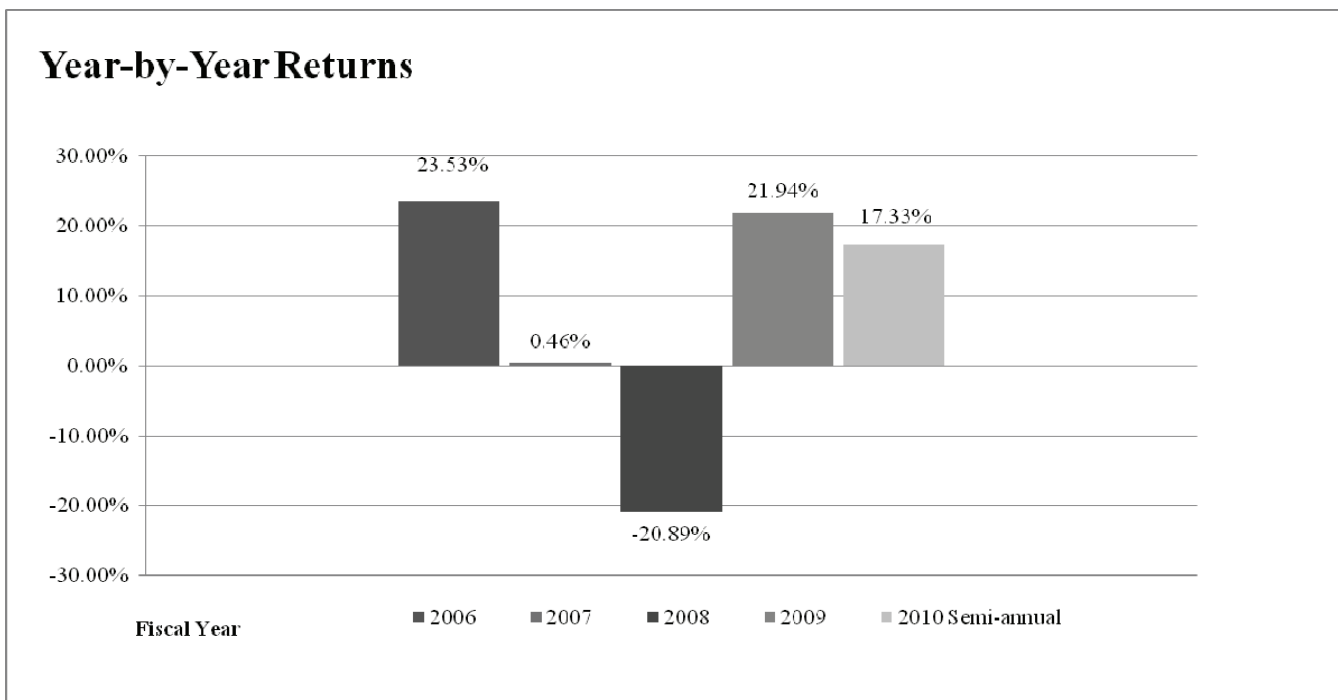
Pursuant to a trust agreement (“the Trust Agreement”) the Fund retained Connor, Clark & Lunn Capital Markets Inc. (“the Manager”) to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 1.10% 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 April 30, 2010 were \$262,502 (\$225,538 during the six month period ended April 30, 2009).

The Manager pays the Investment Manager out of the above management fees.

Past Performance

The following bar chart shows the Fund’s annual performance for the years ended October 31 2006, 2007, 2008 and 2009. It also shows the semi-annual performance for the six month period ended April 30, 2010 assuming all the distributions made by the Fund during the period shown were reinvested. This bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.



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 and unaudited semi annual financial statements:

The Fund's Net Assets per unit ⁽¹⁾:

	April 30, 2010 ⁽²⁾	October 31, 2009 ⁽²⁾	October 31, 2008 ⁽²⁾	October 31, 2007 ⁽²⁾	October 31, 2006 ⁽²⁾
Net Assets, beginning of period	8.28	7.45	10.17	10.89	9.43
Increase (decrease) from operations:					
Total revenues	0.25	0.61	0.61	0.57	0.69
Total expenses	(0.10)	(0.16)	(0.19)	(0.20)	(0.20)
Realized gains (losses) for the period	0.21	(1.69)	(0.17)	0.28	0.52
Unrealized gains (losses) for the period	1.08	2.62	(2.24)	(0.81)	1.23
Total increase (decrease) from operations ⁽³⁾	1.44	1.38	(1.99)	(0.18)	2.24
Distributions:					
From income (excluding dividends)	–	(0.15)	(0.32)	(0.41)	(0.34)
From dividends	(0.15)	(0.01)	(0.01)	(0.04)	(0.06)
From capital gains	(0.20)	–	(0.11)	(0.25)	(0.28)
Return of capital	–	(0.54)	(0.26)	–	(0.02)
Total Distributions ⁽⁴⁾	(0.35)	(0.70)	(0.70)	(0.70)	(0.70)
Net Assets, end of period ⁽⁵⁾	9.36	8.28	7.45	10.17	10.89

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for fund pricing purposes. The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed in note 3 to the financial statements.

