



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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

Semi-Annual Report

September 30, 2008

Connor, Clark & Lunn Conservative Income Fund II Message to Unitholders

November 19, 2008

Dear Investor,

These semi-annual financial statements are in respect of the six-month period ended September 30, 2008. We welcome the opportunity to provide you with an update.

The Fund's net asset value was \$9.35 on March 31, 2008 and had decreased to \$8.47 as at September 30, 2008. In total, the Fund declared distributions of \$0.33 for the six-month period ended September 30, 2008 and totalling \$1.92 per unit from inception to the end of September 30, 2008 for an annualized yield on the \$10.00 original issue price of 6.5 %. All distributions paid to date have been characterized as return of capital for tax purposes.

Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") continues to focus on securities that can deliver stable distributions over an entire cycle – REITs, defensive Business and Utility Trusts and bonds – and deliver a solid yield while preserving capital for investors. In a time of extreme commodity weakness, it is worth noting that the Fund's focus is outside of those sectors, which make up nearly half of the broad Canadian market indices.

Amidst the indiscriminate market sell-off, distribution yields are being undervalued and are at unprecedented levels on a bond-relative basis. As of mid-October, the Scotia Income Trust Index yields 16%, with components such as Business Trusts yielding 14%, Power trusts yielding 14% and REITs yielding 11%. As a comparison, 10-yr Canada yields were 3.8%.

It is fair to say few income trusts are receiving full value for their distributions and valuations are in-line, and in many cases discounted, relative to corporations. Most companies that the portfolio manager speaks to will not convert to a corporation until 2011 and many believe distributions will be maintained as a corporation, with the added benefit of re-characterizing them as dividends. REITs will be the sole tax-exempt asset class beyond 2011 and as such will not have to meet the additional tax burden that income trusts will beyond 2011. Canadian REITs generally have long-term leases and conservative balance sheets; however as a spread business access to low-cost capital will be an ongoing issue. For this reason our focus is on the apartment REITs, specifically Boardwalk and CAP REIT, which can raise CMHC-insured debt at a low cost.

Yours truly,



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

Management Report of Fund Performance

This Semi-Annual management report of fund performance for Connor, Clark & Lunn Conservative Income Fund II (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.**

Note that any reference to “Net Assets” or “Net Assets per Unit” means that the value was determined in accordance with the Canadian Generally Accounting Principles for financial statements purposes. Also any reference to “Net Asset Value” or “Net Asset Value per Unit” 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 CCK.UN.

The Fund’s investment objectives are to:

- (i) provide holders of the Units (“Unitholders”) with a stable stream of tax-efficient monthly cash distributions targeted to be \$0.0542 per Unit (representing a yield of approximately 6.5% per annum on the issue price of \$10.00 per Unit); and
- (ii) preserve the net asset value per Unit in order to return at least the original issue price of Units (\$10.00 per Unit) to Unitholders on or about October 19, 2015 and provide to Unitholders an opportunity for capital appreciation above the original issue price.

In order to achieve the Fund’s investment objectives, the Fund obtained exposure to the performance of the Portfolio (the “Portfolio”) held by Conservative Income Fund II (the “CIF II”) by virtue of a forward purchase and sale agreement (the “Forward Agreement”) with Bank of Montreal (the “Counterparty”). The Fund does not invest directly in CIF II. The Fund invested the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). Under the Forward Agreement, the Fund is entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. As a result, Unitholders’ returns correlate with the net returns realized by CIF II on its investment in the Portfolio.

Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”), the CIF II’s investment manager, actively manages the Portfolio. The Portfolio consists 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. As part of its strategy, the Investment Manager employs leverage in the Portfolio to enhance returns when market conditions are considered appropriate.

Risk

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

▪ Use of leverage

CIF II is entitled to employ leverage of up to 15% of its total assets. CIF II did not employ any leverage during the six-month period ended September 30, 2008.

▪ Use of Derivatives

CIF II has used 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.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated September 29, 2005 and to the Fund's most recent Annual Information Form.

Results of Operations

Portfolio Manager Commentary

Amidst the indiscriminate market sell-off, yield is being undervalued and is at unprecedented levels on a bond-relative basis. As of mid-October, the Scotia Income Trust Index yields 16%, with components such as Business Trusts yielding 14%, Power trusts yielding 14% and REITs yielding 11%. As a comparison, 10-yr Canada yields were 3.8%.

