



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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Connor, Clark & Lunn
Conservative Income Fund II
Semi-Annual Report
September 30, 2007

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

November 8, 2007

Dear Investor,

These semi-annual financial statements are in respect of the six-month period ended September 30, 2007. We welcome the opportunity to provide you with an update.

The Fund's net asset value was \$10.17 on March 31, 2007 and had decreased to \$10.09 as at September 30, 2007 and is currently \$10.07 as of the date of this letter. In total, the Fund declared distributions totalling \$1.27 per unit from inception to the end of September 30, 2007 for an annualized yield on the \$10.00 original issue price of 6.5%. We anticipate that all of the distributions will be characterized as return of capital for tax purposes.

The Fund has performed reasonably well over the period as Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") continues to meet the Fund's core objectives of delivering stable income while preserving capital.

The most significant event of the past period was the "credit crunch" which resulted from the spread of the serious issues in the US sub-prime mortgage to credit markets of all types in both the US and globally. The impact was most pronounced in areas such as the Asset Backed Commercial Paper (ABCP) market which seized up as lenders were unable to re-finance expiring paper, with Conventree being the most prominent example in Canada. US and global banks, which have large exposures to the securitization market, were forced to hoard liquidity to deal with potential losses as well as billions of dollars worth of debt committed to leveraged buyouts.

The "credit crunch" has resulted in tightness in credit markets of all types leading the US Federal Reserve (the "Fed") and other central banks to take aggressive actions. Initial moves to improve the liquidity situation so far by the Fed have included short-term liquidity injections and significant cuts to the discount rate and the Fed funds rate, which more cuts expected in the near future. These moves have restored some stability to markets, particular equity & trust markets, which have recovered to new highs, reflecting the market's view that the Fed is taking action to ensure that the current credit crisis does not take a dramatic toll on the economy.

The Fund has limited exposure to these issues. There is no exposure to commercial paper of any kind. The Income trusts and REITs in the portfolio have no direct exposure to these credit market issues. In the bond portfolio, certain positions including GMAC, ResCap and Countrywide have some modest exposure to the sub-prime mortgage issues, but the GMAC and ResCap positions are very short-term positions and in all cases the spreads have widened to level that we feel more than reflects this exposure. Overall, the bond portfolio is conservatively positioned with over 65% investment grade bonds.

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.**

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, 2007.

- **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.

- **Fluctuations in Net Asset Value**

With the recent government announcement to tax trusts, overall trusts have been hard hit as many have difficult valuation comparisons with corporate companies. The Investment Manager remains optimistic with the portfolio as it was built on strong companies irrespective of trust or public corporation status.

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

The most significant event of the past period was the "credit crunch" which resulted from the spread of the serious issues in the US sub-prime mortgage to the broader credit market in both the US and globally. The impact was most pronounced in areas such as the Asset Backed Commercial Paper (ABCP) market which seized up as lenders were unable to re-finance expiring paper, with Conventree being the most prominent example in Canada. US and global banks, which have large exposures to the securitization market, were forced to hoard liquidity to deal with potential losses as well as billions of dollars worth of debt committed to leveraged buyouts.

The "credit crunch" has resulted in tightness in credit markets of all types leading the US Federal Reserve (the "Fed") and other central banks to take aggressive actions. Initial moves to improve the liquidity situation so far by the Fed have included short term liquidity injections and significant cuts to the discount rate and the Fed funds rate, with more cuts expected in the near future. These moves have restored some stability to markets, particular equity & trust markets which have recovered to new highs, reflecting the market's view that the Fed is taking action to ensure that the current credit crisis does not take a dramatic toll on the economy.

The Conservative Income Fund II has limited exposure to these issues. There is no exposure to commercial paper of any kind. The income trusts and REITs in the portfolio have no direct exposure to the issues in the credit market. In the bond portfolio, certain positions including GMAC, ResCap and Countrywide have some modest exposure to the sub-prime mortgage issues, but the GMAC and ResCap positions are very short-term positions and in all cases the spreads have widened to level that we feel more than reflects this exposure. Overall, the bond portfolio is conservatively positioned with over 65% investment grade bonds.

Asset Mix

Given the aggressive actions taken by the Fed we continue to believe that a US recession is unlikely and that these actions will lead to a re-inflation cycle that will be more favourable to equity markets than bonds. As such we have moderately increased exposure to business trusts at the expense of REITs with overall current positioning 26% REITs, 41% Business/Utility trusts, 31% Bonds, and 3% Cash.