⁽²⁾ Results for the six month period ended April 31, 2010 and for the years ended October 2006, 2007, 2008 and 2009.

⁽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⁾ Distributions were paid in cash.

⁽⁵⁾ This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

	April 30, 2010 ⁽¹⁾	October 31, 2009 ⁽¹⁾	October 31, 2008 ⁽¹⁾	October 31, 2007 ⁽¹⁾	October 31, 2006 ⁽¹⁾
Net asset value (\$000's)	\$44,375	\$45,196	\$50,514	\$89,524	\$128,239
Number of units outstanding	4,730,117	5,438,439	6,736,634	8,764,853	11,779,213
Base Management expense ratio ⁽²⁾⁽³⁾	2.00%	1.96%	1.80%	1.74%	1.75%
Interest expense ratio (annualized) ⁽²⁾⁽³⁾	–	–	–	–	0.18%
Management expense ratio (annualized) ⁽³⁾	2.00%	1.96%	1.80%	1.74%	1.93%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	2.00%	1.96%	1.80%	1.74%	1.93%
Portfolio turnover rate ⁽⁴⁾	25.39%	50.42%	68.14%	117.87%	80.30%
Trading expense ratio ⁽⁵⁾	0.25%	0.26%	0.20%	0.44%	0.30%
Net asset value per unit	\$9.38	\$8.31	\$7.50	\$10.21	\$10.89
Closing market price (TSX)	\$8.75	\$8.07	\$7.05	\$9.95	\$10.61

⁽¹⁾ Results for the six month period ended April 31, 2010 and for the years ended October 2006, 2007, 2008 and 2009.

⁽²⁾ A separate base management expense ratio has been presented to include the normal operating expenses and exclude (i) Issue expense ratio: representing all agents fees and unit issue expenses; (ii) Interest expense ratio: representing interest expense on bank indebtedness.

⁽³⁾ Management expense ratio is based on total expenses (including interest expense on bank indebtedness) 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.

Summary of Investment Portfolio as of April 30, 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 at www.sedar.com.

	Rate %	Maturity Date	Fair Value \$	% of NAV
Portfolio by Category				
Financials			12,912,228	29.2%
Corporate Bonds			10,944,096	24.5%
Industrials			5,597,183	12.7%
Consumer Discretionary			4,941,786	11.1%
Utilities			4,723,771	10.6%
Energy			2,589,450	5.8%
Materials			1,456,350	3.3%
Cash & Cash Equivalents			626,309	1.4%
Fixed income derivatives			(12,034)	0.0%
Foreign currency forward contracts			(20,743)	0.0%
Top 25 Holdings				
Inn Vest Real Estate Investment Trust			2,283,790	5.1%
Cominar Real Estate Investment Trust			2,059,312	4.6%
Northland Power Inc. Fund			2,046,536	4.6%
IBI Income Fund			2,027,471	4.6%
Canadian Apartment Properties Real Estate Investment Trust			1,999,140	4.5%
Yellow Pages Income Fund			1,958,217	4.4%
Chartwell Seniors Housing Real Estate Investment Trust			1,892,440	4.3%
Brookfield Infrastructure Partners LP			1,863,680	4.2%
Genivar Income Fund			1,719,830	3.9%
Allied Properties Real Estate Investment Trust			1,564,500	3.6%
CML Healthcare Income Fund			1,512,189	3.4%
Cineplex Galaxy Income Fund			1,471,380	3.3%
Labrador Iron Ore Royalty Inc.			1,456,350	3.3%
Altus Group Income Fund			1,426,726	3.3%
Keyera Facilities Inc.			1,243,608	2.8%
Westshore Terminals Income Fund			1,201,590	2.7%
Fort Chicago Energy Partners LP			898,032	2.0%
Crombie Real Estate Investment Trust			873,200	2.0%
Gaz Metro LP			813,555	1.8%
Northern Property Real Estate Investment Trust			813,120	1.8%
Reliance LP	7.30%	4/3/2013	812,220	1.8%
CIBC Capital Trust	9.98%	6/30/2019	794,993	1.8%
Morgan Stanley	4.90%	2/23/2017	754,392	1.7%
Great West Life Co. (U.S. Dollars)	7.15%	5/16/2016	687,727	1.5%
Corus Entertainment Inc.	7.25%	2/10/2017	677,315	1.5%
Net asset value			44,375,465	

Connor, Clark & Lunn Conservative Income Fund

Financial Statements

April 30, 2010

Notice to Reader:

These interim financial statements and related notes for the six month period ended April 30, 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 Conservative Income Fund