The transition of income trusts continues in front of the 2011 tax holiday deadline. Despite weak credit markets, many trusts continue to be taken over at attractive premiums as private equity funds can still raise money for small-mid cap companies with strong free cash flow and/or turnaround potential. Recent takeovers include Teranet, InStorage REIT, Connors Brothers, and Sleep Country. Conversions to corporations also continue to occur, most recently CI Financial announcing conversion in the midst of a new major shareholder Bank of Nova Scotia buying Sun Life's 37% position. Other recent conversions include Algonquin Power, BFI Canada and Aeroplan.

It is fair to say few income trusts are receiving full value for their distributions and valuations are in-line, and in many cases discounted, relative to corporations. Most companies that we speak to will not convert to a corporation until 2011 and many believe distributions will be maintained as a corporation, with the added benefit of re-characterizing them as dividends.

REITs will be the sole tax-exempt asset class beyond 2011 and as such will not have to meet the additional tax burden that income trusts will beyond 2011. Canadian REITs generally have long-term leases and conservative balance sheets; however as a spread business access to low-cost capital will be an ongoing issue. For this reason our focus is on the apartment REITs, specifically Boardwalk and CAP REIT, which can raise CMHC-insured debt at a low cost.

Asset Mix

In terms of asset mix, the bond weighting has been fairly consistent through the year at around 30%, while REITs were reduced significantly during the year during concerns about valuation compression in the face of tougher credit markets in favour of business & utility trusts. Asset mix at the end of September 30, 2008 was 50% business & utility trusts, 29% bonds, 17% REITs and 3% cash.

Business / Utility Trusts

New additions during the period included: Enerflex, who business relates to engineering solutions related primarily to natural gas compression; Westshore Terminals which owns the largest coal terminal in Canada with compensation primarily related to steady volumes; and Mullen which a dominant transport business focused on the oilfield services sector.

REITs

The REIT weighting was reduced considerably after a rebound from early in the year due to concerns around credit spreads and the implications for cap rates in what is ultimately a spread business. Leverage is not an issue for Canadian REITs, but relative property valuation will be if the US weakens further. We are focused on REITs with access to low-cost CMHC-insured debt in the apartment/senior spaces.

We exited RioCan after a recent move upwards, we found the valuation relatively full and growth for the sector has slowed in a market with dramatically less external growth activity due to tighter credit markets.

Bonds

The weighting has been consistent, holding to strategy focusing on high-quality credits particularly in the financial space.

Specific changes related to the sale of GMAC exposure longer than 15 months while retaining shorter maturities. New positions included Athabasca Oil Sands, Sallie Holdings (US beauty supplies, less exposed to cyclical forces), Tesoro (US

Oil refiner).

Net Assets

The net assets per unit is calculated as the value of the common share portfolio and any other investments held by the Fund, plus the value of any gain or loss on the Forward Agreement, less any net liabilities of the Fund, divided by the number of units outstanding.

On September 30, 2008, the value of the common share portfolio was \$16.86 million. Since the Fund can deliver the value of the common share portfolio to the Counterparty in exchange for the value of the CIF II, the value of the Forward Agreement to the Fund is equal to the value of the CIF II less the value of the common share portfolio. On September 30, 2008 value of the Forward Agreement was \$11.43 million. Other liabilities net of other assets in the Fund totalled -\$0.35 million leaving net assets of \$27.94 million or \$8.42 per Unit.

Investment Income and Capital Gains

The Fund had a net investment loss of -\$330,559 during the six-month period ended September 30, 2008, and realized \$201,812 in gains on investments sold during the same period. In addition, the portfolio had -\$1,760,860 change in unrealized gains and losses on investments as of September 30, 2008. The loss, realized gains and unrealized losses combined for a total decrease in net assets from operations of \$1,889,607, or -\$0.57 per Unit. Distributions to unitholders totalled \$1,080,322, or \$0.33 per Unit.

Liquidity and Capital Resources

As at September 30, 2008, both the Fund and the CIF II held cash and short-term investments of \$866,152 on a consolidated basis. The Fund had \$4,018 in Current Assets excluding investments, and had Current Liabilities, including distributions accrued but not yet paid, totalled \$353,159.

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 weighted average price of the Units 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. The maximum number of Units purchased in any three-month period will be 1.25% of the number of Units outstanding at the beginning of that period.

During the six-month period ended September 30, 2008, the Fund purchased 15,600 units for cancellation at a cost of \$135,224 during (during the six-month period ended September 30, 2007, 30,000 units were bought for cancellation at a cost of \$295,260).

Distributions

The Fund has made all its scheduled distributions to date, including an initial distribution of \$0.0773 per Unit in respect of the period from October 18, 2005 (commencement of operations) to November 30, 2005 and monthly distributions of \$0.0542 per Unit from December 2005 thereafter.