REITs

The REIT weighting in the portfolio was as high as 40% weighting in March and benefited from a strong run in REITs early in the year on lower rates. Since then have reduced the weight to 26%, some of which occurred naturally following the takeover of Legacy Hotels and partial takeover of Dundee REIT. The position in Dundee REIT has since been added back, the new entity is now entirely western-focused with amongst the best growth profiles in the REIT sector. We are comfortable running below what we would see as long-term run-rate on REITs of around 33% weight due to concern about the impact the current credit crunch will have on valuations in the real estate market. However, in the medium term we

continue to believe that the REIT market is attractive and that a high proportion of the REIT market is vulnerable to takeout

Business/Utility Trusts

In the Business & Utility trusts segment, the weighting has been increased to 41% from the 30% range for most of the year after valuations corrected following a big M&A-driven run in the first half. In fact, since the October 31st Tax Fairness Plan, approximately 39 Income Trusts and 6 REITs have been taken over. This year's takeovers include several held by the CIF II: CCS, Movie Distribution, CanWest MediaWorks, Liquor Barn, Gateway Casinos, Dundee REIT and Legacy REIT. With several names to replace, one recent addition worth highlighting is Armtec Infrastructure Income Fund. Armtec manufactures corrugated pipe for drainage and storm sewer applications and steel products for use in bridges, tunnels and soil retention systems and has significant exposure to the attractive western Canadian infrastructure market. After the Fund established a position, Armtec announced a 7.7% increase in monthly distributions on October 1, 2007.

Bonds

The bond weighting has remained relatively consistent through the year in the 30% range and performance, as noted has been relatively flat as a result of credit market issues that have arisen over the past few months. As a general comment, bond spreads are finally beginning to providing some opportunity to be rewarded for the credit risks inherent in specific issuers or in high yield credits after years of narrow spreads and limited differentiation. However, we see it as too early to take any large positions in the asset class.

Net Asset Value

The net asset value 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, 2007, the value of the common share portfolio was \$48.96 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, 2007 value of the Forward Agreement was \$1.81 million. Other net assets in the Fund totalled \$(0.40) million leaving a net asset value of \$50.37 million or \$10.09 per Unit.

Investment Income and Capital Gains

The Fund had a net investment loss of \$(0.50) million during the six-month period ended September 30, 2007, and realized \$0.464 million in gains on investments sold during the same period. In addition, the portfolio had \$1.24 million change in unrealized gains and losses on investments as of September 30, 2007. Loss, realized and unrealized gains combined for a total increase in net assets from operations of \$1.20 million, or \$0.19 per Unit. Distributions to unitholders totalled \$1.625 million, or \$0.33 per Unit.

Liquidity and Capital Resources

As at September 30, 2007, both the Fund and the CIF II held cash and short-term investments of \$1.8 million on a consolidated basis. The Fund had \$91,404 in Current Assets excluding investments, and had Current Liabilities, including distributions accrued but not yet paid, totalled \$488,631.

Leverage

The Investment Manager employs leverage in the Portfolio to enhance returns when it considers market conditions appropriate. CIF II has entered into a Revolving Term Credit Facility Agreement with Bank of Montreal ("BMO"). The aggregate amount of borrowings and other leverage under the loan facility and other leverage transactions may not exceed 15% of the net asset value of CIF II or a debt-to-equity ratio of 0.176:1 representing a total asset-to-equity ratio of 1.176:1.

As at September 30, 2007, CIF II had a \$nil balance under the Credit Facility Agreement.

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. Pursuant to this obligation, the Fund purchased 30,000 units for cancellation at a cost of \$295,260 during the six-month period ended September 30, 2007.

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, 2007 were \$1,625,425 (\$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, 2007.

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, 2007 were \$297,779. The Manager is responsible for payment of the investment management fees of the Investment Manager out of the above management fees.

Deconsolidation of the CIF II

As the Fund is exposed to the future gains or losses arising on the portfolio securities held by CIF II, Accounting Guideline "AcG 15 - Consolidation of Variable Interest Entities" required that the Fund's financial statements be presented on a consolidated basis by including the results of CIF II. The 2006 financial statements were prepared on this basis.

Effective February 2007, AcG 15 has been amended and now specifically excludes investment funds from its application. These changes were applicable for periods beginning on or after September 30, 2007, with early adoption encouraged.