Statements of Net Assets (Unaudited)

As at April 30, 2010 and October 31, 2009

	2010	2009
	\$	\$
Assets		
Cash	26,674	54,914
Short-term investments	599,635	1,399,041
Investments at fair value (cost - \$38,487,011; 2009 - \$46,468,431)	43,049,374	45,503,366
Interest and dividends receivable	397,319	539,428
Receivable from investment sales	648,903	369,644
Prepaid expenses	9,857	2,840
Variation margin receivable	-	7,441
	<u>44,731,762</u>	<u>47,876,674</u>
Liabilities		
Payable for investment purchases	-	2,334,160
Distributions payable	275,766	317,061
Accounts payable and accrued liabilities	100,094	100,003
Management fees payable	41,990	42,877
Unrealized loss on forward currency contracts	20,743	12,186
Unrealized loss on future contracts	12,034	18,730
Variation margin payable	21,160	-
	<u>471,787</u>	<u>2,825,017</u>
Net Assets and Unitholders' Equity	<u>44,259,975</u>	<u>45,051,657</u>
Units issued and outstanding (note 5)	<u>4,730,117</u>	<u>5,438,439</u>
Net assets per unit	<u>9.36</u>	<u>8.28</u>
Unitholders' Equity		
Unit capital	40,198,756	46,218,409
Contributed surplus	2,356,728	2,681,005
Surplus (deficit)	<u>1,704,491</u>	<u>(3,847,757)</u>
Total Unitholders' Equity	<u>44,259,975</u>	<u>45,051,657</u>

Approved by the Manager



Director



Director

Connor, Clark & Lunn Conservative Income Fund

Statements of Operations (Unaudited)

For the six month periods ended April 30, 2010 and 2009

	2010	2009
	\$	\$
Income		
Distributions received from income trusts	830,988	1,140,624
Interest	431,056	533,595
	<u>1,262,044</u>	<u>1,674,219</u>
Expenses		
Management fees	262,502	225,538
Service fees	90,012	83,280
Transaction costs	55,828	38,265
Custodial and other unitholders' fees	25,426	26,746
Legal fees	15,737	9,917
Audit Fees	11,870	10,512
Advisory board fees	10,175	10,297
Administration fees	9,281	9,783
Transfer agent fees	7,466	9,105
Filing fees	5,182	4,063
Listing fees	4,760	7,499
Interest expenses	4,216	4,201
Printing fees	2,488	2,115
Other	1,625	228
IRC fees	741	-
	<u>507,309</u>	<u>441,549</u>
Investment income (loss) for the period	<u>754,735</u>	<u>1,232,670</u>
Net realized gain (loss) on investments		
Net realized gain (loss) on investments	809,110	(3,135,278)
Net realized gain (loss) on foreign exchange	5,381	(15,573)
Net realized gain (loss) on future contracts	(28,606)	(62,063)
Net realized gain (loss) on foreign exchange contracts	264,272	(794,943)
	<u>1,050,157</u>	<u>(4,007,857)</u>
Net unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	5,527,428	161,232
Change in unrealized gain (loss) on future contracts	6,696	(34,813)
Change in unrealized gain (loss) on foreign exchange	216	-
Change in unrealized gain (loss) on foreign exchange contracts	(8,557)	829,056
	<u>5,525,783</u>	<u>955,475</u>
Net gain (loss) on investments	<u>6,575,940</u>	<u>(3,052,382)</u>
Increase (decrease) in net assets from operations	<u>7,330,675</u>	<u>(1,819,712)</u>
Increase (decrease) in net assets from operations per unit *	<u>1.38</u>	<u>(0.30)</u>
Distributions per unit	<u>0.35</u>	<u>0.35</u>

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

Connor, Clark & Lunn Conservative Income Fund

Statements of Changes in Net Assets, Surplus (deficit) and Contributed Surplus (Unaudited)

For the six month periods ended April 30, 2010 and 2009

	2010	2009
	\$	\$
Increase (decrease) in net assets from operations	<u>7,330,675</u>	<u>(1,819,712)</u>
Distributions to unitholders from:		
Net investment income	(743,668)	(622,385)
Net realized gain on investments	(1,034,759)	(1,518,327)
Return on capital	-	-
	<u>(1,778,427)</u>	<u>(2,140,712)</u>
Unitholders' transactions:		
Payments on redemption/cancellation of units (note 4 and 5)	<u>(6,343,930)</u>	<u>(8,677,036)</u>
Change in net assets during the period	(791,682)	(12,637,460)
Net assets - Beginning of period	<u>45,051,657</u>	<u>50,169,551</u>
Net assets - End of period	<u>44,259,975</u>	<u>37,532,091</u>
Surplus (deficit), beginning of period	(3,847,757)	(16,132,431)
Increase (decrease) in net assets from operations	7,330,675	(1,819,712)
Distributions to unitholders	<u>(1,778,427)</u>	<u>(2,140,712)</u>
Surplus (deficit), end of period	<u>1,704,491</u>	<u>(20,092,855)</u>
Contributed surplus , beginning of period	2,681,005	788,739
Cost of shares repurchased at less than original issue price	<u>(324,277)</u>	<u>3,385,709</u>
Contributed surplus , end of period	<u>2,356,728</u>	<u>4,174,448</u>