Distributions during the six-month period ended September 30, 2008 were \$1,080,322 (\$0.3252 per Unit).

Recommendations or Reports by the Independent Committee

The Independent Committee of the Board of Advisors tabled no special reports and made no extraordinary material recommendations to management of the Fund during the six-month period ended September 30, 2008.

Related Party Transactions

Management Fees

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 is entitled to receive an annual management fee in an amount equal to 0.75% per annum of the NAV of the Fund, to be calculated daily and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to CIF II, the Manager will receive an annual management fee in an amount equal 0.35% of the CIF II’s NAV, to be calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and CIF II on consolidation basis during the six month period ended September 30, 2008 were \$178,471 (\$297,779 paid during the six month period ended September 30, 2007). The Manager is responsible for payment of the investment management fees of the Investment Manager out of these management fees.

Past Performance

The following bar chart shows the Fund’s annual performance for the years ended March 31, 2007 and 2008. It also shows the Semi-Annual performance for the six-month period ended September 30, 2008 assuming all the distributions made by the Fund during the periods shown were reinvested. This bar chart show, 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⁾:

	September 30, 2008 ⁽²⁾	March 31, 2008 ⁽²⁾	March 31, 2007 ⁽²⁾	March 31, 2006 ⁽²⁾
Net Assets, beginning of period	9.32	10.17	10.43	10.00
Increase (decrease) from operations:				
Total revenues	—	—	—	—
Total expenses	(0.10)	(0.20)	(0.20)	(0.09)
Unit issue expense ⁽³⁾	—	—	(0.02)	(0.59)
Realized gains (losses) for the period	0.06	1.17	0.51	0.03
Unrealized gains (losses) for the period	(0.53)	(1.06)	(0.06)	1.36
Total increase (decrease) from operations ⁽⁴⁾	(0.57)	(0.09)	0.23	0.71
Distributions:				
From income (excluding dividends)	—	—	—	—
From dividends	—	—	—	—
From capital gains	—	—	—	—
Return of capital	(0.33)	(0.65)	(0.65)	(0.29)
Total Annual Distributions ⁽⁵⁾	(0.33)	(0.65)	(0.65)	(0.29)
Net Assets, end of period ⁽⁶⁾	8.42	9.32	10.17	10.43

⁽¹⁾ This information is derived from the Fund's audited annual and unaudited semi-annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements. 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 September 30, 2008, the years ended March 31, 2007 and 2008 and the period October 18, 2005 (commencement of operations) to March 31, 2006.

⁽³⁾ Issue expense of \$4,016,331 incurred in connection with the unit issuance, which has been treated as a reduction of capital.

⁽⁴⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽⁵⁾ Distributions were paid in cash.

⁽⁶⁾ This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

Fund	September 30, 2008 ⁽¹⁾	March 31, 2008 ⁽¹⁾	March 31, 2007 ⁽¹⁾	March 31, 2006 ⁽¹⁾
Total net asset value (000's)	28,083	31,147	51,090	68,120
Number of units outstanding	3,316,224	3,331,824	5,023,014	6,533,600
Base Management expense ratio ⁽²⁾⁽³⁾	2.14%	1.96%	1.94%	1.97%
Issue expenses ratio ⁽²⁾⁽³⁾	0.00%	0.00%	0.18%	6.00%
Management expense ratio ⁽³⁾	2.14%	1.96%	2.12%	7.97%
Management expense ratio before waivers or absorptions ⁽³⁾	2.14%	1.96%	2.12%	7.97%
Portfolio turnover rate ⁽⁴⁾	33.64%	18.96%	8.03%	13.24%
Trading expense ratio ⁽⁵⁾	0.00%	0.00%	0.00%	0.00%
Closing market price (TSX)	8.00	8.81	9.70	9.88

⁽¹⁾ Results for the six-month period ended September 30, 2008, the years ended March 31, 2007 and 2008 and the period October 18, 2005 (commencement of operations) to March 31, 2006.

⁽²⁾ A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio, which is based on total agents fees and unit issue expenses of \$4,016,331.

⁽³⁾ Management expense ratio is based on total expenses (including issue expenses) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses which are one-time expenses, are not annualized.

⁽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 September 30, 2008

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.