The Fund has adopted the amended AcG for the September 30, 2007 Semi-Annual reporting and reclassified the September 30, 2006 comparative financial statements and financial highlights to conform to the new presentation.

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 Asset Value per unit:

	September 30, 2007 ⁽¹⁾	March 31, 2007 ⁽¹⁾	March 31, 2006 ⁽¹⁾
Net Asset Value, beginning of period	10.14	10.43	10.00
Increase (decrease) from operations:			
Total revenues	—	—	—
Total expenses	(0.10)	(0.20)	(0.09)
Unit issue expense ⁽²⁾	—	(0.02)	(0.59)
Realized gains (losses) for the period	0.09	0.51	0.03
Unrealized gains (losses) for the period	0.28	(0.06)	1.36
Total increase (decrease) from operations ⁽³⁾	0.27	0.23	0.71
Distributions:			
From income (excluding dividends)	—	—	—
From dividends	—	—	—
From capital gains	—	—	—
Return of capital	(0.33)	(0.65)	(0.29)
Total Annual Distributions ⁽⁴⁾	(0.33)	(0.65)	(0.29)
Net Asset Value, end of period ⁽⁵⁾	10.09	10.17	10.43

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

⁽²⁾ Issue expense of \$4,016,331 incurred in connection with the unit issuance, which has been treated as a reduction of capital.

⁽³⁾ Net asset value 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.

⁽⁴⁾ Distributions were paid in cash.

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

Ratios and Supplemental Data:

	September 30, 2007 ⁽¹⁾	March 31, 2007 ⁽¹⁾	March 31, 2006 ⁽¹⁾
Net assets (000's) ⁽²⁾	50,371	51,090	68,120
Number of units outstanding ⁽²⁾	4,993,014	5,023,014	6,533,600
Base Management expense ratio ⁽³⁾⁽⁴⁾	1.97%	1.94%	1.97%
Issue expenses ratio ⁽³⁾⁽⁴⁾	0.00%	0.18%	6.00%
Management expense ratio ⁽⁴⁾	1.97%	2.12%	7.97%
Management expense ratio before waivers or absorptions ⁽⁴⁾	1.97%	2.12%	7.97%
Portfolio turnover rate ⁽⁵⁾	0.00%	8.03%	13.24%
Trading expense ratio ⁽⁶⁾	0.01%	0.01%	0.00%
Closing market price (TSX) ⁽²⁾	9.80	9.70	9.88

⁽¹⁾ Results for the six-month period ended September 30, 2007, the year ended March 31, 2007 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 assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses which are one-time expenses, are not annualized.

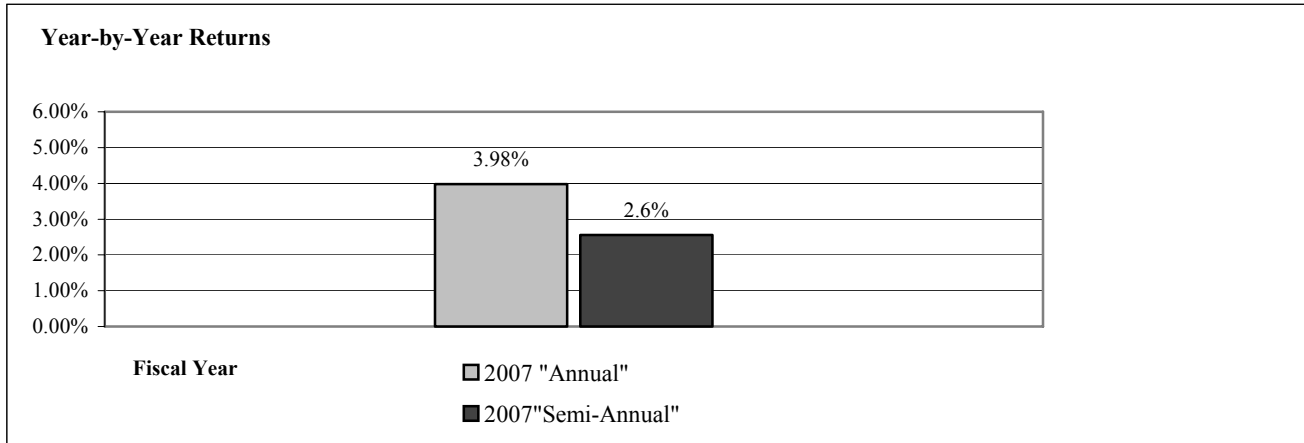
⁽⁴⁾ The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship 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 assets during the period.