Connor, Clark & Lunn Conservative Income Fund

Statements of Cash Flow (Unaudited)

For the six month periods ended April 30, 2010 and 2009

	2010	2009
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	7,330,675	(1,819,712)
Items not affecting cash:		
Net realized (gain) loss on investments	(809,110)	3,135,278
Change in unrealized (gain) loss on investments	(5,527,428)	(161,232)
Change in unrealized (gain) loss on future contracts	(6,696)	34,813
Change in unrealized (gain) loss on foreign exchange contracts	8,557	(829,056)
Changes in non-cash working capital		
(Increase) decrease in interest and dividends receivable	142,109	186,094
(Increase) decrease in variation margin receivable	7,441	2,062
(Increase) decrease in prepaid expenses	(7,017)	(3,862)
Increase (decrease) in accounts payable and accrued liabilities	91	(9,627)
Increase (decrease) in management fees payable	(887)	(28,106)
Increase (decrease) in variation margin payable	21,160	-
Cost of investments purchased	(13,795,516)	(4,185,119)
Proceeds from investments sold	19,972,627	14,942,387
	<u>7,336,006</u>	<u>11,263,920</u>
Net cash flow provided by (used in) operating activities		
Financing Activities		
Payments on redemption/cancellation of units	(6,343,930)	(8,677,036)
Distributions to unitholders	(1,819,722)	(2,212,945)
	<u>(8,163,652)</u>	<u>(10,889,981)</u>
Net cash flow provided by (used in) financing activities		
Net increase (decrease) in cash and short-term investments	(827,646)	373,939
Cash and short-term investments - beginning of period	<u>1,453,955</u>	<u>1,266,200</u>
Cash and short-term investments - end of period	<u>626,309</u>	<u>1,640,139</u>
Supplementary Information		
Interest paid	4,216	8,470

Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio (Unaudited)

As at April 30, 2010

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Fair Value \$	% of Net Assets
Short Term Paper						
Bankers acceptances						
Canadian Imperial Bank of Commerce		5/7/2010	100,000	99,973	99,973	0.2%
Canadian Imperial Bank of Commerce		5/31/2010	150,000	149,954	149,954	0.3%
National Bank of Canada		5/17/2010	150,000	149,954	149,954	0.3%
National Bank of Canada		5/25/2010	100,000	99,968	99,968	0.2%
Treasury bills						
Canada Treasury Bills (*)		7/8/2010	100,000	99,787	99,787	0.2%
				<u>599,635</u>	<u>599,635</u>	<u>1.2%</u>
Investments						
Corporate Bonds						
Goldman Sachs Capital II (U. S. Dollars)	5.79%	6/1/2012	220,000	179,840	176,312	0.4%
Reliance LP	7.30%	4/3/2013	801,000	801,000	809,854	1.8%
Russel Metals Inc. (U.S. Dollars)	6.38%	3/1/2014	200,000	197,256	192,442	0.4%
Sally Holdings LLC (U.S. Dollars)	9.25%	11/15/2014	455,000	440,272	487,923	1.1%
Great West Life Co. (U.S. Dollars)	7.15%	5/16/2016	700,000	624,012	680,637	1.5%
Corus Entertainment Inc.	7.25%	2/10/2017	660,000	660,000	674,015	1.5%
Morgan Stanley	4.90%	2/23/2017	772,000	730,791	751,980	1.7%
Freeport McMoran Copper & Gold (U.S. Dollars)	8.38%	4/1/2017	500,000	571,815	567,831	1.3%
Westcan Limited Partnership	9.50%	4/7/2017	375,000	375,000	375,938	0.8%
Merrill Lynch Fin. Co.	5.29%	5/30/2017	671,000	575,262	628,763	1.4%
Tesoro Corp (U.S. Dollars)	6.50%	6/1/2017	705,000	638,580	671,218	1.5%
TD Northgroup (U.S. Dollars)	6.38%	10/15/2017	200,000	177,094	189,882	0.4%
GE Capital Trust I (U.S. Dollars)	6.38%	11/15/2017	200,000	166,761	193,961	0.4%
US Steel Corp (U.S. Dollars)	7.00%	2/1/2018	450,000	467,168	463,760	1.0%
Kimco North Trust III	5.99%	4/13/2018	300,000	300,435	303,792	0.7%
Brookfield Renewable Power Inc.	5.25%	11/5/2018	500,000	445,950	487,174	1.1%
CIBC Capital Trust	9.98%	6/30/2019	600,000	723,960	793,493	1.8%
Videotron LTEE	7.13%	1/15/2020	475,000	476,250	487,226	1.1%
Bell Canada (Prydes)	8.88%	4/17/2026	300,000	352,710	349,196	0.8%
Canadian Tire Corporation	6.32%	2/24/2034	427,000	410,022	433,160	1.0%
Brascan Corporation	5.95%	6/14/2035	286,000	301,255	246,732	0.6%
Loblaw Co. Ltd	5.90%	1/18/2036	473,000	353,028	457,713	1.0%
Citigroup Financial Inc.	5.37%	3/6/2036	639,000	485,754	478,951	1.1%
				<u>10,454,215</u>	<u>10,901,953</u>	<u>24.4%</u>
Canadian common stock						
Energy						
Enbridge Income Fund			34,500	361,885	446,775	1.0%
Fort Chicago Energy Partners LP			84,800	669,992	897,184	2.0%
Keyera Facilities Inc.			45,637	777,541	1,243,608	2.8%
				<u>1,809,418</u>	<u>2,587,567</u>	<u>5.8%</u>
Materials						
Labrador Iron Ore Royalty Inc.			28,500	847,429	1,453,500	3.3%
Industrials						
Armtec Infrastructure Income Fund			15,400	275,829	346,654	0.8%
Genivar Income Fund			62,200	1,394,828	1,719,830	3.9%
New Flyer Limited Income Deposit Securities			26,200	285,331	299,728	0.7%
IBI Income Fund			133,650	1,884,450	2,019,452	4.6%
Westshore Terminals Income Fund			71,100	1,229,486	1,201,590	2.7%
				<u>5,069,924</u>	<u>5,587,254</u>	<u>12.7%</u>