Investment portfolio of the Connor Clark & Lunn Conservative Income Fund II

	Market value \$	% of NAV
Portfolio by Category		
Equity Derivatives	11,425,393	40.8%
Materials	6,918,209	24.7%
Information Technology	4,896,840	17.6%
Consumer Discretionary	2,420,874	8.7%
Energy	1,860,285	6.7%
Consumer Staples	761,316	2.7%
Cash	4,018	0.0%
Top 25 Holdings		
Equity Derivatives	11,425,393	40.8%
Pan American Silver Corp.	2,682,493	9.6%
Sino-Forest Corporation	2,490,089	8.9%
CGI Group	2,004,155	7.2%
Gildan Activewear	1,977,013	7.1%
Celestica Inc.	1,892,630	6.8%
OPTI Canada Inc.	1,860,285	6.7%
FNX Mining Company Inc.	1,745,627	6.2%
Research In Motion	797,257	2.9%
Viterra Inc	761,316	2.7%
Rona Inc.	443,861	1.6%
Nortel Networks Corp.	202,798	0.7%
Cash	4,018	0.0%
Net assets	27,937,569	

Investment portfolio of the Conservative Income Fund II

	% Rate	Maturity date	Market value \$	% of NAV
Portfolio by Category				
Corporate Bonds			7,642,170	26.9%
Financials			5,937,264	21.2%
Consumer Discretionary			3,544,087	12.5%
Energy			2,972,072	10.4%
Industrials			2,518,495	9.0%
Health Care			1,332,036	4.7%
Utilities			917,670	3.2%
Cash & Cash Equivalents			862,134	3.0%
Information Technology			830,580	2.9%
Telecommunication Services			727,209	2.6%
Sovereign Bonds and Guarantees			318,416	1.1%
Consumer Staples			305,344	1.1%
Materials			176,530	0.6%
Derivative Contracts			36,333	0.1%
Top 25 Holdings				
CML Healthcare Income Fund			1,332,036	4.7%
Yellow Pages Income Fund			1,310,760	4.6%
Boardwalk Real Estate Investment Trust			1,301,625	4.7%
Calloway Real Estate Investment Trust			1,134,050	4.1%
New Flyer Limited Income Deposit Securities			1,100,628	3.9%
CI Financial Income Fund			1,015,200	3.7%
Groupe Aeroplan Inc.			977,379	3.5%
Jazz Air Income Fund			956,035	3.4%
Enerflex Systems Income Fund			919,100	3.2%
Altagas Income Trust			917,670	3.2%
Cash & Cash Equivalents			862,134	3.0%
Keyera Facilities Inc.			855,120	3.0%
Dundee Real Estate Investment Trust			850,070	3.0%
Mullen Group Income Fund			846,102	3.0%
Teranet Income Fund			830,580	2.9%
Westshore Terminals Income Fund			810,720	2.9%
Armtec Infrastructure Income Fund			751,740	2.7%
Bell Aliant Regional Communications Income Fund			727,209	2.6%
Reliance LP	7.3%	4/3/2013	715,477	2.5%
Domtar Inc. (U.S. Dollars)	5.4%	12/1/2013	586,656	2.1%
Canadian Apartment Properties Real Estate Investment Trust			537,654	1.9%
Chartwell Seniors Housing Real Estate Investment Trust			513,413	1.8%
Western Oil Sands	8.4%	5/1/2012	466,594	1.6%
Merrill Lynch Financial Co.	5.3%	5/30/2017	419,246	1.5%
Royal Bank of Scotland	6.7%	10/5/2017	415,649	1.5%
Net assets			28,282,917	

Connor, Clark & Lunn Conservative Income Fund II

Financial Statements (Unaudited)
September 30, 2008

Notice to Reader:

These interim financial statements and related notes for the six month period ended September 30, 2008 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 II

Statements of Net Assets

As at September 30 and March 31, 2008

	September 30, 2008 (Unaudited)	March 31, 2008 (Audited)
	\$	\$
Assets		
Cash	4,018	36,591
Investments pledged to counterparty under forward agreement (cost - \$26,316,136; March 31, 2008 - \$27,589,369)	16,857,524	21,025,940
Unrealized gain on forward agreement (note 7)	11,425,393	10,290,849
Prepaid expenses	3,793	9,005
	<u>28,290,728</u>	<u>31,362,385</u>
Liabilities		
Distributions payable	180,010	180,585
Accounts payable and accrued liabilities	113,653	118,503
Management fees payable	59,496	20,575
	<u>353,159</u>	<u>319,663</u>
Net assets and unitholders' equity	<u>27,937,569</u>	<u>31,042,722</u>
Units outstanding (note 5)	<u>3,316,224</u>	<u>3,331,824</u>
Net assets per unit	<u>8.42</u>	<u>9.32</u>
Unitholders' equity		
Unit Capital (note 5)	22,685,573	23,877,693
Surplus	5,251,996	7,165,029
Unitholders' equity - end of period	<u>27,937,569</u>	<u>31,042,722</u>

Approved on behalf of the Manager,
Connor, Clark & Lunn Capital Markets Inc.