Past Performance

The following bar chart shows the Fund's annual performance for the year ended March 31, 2007. It also shows the Semi-Annual performance for the six-month period ended September 30, 2007 assuming all the distributions made by the Fund during the periods 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.



Summary of Investment Portfolio as of September 30, 2007

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		
Information Technology	23,526,609	46.6%
Energy	6,484,250	12.9%
Consumer Discretionary	6,469,799	12.8%
Industrials	5,986,085	11.9%
Materials	2,947,313	5.9%
Consumer Staples	1,805,829	3.6%
Health Care	1,740,721	3.5%
Cash & Cash Equivalents	87,461	0.2%
Top 25 Holdings		
Research In Motion	10,565,113	20.9%
Western Oil Sands Inc.	6,484,250	12.9%
Gildan Activewear Class A	6,469,799	12.8%
Bombardier Inc. Class B	5,986,085	11.9%
CGI Group Class A	4,976,144	9.9%
Cognos Inc.	4,001,591	7.9%
Kinross Gold Corp.	2,947,313	5.9%
Celestica Inc.	2,171,274	4.3%
Nortel Networks Corp.	1,812,487	3.6%
Cott Corp.	1,805,829	3.6%
Angiotech Pharmaceuticals Inc.	1,740,721	3.5%
Cash & Cash Equivalents	87,461	0.2%
Net asset value (NAV)	50,370,537	

Investment portfolio of the Conservative Income Fund

	% Rate	Maturity date	Market value \$	% of NAV
Portfolio by Category				
Corporate Bonds			15,713,678	30.9%
Financials			14,935,937	29.4%
Consumer Discretionary			7,352,731	14.4%
Industrials			3,348,551	6.6%
Energy			3,123,560	6.2%
Cash & Cash Equivalents			1,679,636	3.3%
Telecommunication Services			1,528,308	3.0%
Materials			1,323,604	2.6%
Health Care			640,800	1.3%
Consumer Staples			566,307	1.1%
Utilities			530,700	1.0%
Information Technology			484,128	1.0%
Derivatives			158,415	0.3%
Top 25 Holdings				
Calloway Real Estate Investment Trust			2,697,524	5.2%
Aeroplan Income Fund			2,646,074	5.2%
Dundee Real Estate Investment Trust			2,628,380	5.2%
Yellow Pages Income Fund			2,398,869	4.7%
CCS Income Trust			2,364,600	4.7%
Canadian Real Estate Investment Trust			1,871,595	3.7%
Rogers Wireless Inc.	7.625%	12/15/2011	1,711,322	3.4%
Cash & Cash Equivalents			1,679,636	3.3%
Canadian Apartment Properties Real Estate Investment Trust			1,600,200	3.2%
Bell Aliant Regional Communications Income Fund			1,528,308	3.0%
CI Financial Income Fund			1,508,800	2.9%
Jazz Air Income Fund			1,481,832	2.9%
New Flyer Industries Inc. (Income Deposit Securities)			1,283,365	2.5%
H&R Real Estate Investment Trust			1,255,284	2.5%
Residential Fund Rescap Float 08	6.829%	11/13/2007	1,157,850	2.3%
Armtec Infrastructure Income Fund			1,105,094	2.2%
General Motors Acceptance Corp.	5.200%	5/21/2009	1,084,895	2.1%
Artis Real Estate Investment Trust			993,695	2.0%
Morgan Stanley	4.900%	2/23/2017	967,713	1.9%
Western Oil Sands Inc. (USD)	8.375%	5/1/2012	966,278	1.9%
General Motors Acceptance Corp.	5.600%	1/18/2010	930,844	1.8%
Fording Canadian Coal Trust			926,404	1.8%
Greater Toronto Airport Authority	6.980%	10/15/2032	873,118	1.7%
Shaw Communications Inc.	6.150%	5/9/2016	823,977	1.6%
Toronto Dominion Bank	4.779%	12/14/2016	797,011	1.6%
Net asset value (NAV)			50,767,764	

Connor, Clark & Lunn Conservative Income Fund II

Financial Statements (Unaudited)
September 30, 2007

Notice to Reader:

These interim financial statements and related notes for the six month period ended September 30, 2007 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, 2007