(*) Brokers held this security as collateral against the open future contracts

Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio Continued (Unaudited)

As at April 30, 2010

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Fair Value \$	% of Net Assets
Consumer Discretionary						
Cineplex Galaxy Income Fund			71,600	1,106,340	1,471,380	3.3%
Yellow Pages Income Fund			287,550	2,549,917	1,949,589	4.4%
CML Healthcare Income Fund			132,300	2,056,560	1,512,189	3.4%
				<u>5,712,817</u>	<u>4,933,158</u>	<u>11.1%</u>
Financials						
Allied Properties Real Estate Investment Trust			74,500	1,250,110	1,564,500	3.6%
Altus Group Income Fund			100,900	773,412	1,418,654	3.3%
Canadian Apartment Properties Real Estate Investment Trust			139,800	1,789,284	1,990,752	4.6%
Chartwell Seniors Housing Real Estate Investment Trust			253,000	1,320,410	1,874,730	4.3%
Cominar Real Estate Investment Trust			107,200	2,051,487	2,052,880	4.6%
Crombie Real Estate Investment Trust			74,000	822,817	867,280	2.0%
Inn Vest Real Estate Investment Trust			333,400	1,870,729	2,283,790	5.2%
Northern Property Real Estate Investment Trust			33,600	749,456	813,120	1.8%
				<u>10,627,705</u>	<u>12,865,706</u>	<u>29.4%</u>
Utilities						
Brookfield Infrastructure Partners LP			104,000	1,587,087	1,863,680	4.2%
Gaz Metro LP			50,500	810,945	810,020	1.8%
Northland Power Inc. Fund			146,600	1,643,426	2,046,536	4.6%
				<u>4,041,458</u>	<u>4,720,236</u>	<u>10.6%</u>
Total Canadian common stock				<u>28,108,751</u>	<u>32,147,421</u>	<u>72.9%</u>
Total Investments (Transactional net asset value)				<u>38,562,966</u>	<u>43,049,374</u>	<u>97.3%</u>
Transaction costs - Section 3855 adjustment (note 3)				<u>(75,955)</u>	<u>-</u>	<u>0.0%</u>
Total Investments (GAAP net asset value)				<u>38,487,011</u>	<u>43,049,374</u>	<u>97.3%</u>
	Maturity date	Number of contracts	Contract price / rate \$	Fair value \$	Unrealized gain (loss) \$	% of NAV
Foreign currency forward contracts						
Bought CAD 3,581,273 , sold USD 3,606,700	6/18/2010	1	1.0071	3,560,530	(20,743)	0.0%
					<u>(20,743)</u>	<u>0.0%</u>
	Maturity date	Number of contracts	Average cost \$	Fair value \$	Unrealized gain (loss) \$	% of NAV
Futures contracts						
Foreign futures						
10 Year United States Treasury Note Futures	6/21/2010	(11)	(1,304,851)	(1,313,635)	(8,784)	0.0%
Domestic futures						
10 Year Canadian Bond Futures	6/21/2010	13	1,534,130	1,530,880	(3,250)	0.0%
					<u>(12,034)</u>	<u>0.0%</u>
Other liabilities net of other assets					<u>643,743</u>	<u>1.5%</u>
Net assets					<u>44,259,975</u>	<u>100.0%</u>