Director



Director

Connor, Clark & Lunn Conservative Income Fund II

Statements of Operations (Unaudited)

For the six month period ended September 30, 2008 and 2007

	2008	2007
	\$	\$
Income		
Interest income	34	235
Expenses		
Management fees (note 9)	121,211	202,578
Forward fees (note 7)	77,974	127,927
Service fees (note 10)	60,152	99,324
Custodial and other unitholder fees	11,490	16,463
Audit Fees	11,236	11,236
Administration fees	10,268	11,911
Filing fees	7,412	4,108
Transfer agent fees	6,678	5,993
Interest expense	5,539	820
Advisory fees	5,250	5,276
Sustaining fees	5,212	5,955
Legal fees	4,862	8,522
Printing and mailing fees	1,504	3,953
Other	1,805	264
	<u>330,593</u>	<u>504,330</u>
Investment income (loss)	(330,559)	(504,095)
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	(2,672,050)	2,733,144
Change in unrealized gain (loss) on forward agreement (note 7)	911,418	(1,325,409)
Change in unrealized gain (loss) on foreign exchange	(228)	-
	<u>(1,760,860)</u>	<u>1,407,735</u>
Realized gain (loss) on investments		
Net realized gain (loss) on investments	201,812	464,154
Net gain (loss) on investments	<u>(1,559,048)</u>	<u>1,871,889</u>
Increase (decrease) in net assets from operations	<u>(1,889,607)</u>	<u>1,367,794</u>
Increase (decrease) in net assets from operations per unit *	<u>(0.57)</u>	<u>0.27</u>
Distributions per unit	<u>0.33</u>	<u>0.33</u>

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

Connor, Clark & Lunn Conservative Income Fund II

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

For the six month period ended September 30, 2008 and 2007

	2008	2007
	\$	\$
Increase (decrease) in net assets from operations	<u>(1,889,607)</u>	<u>1,367,794</u>
Distributions to unitholders from: (note 8)		
Return on capital	<u>(1,080,322)</u>	<u>(1,625,425)</u>
Unitholders' transactions		
Payments on redemption and cancellation of units (note 5 and 6)	<u>(135,224)</u>	<u>(295,260)</u>
Change in net assets during the period	<u>(3,105,153)</u>	<u>(552,891)</u>
Net assets - Beginning of period	<u>31,042,722</u>	<u>50,923,428</u>
Net assets - End of period	<u>27,937,569</u>	<u>50,370,537</u>
Surplus, beginning of period	7,165,029	10,013,989
Increase (decrease) in net assets from operations	(1,889,607)	1,367,794
Cost of shares repurchased in excess of par value price	<u>(23,426)</u>	<u>-</u>
Surplus, end of period	<u>5,251,996</u>	<u>11,381,783</u>
Contributed surplus (deficit), beginning of period	-	556,176
Cost of shares repurchased at less than par value price	<u>-</u>	<u>4,740</u>
Contributed surplus (deficit), end of period	<u>-</u>	<u>560,916</u>

Connor, Clark & Lunn Conservative Income Fund II

Statements of Cash Flow (Unaudited)

For the six month period ended September 30, 2008 and 2007

	2008	2007
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	(1,889,607)	1,367,794
Items not affecting cash:		
Change in unrealized (gain) loss on investments	2,672,050	(2,733,144)
Change in unrealized (gain) loss on forward agreement (note 7)	(911,418)	1,325,409
Net realized (gain) loss on investments	(201,812)	(464,154)
Changes in non-cash working capital:		
(Increase) decrease in prepaid expenses	5,212	5,954
Increase (decrease) in accounts payable and accrued liabilities	(4,850)	59,586
Increase (decrease) in management fees payable	38,921	(3,077)
Net cash flow provided by (used in) operating activities	<u>(291,504)</u>	<u>(441,632)</u>
Investing Activities		
Purchase of investment portfolio	(7,937,368)	-
Proceeds on disposition of investment portfolio	9,412,420	2,510,000
Net cash provided by (used in) investing activities	<u>1,475,052</u>	<u>2,510,000</u>
Financing Activities		
Payments on redemption and cancellation of units (note 5 and 6)	(135,224)	(295,260)
Distributions to unitholders	(1,080,897)	(1,627,051)
Proceeds from bank indebtedness	-	244,000
Principal payments on bank overdraft	-	(313,300)
Accrued interest on bank overdraft	-	(635)
Net cash flow provided by (used in) financing activities	<u>(1,216,121)</u>	<u>(1,992,246)</u>
Net increase (decrease) in cash	(32,573)	76,122
Cash - beginning of period	<u>36,591</u>	<u>11,339</u>
Cash - end of period	<u>4,018</u>	<u>87,461</u>
Supplementary Information		
Interest paid	1,504	899