	September 30, 2007 (Unaudited)	March 31, 2007 (Audited)
	\$	\$
Assets		
Cash	87,461	11,339
Investments pledged to counterparty under forward agreement (cost - \$40,887,214; March 31, 2007 - \$42,933,060)	48,960,606	48,340,649
Unrealized gain on forward agreement (note 8)	1,807,158	3,232,192
Prepaid expenses	3,943	9,897
	<u>50,859,168</u>	<u>51,594,077</u>
Liabilities		
Bank overdraft (note 4)	-	69,300
Accrued interest	-	635
Distributions payable	270,621	272,247
Accounts payable and accrued liabilities	186,637	127,051
Management fees payable	31,373	34,450
	<u>488,631</u>	<u>503,683</u>
Net Assets and Unitholders' Equity	<u>50,370,537</u>	<u>51,090,394</u>
Units outstanding (note 6)	<u>4,993,014</u>	<u>5,023,014</u>
Net asset value per unit	<u>10.09</u>	<u>10.17</u>
Unitholders' Equity		
Unit Capital (note 6)	38,427,838	40,353,263
Contributed surplus (note 7)	560,916	556,176
Surplus	11,381,783	10,180,955
Unitholders' equity - End of period	<u>50,370,537</u>	<u>51,090,394</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, 2007 and 2006

	2007	2006
	\$	\$
Income		
Interest income	235	64
Expenses		
Management fees (note 10)	202,578	265,285
Forward fees (note 8)	127,927	165,287
Service fees (note 11)	99,324	148,301
Custodial and other unitholder fees	16,463	19,742
Administration fees	11,911	-
Audit Fees	11,236	13,961
Legal fees	8,522	8,476
Transfer agent fees	5,993	6,081
Sustaining fees	5,955	6,709
Advisory fees	5,276	9,972
Filing fees	4,108	1,600
Printing and mailing fees	3,953	5,334
Interest expense (note 4)	820	873
Other	264	-
	<u>504,330</u>	<u>651,621</u>
Investment income (loss)	(504,095)	(651,557)
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	2,733,144	(3,340,304)
Change in unrealized gain (loss) on forward agreement (note 8)	(1,325,409)	6,386,987
	1,407,735	3,046,683
Realized gain (loss) on investments		
Net realized gain (loss) on investments	<u>464,154</u>	<u>431,816</u>
Net gain (loss) on investments	<u>1,871,889</u>	<u>3,478,499</u>
Increase (decrease) in net assets from operations	<u>1,367,794</u>	<u>2,826,942</u>
Increase (decrease) in net assets from operations per unit *	<u>0.27</u>	<u>0.43</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, 2007 and 2006

	2007	2006
	\$	\$
Increase (decrease) in net assets from operations	<u>1,367,794</u>	<u>2,826,942</u>
Distributions to unitholders from: (note 9)		
Return on capital	<u>(1,625,425)</u>	<u>(2,118,965)</u>
Unitholders' transactions		
Payments on redemption and cancellation of units (note 6 and 7)	<u>(295,260)</u>	<u>(242,413)</u>
Change in net assets during the period	<u>(552,891)</u>	<u>465,564</u>
Net assets - Beginning of period	<u>50,923,428</u>	<u>68,119,564</u>
Net assets - End of period	<u>50,370,537</u>	<u>68,585,128</u>
Surplus, beginning of period	10,013,989	8,592,336
Increase (decrease) in net assets from operations	<u>1,367,794</u>	<u>2,826,942</u>
Surplus, end of period	<u>11,381,783</u>	<u>11,419,278</u>
Contributed surplus (deficit), beginning of period	556,176	40,357
Cost of shares repurchased at less than (in excess of) original issue price	<u>4,740</u>	<u>10,587</u>
Contributed surplus (deficit), end of period	<u>560,916</u>	<u>50,944</u>

Connor, Clark & Lunn Conservative Income Fund II

Statements of Cash Flow (Unaudited)