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements (Unaudited)

April 30, 2010

1 Formation of Fund

Connor, Clark & Lunn Conservative Income Fund (the "Fund") is an investment fund established under the laws of the Province of Ontario pursuant to a trust agreement dated as of November 29, 2004 (the "Trust Agreement") between Connor, Clark & Lunn Capital Markets Inc. (the "Manager") in its capacity as manager and RBC Dexia Investor Services Trust ("RBC Dexia") (formerly "The Royal Trust Company") (the "Trustee") as trustee.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated November 29, 2004 are (i) to pay to holders of Units ("Unitholders") a monthly cash distributions of approximately \$0.0583 per Unit (\$0.70 per annum to yield 7.0% per annum on the issue price of \$10.00 per Unit) and (ii) preserve net asset value in order to return at least the issue price of the Units (\$10.00 per Unit) on or about December 15, 2014.

In order to achieve the Fund's investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"), the Fund's investment manager, invests the net proceeds of the original offering, together with any borrowings under the Fund's loan facility or other leverage transactions (if any), in a portfolio (the "Portfolio") consisting of income producing securities including Canadian business income trusts, real estate investment trusts, utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents

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

In February 2008, the Canadian Accounting Standards Board ("CASB") confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on January 1, 2011. Management 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 Fund. 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.

In May 2010, the CASB proposed to defer IFRS for entities that currently apply AcG-18, Investment Companies, under Canadian GAAP. The Fund currently applies AcG-18. If this proposal is adopted, the Fund will delay adoption of IFRS until January 1, 2012.

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 closing 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 units ("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	GAAP Net Assets
Unit pricing		
October 31, 2009	8.31	8.28
April 30, 2010	9.38	9.36

Cash and 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 on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. Distributions received from income trusts are recorded as income, capital gains or a return on capital based on the best information available to the trustee. Due to the nature of these investments, actual allocations could vary from this information. Distributions from income trusts that are treated as return of capital for income tax purposes reduce the average cost of the underlying trust. Realized gains and losses on investments and unrealized appreciation and depreciation in value calculated using average cost. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash and cash equivalents) are attributable to investments and derivatives which are deemed held for trading.

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements (Unaudited)

April 30, 2010

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the period. Purchases and sales of investment and income and expense are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date, and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

Future contracts

The futures contracts are Exchange-traded futures contracts. Futures contracts are valued at their settlement price at the close of business on each Valuation Date. Any difference between the settlement value at the close of business on the current Valuation Date and that of the previous Valuation Date is recorded in the Statements of Operations and in the Statements of Net Assets as Unrealized gain (loss). Amounts receivable (payable) from futures contracts are reflected in the Statements of Net Assets as unrealized gain or loss on future contracts and variation margin receivable (payable).

Unit valuation

The net asset value per unit is determined by dividing the aggregate market value of net assets of the Fund by the total number of units of the Fund outstanding before giving effect to redemptions or subscriptions for units on that day.

4 Market Purchase Program

In accordance with the Fund's prospectus, and to enhance liquidity and to provide support to the units, the Fund has a mandatory market purchase program under which the Fund, subject to exceptions contained in the Trust Agreement and in compliance with any regulatory requirements, is obligated to purchase its own units for cancellation. If, on any business day, the closing price of the units is less than 95% of the net asset value per unit determined by the trustee as at the most recent valuation date, the Fund will offer to purchase for cancellation any units offered in the market at or below 95% of the net asset value per unit on the following business day. The maximum number of units to be purchased in any quarterly period will not be over 1.25% of the number of units outstanding at the beginning of such period.

During the six month period ended April 30, 2010, the Fund purchased 4,280 Units for cancellation at a total cost of \$35,648 (58,200 units at a cost of \$366,074 during the six month period ended April 30, 2009). All units purchased by the Fund either were or will be cancelled.

5 Units of the Fund

Units of the Fund were offered to the public by way of prospectus. The Fund is authorized to issue 14,375,000 (representing the maximum amount stated in the prospectus plus a 15% over allotment) transferable, redeemable Fund units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

Units may be surrendered at any time for redemption by the Fund. Where Units are surrendered for redemption prior to the 10th business day of the month, Units will be redeemed on the last business day of that month (a "Redemption Date"); where Units are surrendered after the 10th day of the month, Units will be redeemed on the Redemption date of the following month. For redemptions occurring on a Redemption Date other than the January Redemption Date of each year, the redemption price per Unit is equal to the lesser of:

- (a) 95% of the weighted average trading price of the Units on the Toronto Stock Exchange for the ten trading days immediately preceding the applicable Redemption Date, and
- (b) 100% of the closing price of the Units on the Toronto Stock Exchange on the applicable Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with the redemption including costs incurred in liquidating securities held in the portfolio.