(See accompanying notes to financial statements)

Connor, Clark & Lunn Conservative Income Fund II

Statement of Investment Portfolio (Unaudited)

As at September 30, 2008

	Number of shares / par value \$	Average cost \$	Market value \$	% of NAV
Investments				
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)				
Energy				
OPTI Canada Inc.	169,734	2,958,464	1,860,285	6.7%
Materials				
FNX Mining Company Inc.	155,029	3,680,388	1,745,627	6.2%
Pan American Silver Corp.	116,075	3,830,475	2,682,493	9.6%
Sino-Forest Corporation	185,689	3,593,082	2,490,089	8.9%
		<u>11,103,945</u>	<u>6,918,209</u>	<u>24.7%</u>
Consumer Discretionary				
Gildan Activewear	83,630	1,788,087	1,977,013	7.1%
Rona Inc.	36,145	426,511	443,861	1.6%
		<u>2,214,598</u>	<u>2,420,874</u>	<u>8.7%</u>
Consumer Staples				
Viterra Inc	74,859	883,336	761,316	2.7%
Information Technology				
CGI Group	215,269	1,696,320	2,004,155	7.2%
Celestica Inc.	284,606	3,583,964	1,892,630	6.8%
Nortel Networks Corp.	86,666	3,592,067	202,798	0.7%
Research In Motion	11,124	283,442	797,257	2.9%
		<u>9,155,793</u>	<u>4,896,840</u>	<u>17.6%</u>
Total investments		<u>26,316,136</u>	<u>16,857,524</u>	<u>60.4%</u>
Unrealized gain on forward agreement			<u>11,425,393</u>	<u>40.8%</u>
Other liabilities net of other assets			<u>(345,348)</u>	<u>-1.2%</u>
Net assets			<u>27,937,569</u>	<u>100.0%</u>

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2008

1 Corporate activities

Connor, Clark & Lunn Conservative Income Fund II (the "Fund") was established under the laws of Ontario as of September 29, 2005 by a Trust Agreement (the "Trust Agreement") made by Connor, Clark & Lunn Capital Markets Inc. (the "Manager") and RBC Dexia Investor Services Trust ("RBC Dexia") (formerly "The Royal Trust Company") as trustee of Fund. The Fund is a mutual fund whose investment portfolio (the "Common Share Portfolio") consists of common shares of Canadian public companies that are Canadian securities for the purpose of the Income Tax Act (Canada) (the "Tax Act"). The Fund commenced operations on October 18, 2005 and will be terminated on or about October 19, 2015 (the "Termination Date") if not terminated earlier in accordance with its terms.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated September 29, 2005 are to:

- (i) provide holders of the Units ("Unitholders") with a stable stream of tax-efficient monthly cash distributions targeted to be \$0.0542 per Unit (representing a yield of approximately 6.5% per annum on the issue price of \$10.00 per Unit); and
- (ii) preserve the net asset value per Unit in order to return at least the original issue price of Units (\$10.00 per Unit) to Unitholders on or about October 19, 2015 (the "Termination Date") and provide to Unitholders an opportunity for capital appreciation above the original issue price.

In order to achieve the Fund's investment objectives, the Fund obtained exposure to the performance of the Portfolio held by Conservative Income Fund II (the "CIF II") by virtue of a forward purchase and sale agreements (the "Forward Agreement") with Bank of Montreal (the "Counterparty"). The Fund does not invest in CIF II. The Fund invested the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio"). Under the Forward Agreement, the Fund is entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. As a result, Unitholders' returns correlate with the net returns realized by CIF II on its investment in the Portfolio. Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") is the Investment Manager of CIF II.

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.

Recent accounting pronouncements

The new Section 1535, Capital Disclosures, requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for the Fund. This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

The new CICA Sections 3862, Financial Instruments – Disclosures ("Section 3862"), and 3863, Financial Instruments – Presentation (Section 3863"), replaced Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for the Fund. This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

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. Should the quoted value for a security, in the opinion of the Managers, 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 Managers 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 continues to calculate its net asset value for pricing purposes using the closing prices of securities. As at September 30, 2008, the Fund's net asset value per unit was \$8.47. 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 above.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with terms to maturity of less than 90 days at acquisition. Cash and cash equivalents are deemed to be held for trading and therefore are carried at fair value.