For the six month period ended September 30, 2007 and 2006

	2007	2006
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	1,367,794	2,826,942
Items not affecting cash:		
Change in unrealized (gain) loss on investments	(2,733,144)	3,340,304
Change in unrealized (gain) loss on forward agreement (note 8)	1,325,409	(6,386,987)
Net realized (gain) loss on investments	(464,154)	(431,816)
Changes in non-cash working capital:		
(Increase) decrease in prepaid expenses	5,954	6,708
(Increase) decrease in interest and dividends receivable	-	271
Increase (decrease) in accounts payable and accrued liabilities	59,586	(49,215)
Increase (decrease) in management fees payable	(3,077)	(1,802)
Net cash flow provided by (used in) operating activities	<u>(441,632)</u>	<u>(695,595)</u>
Investing Activities		
Proceeds on disposition of investment portfolio	<u>2,510,000</u>	<u>3,349,991</u>
Net cash provided by (used in) investing activities	<u>2,510,000</u>	<u>3,349,991</u>
Financing Activities		
Payments on redemption and cancellation of units (note 7)	(295,260)	(242,413)
Distributions to unitholders	(1,627,051)	(2,120,607)
Proceeds from bank indebtedness	244,000	222,480
Principal payments on bank overdraft	(313,300)	(463,447)
Accrued interest on bank overdraft	(635)	(1,142)
Net cash flow provided by (used in) financing activities	<u>(1,992,246)</u>	<u>(2,605,129)</u>
Net increase in cash	76,122	49,267
Cash (bank overdraft) - beginning of period	<u>11,339</u>	<u>(19)</u>
Cash (bank overdraft) - end of period	<u>87,461</u>	<u>49,248</u>
Supplementary Information		
Interest paid	899	1,142

Connor, Clark & Lunn Conservative Income Fund II

Statement of Investment Portfolio (Unaudited)

As at September 30, 2007

	Number of shares / par value \$	Average cost \$	Market value \$	% of NAV
Investments				
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)				
Energy				
Western Oil Sands Inc.	166,519	<u>4,501,009</u>	<u>6,484,250</u>	<u>12.9%</u>
Materials				
Kinross Gold Corp.	198,606	<u>1,678,835</u>	<u>2,947,313</u>	<u>5.9%</u>
Industrials				
Bombardier Inc. Class B	1,012,874	<u>2,646,603</u>	<u>5,986,085</u>	<u>11.9%</u>
Consumer Discretionary				
Gildan Activewear Class A	165,468	<u>3,537,860</u>	<u>6,469,799</u>	<u>12.8%</u>
Consumer Staples				
Cott Corp.	228,586	<u>4,484,590</u>	<u>1,805,829</u>	<u>3.6%</u>
Health Care				
Angiotech Pharmaceuticals Inc.	281,670	<u>4,572,925</u>	<u>1,740,721</u>	<u>3.5%</u>
Information Technology				
CGI Group Class A	437,271	3,445,695	4,976,144	9.9%
Cognos Inc.	97,386	4,295,487	4,001,591	7.9%
Celestica Inc.	358,296	4,511,922	2,171,274	4.3%
Nortel Networks Corp.	107,566	4,458,314	1,812,487	3.6%
Research In Motion	108,083	<u>2,753,974</u>	<u>10,565,113</u>	<u>20.9%</u>
		<u>19,465,392</u>	<u>23,526,609</u>	<u>46.6%</u>
Total investments		<u>40,887,214</u>	<u>48,960,606</u>	<u>97.2%</u>
Unrealized gain on forward agreement			<u>1,807,158</u>	<u>3.6%</u>
Other liabilities net of other assets			<u>(397,227)</u>	<u>-0.8%</u>
Net asset value (NAV)			<u>50,370,537</u>	<u>100.0%</u>

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2007

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 by virtue of a forward purchase and sale agreements (the "Forward Agreement") with Bank of Montreal (the "Counterparty"). The Fund does not invest in Conservative Income Fund 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 Conservative Income Fund II on its investment in the Portfolio.

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.

New Accounting Standards

National Instrument 81-106 "Investment Fund Continuous Disclosure" requires the net asset value of the Fund be calculated in accordance with Canadian generally accepted accounting principles ("GAAP").

The Canadian Institute of Chartered Accountants ("CICA") has issued Section 3855, Financial Instruments: Recognition and Measurement, effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The adoption of this section will impact the valuation and disclosure of the net asset value ("NAV") of the Fund, and the way transaction costs are recorded for financial reporting purposes.

Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for securities held short. Prior to this new section, the fair value was based on the last traded price for the day, when available. The impact of adopting the amended policy is not material to the financial statements.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be charged to net income in the period. Prior to this new section, these costs have been added to the cost of the securities purchased or deducted from the proceeds of sale. Adoption of this policy is not expected to have a material impact to the financial statements and does not impact the daily price of the Fund.

The Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting of NAV ("Trading NAV") (other than for financial reporting purposes) until September 30, 2008, to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption price of an investment fund.

On April 1, 2007, the Fund adopted Section 3855 on a prospective basis for financial reporting purposes ("GAAP NAV"). The provisions of Section 3855 have been also applied to the opening NAV on October 31, 2006 without restating prior period financial statements. The reconciliation between the Trading NAV and the GAAP NAV as a result of the adoption of Section 3855 is as follows:

	Trading NAV	Section 3855 Adjustment	GAAP NAV
Net Asset Value			
Opening NAV – March 31, 2007	51,090,394	(166,966)	50,923,428
Closing NAV – September 30, 2007	50,448,763	(78,226)	50,370,537
Net Asset Value Per Unit			
Opening NAV – March 31, 2007	10.17	(0.03)	10.14
Closing NAV – September 30, 2007	10.10	(0.01)	10.09

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2007

Deconsolidation of the CIF II

As the Fund is exposed to the future gains or losses arising on the portfolio securities held by CIF II, Accounting Guideline 15 "AcG 15 - Consolidation of Variable Interest Entities" required that the Fund's financial statements be presented on a consolidated basis by including the results of CIF II. The 2006 financial statements were prepared on this basis. Effective February 2007, AcG 15 has been amended and now specifically excludes investment funds from its application. These changes were applicable for periods beginning on or after September 30, 2007, with early adoption encouraged. The Fund has adopted the amended AcG for the September 30, 2007 Semi-Annual reporting and reclassified the September 30, 2006 comparative financial statements and financial highlights to conform to the new presentation.

Valuation of investments

Investments in common shares or other securities are valued at their quoted market value, being the bid price recorded by the securities exchanges on which such investments are principally traded. Brokerage fees and other transaction costs are charged to net income. Short-term investments are valued at cost, which together with accrued interest approximates market value.

Investment transactions

Investment transactions are accounted for on the trade date. Realized and unrealized gains and losses on investments are determined using the average cost basis.

Income recognition

Interest income is recorded on the accrual basis. Dividend income recorded on the ex-dividend date.

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.

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 Bank overdraft

The Fund maintains a Bank overdraft account with Bank of Montreal ("BMO") to finance its short term obligations such as trades executed under the Market Purchase Program (Note 7). During the six-month period ended September 30, 2007, the outstanding bank overdraft account had a minimum balance of \$nil and a maximum balance of \$0.25 million (a minimum balance of \$nil and maximum balance of \$0.31 million during six-month period ended September 30, 2006). The related total interest expense was \$820 during the six-month period ended September 30, 2007 (\$873 during the six-month period ended September 30, 2006).

5 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 NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian.

6 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, 2007 and the six-month period ended September 30, 2007 are summarized as follows:

	Number of units	
	September 30, 2007	March 31, 2007
Opening balance	5,023,014	6,533,600
Units issued	—	—
Units redeemed	—	(1,372,086)
Units cancelled (note 7)	<u>(30,000)</u>	<u>(138,500)</u>
Ending balance	<u>4,993,014</u>	<u>5,023,014</u>

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2007

7 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, 2007, the Fund purchased 30,000 units for cancellation at a cost of \$295,260 (25,300 units at a cost of \$242,413 during the six-month period ended September 30, 2006).

8 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 Conservative Income Fund 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 Conservative Income Fund 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.

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

9 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, 2007 were \$1,625,425 or \$0.3252 per Unit (\$2,118,965 or \$0.3252 per unit during the six-month period ended September 30, 2006).

10 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, 2007 were \$202,578 (\$265,285 during the six-month period ended September 30, 2006). The Manager is responsible for payment of the investment management fees of the Investment Advisor out of the above management fees.

11 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, 2007 were \$99,324 (\$148,301 during the six-month period ended September 30, 2006).

12 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

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2007

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.

As at December 31, 2006, the Fund had net capital losses of \$47,998 (December 31, 2005 - \$47,998), which may be carried forward indefinitely to reduce future realized capital gains and non-capital losses of \$911,476 (December 31, 2005 - \$562,595), which expire within the next twenty years.

13 Broker commission charges and soft dollar services

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

14 Reclassification

Certain of the 2006 comparative figures have been reclassified from the statements previously presented to conform to the presentation of the 2007 Semi-Annual financial statements.