For redemptions on the January Redemption Date in each year the redemption price will be equal to the net asset value per Unit determined as of the relevant Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with the redemption including costs incurred in liquidating securities held in the portfolio. In January 2010, the Fund's annual Redemption Date, unitholders exercised their right to redeem 704,042 units at January 31, 2010 NAV per unit price totalling \$6,308,282 less the costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the portfolio (the amount of \$8,336,484 was paid to redeem 1,183,995 units at January 31, 2009).

If the redemption price is lower than the original price, the difference is included in Contributed Surplus on the statements of net assets. If the 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 considers capital to include all units issued and outstanding. The Fund manages their capital in accordance with the objectives outlined in Note 2.

Changes in outstanding units during the six month period ended April 30, 2010 and 2009 are summarized as follows:

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements (Unaudited)

April 30, 2010

	2010	2009
Balance – beginning of period	5,438,439	6,736,634
Units redeemed under the Market Purchase Program (note 4)	(4,280)	(58,200)
Units redeemed	<u>(704,042)</u>	<u>(1,182,195)</u>
Balance – end of period	<u>4,730,117</u>	<u>5,496,239</u>

6 Custodian

Pursuant to a custodian agreement (“the Custodian Agreement”), the Fund has retained RBC Dexia to act as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund’s day-to-day operations. In consideration for these services, the Fund pays a fee to the Custodian.

7 Distributions

The targeted monthly distribution rate is \$0.0583 per Unit. During the six month period ended April 30, 2010, the Fund met its targeted monthly distribution and paid total distributions of \$1,778,427, or \$0.35 per Unit (\$2,140,712, or \$0.35 per Unit during the six month period ended April 30, 2009).

8 Management fees and other expenses

Pursuant to a management agreement (“the Management Agreement”) the Fund has retained Connor, Clark & Lunn Capital Markets Inc. (“the Manager”) to act as manager. As compensation for management services rendered to the Fund, the Manager receives an annual management fee in an amount equal to 1.1% of the net asset value of the Fund, calculated and paid monthly in arrears, plus applicable taxes. The Fund also pays a service fee to dealers whose clients hold Units in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.40% annually of the net asset value of the Units held by clients of the dealers. The Fund is also responsible for all expenses incurred in connection with its operation and administration.

9 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized. 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.

10 Broker commission charges and soft dollar services

There were \$55,828 broker commissions paid during the six month period ended April 30, 2010 (\$38,265 during the six month period ended April 30, 2009) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

11 Financial instruments

<u>Assets</u>	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Held for trading	43,675,683	37,416,888
Loans and receivables	1,056,079	585,737
Total assets	44,731,762	38,002,625
<u>Liabilities</u>		
Held for trading	32,777	12,016
Financial liabilities at amortized cost	439,010	458,518
Total liabilities	471,787	470,534

For the purposes of categorization in accordance with section 3862, interest and dividends receivable, receivable from investment sales and variation margin receivable are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, payable for investment purchases, distributions payable, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements (Unaudited)

April 30, 2010

During 2009, Section 3862 was amended to include enhanced disclosures about inputs to fair value measurement. The following table illustrates the classification of the Fund's financial instruments within the fair value hierarchy as at April 30, 2010:

Assets at fair value as at April 30, 2010	Level 1	Level 2	Level 3	Total
Equities	32,147,421	–	–	32,147,421
Short-term notes	–	599,635	–	599,635
Bonds	–	10,901,953	–	10,901,953
Total	32,147,421	11,501,588	–	43,649,009

Liabilities at fair value as at April 30, 2010	Level 1	Level 2	Level 3	Total
Unrealized loss on forward currency contracts	–	20,743	–	20,743
Unrealized loss on future contracts	12,034	–	–	12,034
Total	12,034	20,743	–	32,777

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.

Equities: The Fund's long equity positions are classified as Level 1 as all these securities are actively traded and public market quotes are available.

Bonds and Short-term notes: Bonds and short-term notes are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities.

Foreign currency forward contracts: Foreign currency forward contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable, or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

Future contracts: The Fund holds future contracts which relate to the United States Treasury Note and Canada Bonds. These contracts are Exchange-traded and, therefore, are classified as Level 1 as the fair value is based on a quote in an active market.

There were no transfers among the three levels during the six month period ended April 30, 2010.