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. 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.

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 investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2008

Forward contract

Forward contracts entered into by the Fund are valued at an amount that is equal to the gain or loss that would be realized if the position were to be closed out, which is equivalent to the difference between the deliverable asset and the value of the asset to be received. Changes in the value of a forward contract or the assets deliverable under such a contract are included as unrealized gains or losses on investments.

4 Custodian

Pursuant to the Trust Agreement RBC Dexia ("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.

5 Unitholders' equity

The Fund is authorized to issue an unlimited number of redeemable, transferable units of one class, each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On October 18, 2005 and November 8, 2005, the Fund issued 6,400,000 and 250,000 units respectively, for net proceeds of \$60,220,000 and 2,375,000 respectively. Changes in outstanding units during the year ended March 31, 2008 and the six-month period ended September 30, 2008 are summarized as follows:

	Number of units	
	September 30, 2008	March 31, 2008
Opening balance	3,331,824	5,023,014
Units issued	—	—
Units redeemed	—	(1,635,090)
Units cancelled (note 7)	<u>(15,600)</u>	<u>(56,100)</u>
Ending balance	<u>3,316,224</u>	<u>3,331,824</u>

6 Market Purchase Program

To enhance liquidity and to provide market support for the Units, the Fund has a mandatory market purchase program under which the Fund, subject to certain exceptions contained in the Trust Agreement and in compliance with any applicable regulatory requirements, is obligated to purchase Units for cancellation on and subject to the terms below. If, on the business day following any Valuation Date, the weighted average price of the Units is less than 95% of the net asset value of the Fund ("NAV") per Unit (the "NAV per Unit") determined as at the most recently published Valuation Date, the Fund will offer to purchase for cancellation any Units offered in the market at or below 95% of the NAV per Unit on the following business day. The maximum number of Units purchased in any three-month period is 1.25% of the number of Units outstanding at the beginning of the period (commencing with the three month period that begins on the first day of the month following October 18, 2005 (commencement of operations)). The Fund is not obligated to make such purchases if: (i) the Fund lacks the cash, debt capacity or other resources to make such purchases, or (ii) in the opinion of the Manager, such market purchases would adversely affect the ongoing activities of the Fund.

In addition, the Trust Agreement provides that the Fund has the right (but not the obligation), exercisable in its sole discretion, at any time, to purchase for cancellation Units in the market at prices not exceeding the NAV per Unit, subject to any applicable regulatory requirements and limitations. Such purchases, if made, are made as normal course issuer bids through the facilities and under the rules of the exchange or market on which the Units are listed, if applicable, as provided for in the Trust Agreement or as otherwise permitted by applicable securities laws.

During the six-month period ended September 30, 2008, the Fund purchased 15,600 units for cancellation at a cost of \$135,224 during (during the six-month period ended September 30, 2007, 30,000 units were bought for cancellation at a cost of \$295,260).

7 Forward Agreement and Common Share Portfolio

The Fund entered into a Forward Agreement with the Counterparty to obtain exposure to the performance of the Portfolio held by CIF II. Under the Forward Agreement, the Fund is entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged by physical delivery of the Common Share Portfolio securities by the Fund to the Counterparty against cash payment or, at the election of the Fund, by the making of cash payments between the parties. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio may be more or less than the original aggregate subscription price of the Units. Unless the Fund elects cash settlement of the Forward Agreement, the Counterparty will pay to the Fund on or about the Termination Date, as the purchase price for the Common Share Portfolio, an amount equal to the Canadian dollar equivalent of the redemption proceeds of a corresponding number of units of the CIF II. The Common Share Portfolio securities are pledged to, and held by, the Counterparty as security for the obligations of the Fund under the Forward Agreement.

On September 30, 2008, the value of the common share portfolio was \$16.86 million. Since the Fund can deliver the value of the common share portfolio to the Counterparty in exchange for the value of the CIF II, the value of the Forward Agreement to the Fund is equal to the value of the CIF II less the value of the common share portfolio. On

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2008

September 30, 2008 value of the Forward Agreement was \$11.43 million. Other liabilities net of other assets in the Fund totalled -\$0.35 million leaving a net assets of \$27.94 million or \$8.42 per Unit.

The Fund pays to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of CIF II calculated and payable quarterly in arrears.

8 Distributions

The Fund pays monthly cash distributions plus any additional amounts as directed by the Manager. Such distributions may consist of net income, net realized capital gains and return of capital and shall be paid no later than 10 days after the record date for Distribution.

The amount of distributions in any particular month shall be determined by the Manager, having regard to the investment objectives of the Fund, the net realized capital gains and net income of the Fund, if any, during the month and the year to date, the net realized capital gains and net income of the Fund anticipated in the balance of the year, and distributions made in previous months; provided, however, that the aggregate distributions of net income and net realized capital gains made in each year shall be such amount as is sufficient to ensure that the Fund is not liable for income tax thereon under the Act, except to the extent that any tax payable on net realized capital gains of the Fund for a year that are retained by the Fund would be recoverable by it in such year.

Distributions paid during the six-month period ended September 30, 2008 were \$1,080,322 or \$0.3252 per Unit (distributions paid during the six-month period ended September 30, 2007 were \$1,625,425 or \$0.3252 per Unit).

9 Management fees

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 is entitled to receive an annual management fee in an amount equal to 0.75% per annum of the NAV of the Fund, to be calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the six-month period ended September 30, 2008 were \$121,211 (\$202,578 during the six-month period ended September 30, 2007). The Manager is responsible for payment of the investment management fees of the Investment Manager out of the above management fees.

10 Service Fee

The Fund pays to registered dealers a servicing fee equal to 0.40% annually of the NAV per Unit for each Unit held by clients of the registered dealer (accrued daily and paid at the end of each calendar quarter), plus any applicable taxes.

The service fees charged to the Fund during the six-month period ended September 30, 2008 were \$60,152 (\$99,324 during the six-month period ended September 30, 2007).

11 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.

12 Broker commission charges and soft dollar services

There were \$nil broker commissions paid during the six-month period ended September 30, 2008 in connection with portfolio transactions (\$nil during the six-month period ended September 30, 2007). No contractual arrangements for soft dollar services exist in the broker commission charges.

13 Financial instruments

The Fund obtained exposure to the performance of the portfolio held by CIF II through the Forward Agreement and therefore the categorization in accordance with section 3862 is best presented by consolidating the assets and liabilities of both: the Fund and the CIF II.

<u>Assets</u>	\$
Held for trading	28,286,935
Loans and receivables	3,793
Total assets	28,290,728
<u>Liabilities</u>	
Held for trading	—
Financial liabilities at amortized cost	353,159
Total liabilities	353,159

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2008

For the purposes of categorization in accordance with section 3862, prepaid expenses, and other assets are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, distributions payable, management fees payable, accounts payable and accrued liabilities and other liabilities are deemed to be financial liabilities and reported at amortized cost.

14 Financial instrument risk

The Fund obtained exposure to the performance of the portfolio held by CIF II through the Forward Agreement and therefore the risks associated with an investment in the Fund's units are best defined by describing the financial risks associated with an investment in the CIF II's portfolio.

The Investment Manager invests in 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 Investment Manager also invests in foreign currency forward contracts to hedge The CIF II's foreign exchange risk exposure.

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.

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	517,969	1,057,103	1,371,113	5,012,253	19,299,768	27,258,206
Cash and cash equivalents	843,262	—	—	—	22,890	866,152
Other assets	—	—	—	—	432,900	432,900
Liabilities	—	—	—	—	(619,689)	(619,689)
Net assets						27,937,569

As at September 30, 2008, 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 \$385,000. 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 Statement of Investments identifies all securities denominated in foreign currencies.

The table below summarizes the Fund's exposure to foreign currencies as at September 30, 2008. 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 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.

	Foreign investment \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	1,872,554	(3,179,307)	(1,306,753)	(4.6%)	(65,000)
European Union Euro	248,402	(274,531)	(26,129)	(0.1%)	(1,000)

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 September 30, 2008, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$1,926,000. In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

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 September 30, 2008.

The table below summarizes the Fund's exposure to credit risk as of September 30, 2008. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2008

	September 30, 2008		September 30, 2008
Rating ⁽¹⁾	(% of NAV)	Rating ⁽¹⁾	(% of NAV)
AAA	1.6%	BBB-	5.4%
AA+	0.0%	BB+	2.2%
AA	0.3%	BB	0.0%
AA-	2.0%	BB-	2.1%
A+	3.8%	B+	0.7%
A	4.5%	B	0.1%
A-	2.8%	B-	1.5%
BBB+	2.2%	CCC+	0.0%
BBB	0.6%	Not Rated	1.4%
		Total	31.2%

As at September 30, 2008, 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 (see note 6). The Fund is also exposed to unlimited annual anniversary redemptions on November 30 of every year. Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed. In addition, the Fund retains sufficient cash and cash equivalent positions to maintain liquidity.