12 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The following is a description of these risks.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and fixed income derivatives. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

April 30, 2010:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	986,166	680,365	9,235,422	32,114,644	43,016,597
Cash and cash equivalents	599,635	–	–	–	26,674	626,309
Other assets	–	–	–	–	1,034,919	1,034,919
Liabilities	–	–	–	–	(417,850)	(417,850)
Net assets	599,635	986,166	680,365	9,235,422	(32,758,387)	44,259,975

April 30, 2009:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	1,555,541	1,191,448	1,877,928	5,675,839	25,463,431	35,764,187
Cash and cash equivalents	1,349,322	–	–	–	291,363	1,640,685
Other assets	–	–	–	–	585,737	585,737
Liabilities	–	–	–	–	(458,518)	(458,518)
Net assets	2,904,863	1,191,448	1,877,928	5,675,839	25,463,431	37,532,091

As at April 30, 2010, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$699,000 (April 30, 2009 - \$494,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Fund's Statement of Investments identifies all securities denominated in foreign currencies.

The table below summarizes the Fund's exposure to foreign currencies as at April 30, 2010 and 2009. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as futures and forward contracts. Other financial assets such as interest and variation margin receivable and liabilities such as accounts payable and accrued liabilities denominated in foreign currencies do not expose the Fund to significant

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements (Unaudited)

April 30, 2010

currency risk. The table below summarizes the Fund's exposure to foreign currencies and the approximate impact on net assets had the Canadian Dollar ("CAD") weakened by 5% in relation to these currencies. If the Canadian dollar were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

April 30, 2010:

	Monetary instruments \$	Non- monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	3,623,966	–	(3,569,715)	54,251	0.1%	3,000

April 30, 2009:

	Monetary instrument \$	Non- monetary instruments \$	Derivative instrument \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	3,113,317	–	(2,910,512)	202,805	5.0%	10,000

Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. Except for futures contracts, the maximum risk resulting from financial instruments is equivalent to their fair value. Possible losses from futures contracts can be unlimited. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If equity prices had increased or decreased by 10% on April 30, 2010, with all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$3,215,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

Credit risk is the risk that the Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at April 30, 2010. This also applies to other assets, as they have a short-term to settlement.

The table below summarizes the Fund's exposure to credit risk as of April 30, 2010. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

April 30, 2010:

Rating ⁽¹⁾	(% of Net Assets)	Rating ⁽¹⁾	(% of Net Assets)
AAA	0.00%	BB	2.90%
AA+	0.00%	BB-	1.10%
A+	0.40%	B+	0.80%
A	2.10%	B	1.10%
A-	6.40%	B-	0.00%
BBB+	1.70%	CCC	0.00%
BBB	3.30%	N/R	0.00%
BBB-	3.10%	A-1+	0.20%
BB+	1.50%	A-1	1.00%
		Total	25.60%

April 30, 2009:

Rating ⁽¹⁾	(% of Net Assets)	Rating ⁽¹⁾	(% of Net Assets)
AAA	0.00%	BB	0.50%
AA+	1.00%	BB-	0.50%
A	4.70%	B+	1.40%
A-	3.50%	B	1.40%
BBB+	2.10%	CCC	2.20%
BBB	1.10%	N/R	1.80%
BBB-	4.20%	A-1+	1.10%
BB+	3.20%	A-1	2.60%
		Total	31.3%

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements (Unaudited)

April 30, 2010

As at April 30, 2010 and 2009, no debt securities were contractually past due and no longer meeting interest payment obligations.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Liquidity risk

The Fund is exposed to daily cash redemptions due to its market purchase program which are limited to certain conditions. The Fund is also exposed to unlimited annual anniversary redemptions on January 31 of every year (see notes 4 and 5). Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. In addition, the Fund retains sufficient cash and cash equivalent positions to meet its daily cash requirements.

13 Loan agreement

As part of its strategy, the Investment Manager may employ leverage in the Portfolio to enhance returns when market conditions are considered appropriate. The Investment Manager may reduce or eliminate leverage and may increase the allocation to cash when the Investment Manager believes the outlook for market performance is unfavourable. The aggregate amount of borrowings and other leverage under the Leverage Transactions may not exceed 15% of the assets of the Fund. Such leverage may be used to purchase additional securities for the Portfolio.

On November 29, 2005, the Fund entered into a Revolving Term Credit Facility Agreement (the "Credit Facility") with the Bank of Montreal ("BMO") with a revolving period maturity date on November 28, 2006. Under the terms of this agreement, the maximum allowable borrowing limit is the lesser of (i) the amount \$16,000,000 or (ii) 15% of the gross asset value of the Fund.

Leverage has not been used since early October 2006.

14 Future contracts

As of April 30, 2010, brokers held the following security as collateral against the open future contracts:

<u>Security</u>	<u>Maturity</u>	<u>Par value</u>	<u>Market value</u>
Canada Treasury Bills	07/08/2010	100,000	99,787

As of April 30, 2009, brokers held the following security as collateral against the open future contracts:

<u>Security</u>	<u>Maturity</u>	<u>Par value</u>	<u>Market value</u>
Canada Treasury Bills	05/28/2009	100,000	99,830