



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn
Natural Resources Fund Inc.,
Class A
(CC&L Natural Resources Class)**

Annual Report
June 30, 2010

Connor, Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class) Message to Shareholders

September 24, 2010

Dear Investor,

I am pleased to provide the first annual report for the Connor, Clark & Lunn Natural Resources Fund Inc., Class A (the “Fund” or “Class A”) for the period from commencement of operations on October 16, 2009 to June 30, 2010.

The Fund seeks to generate long-term growth by providing investors with exposure to Canadian natural resource companies. The principal business of the companies that we invest in include: (1) oil and gas exploration, development and production; (2) mineral exploration, development and production; (3) forestry-related industries; (4) alternative energy development and production; and (5) resource-related services such as service and infrastructure providers for natural resource companies. Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”) is responsible for managing the Fund’s portfolio and utilizes the expertise of portfolio managers from their fundamental equity team that is focused exclusively on natural resources.

On October 16, 2009, limited partners of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the “Partnership”) received Class A Shares in exchange for the assets of the Partnership on a tax-deferred basis. In addition, on April 5, 2010, limited partners of Connor, Clark & Lunn 2008 Flow-Through Partnership received Class A Shares in exchange for the assets of the Partnership on a tax-deferred basis. Investors who received Class A Shares as a result of the rollover of the Partnerships can continue to defer the capital gains tax liability that results from the disposition of their investment by maintaining their investment in the Fund. As a result of the rollover of the assets of the two limited partnerships into the mutual fund, the adjusted cost base of the Fund’s holdings is very low and therefore trading actively in the Fund is likely to cause significant capital gains.

The Fund uses a corporate structure that enables us to create additional funds under the same structure that investors can switch between without triggering a taxable disposition. We have introduced a balanced fund class (Class B, Series 1. It is managed by Connor, Clark & Lunn Managed Portfolios Inc. The goal is to provide investors in the Fund with the financial flexibility and freedom to re-adjust their portfolio to suit their needs without realizing a capital gain.

The Fund is available for sale through investment dealers and financial planners via Fundserv code CCL100. Please check our web site for quarterly investment updates and other timely information. We appreciate your investment in the Fund and look forward to good performance as the Fund matures.

Yours truly,



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

Management Report of Fund Performance

This annual management report of fund performance for Connor, Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class) (the “Fund” or “Class A”), contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

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

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

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

Investment Objectives and Strategy

Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class) (the “Fund” or “Class A”) is a class of shares issued by the Connor, Clark & Lunn Natural Resources Fund Inc. (The “Corporation”) (a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation). The Fund has been created to acquire all of the assets of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership and Connor, Clark & Lunn 2008 Flow-Through Limited Partnership (the “Flow-Through LPs”), which consisted primarily of common shares of resource issuers, in exchange for shares of the Fund, as a result of transfer agreements dated October 3, 2007 and February 15, 2008 respectively.

The Fund seeks to generate long term growth by providing investors with exposure to Canadian natural resource companies. The principal business of the companies that the Fund can invest in include:

- (i) oil and gas exploration, development and production;
- (ii) mineral exploration, development and production;
- (iii) forestry-related industries;
- (iv) alternative energy development and production; and
- (v) resource-related services such as service and infrastructure providers for natural resource companies.

Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”) utilizes an active fundamentals based approach to achieve the Fund’s investment objectives. When assessing a resource company, the Investment Manager looks at the number of key characteristics: (i) strong and experienced management team; (ii) demonstrated ability to create shareholder value; (iii) well-defined strategic plan with visibility; (iv) quality assets that provide organic growth potential; (v) strong board and corporate governance; (vi) strong balance sheet and funding ability; (vii) diversified risk exposures; and (viii) defined financial metric goals.

Risk

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

Caution regarding forward-looking statements

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

Recent Developments

Future accounting changes

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on July 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Share as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

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

Harmonized Sales Tax

The Government of Ontario introduced a harmonized sales tax (HST) on July 1, 2010. The HST rate will be 13% of which 5% will represent the federal part and 8% the provincial part.

These changes will increase the amount of taxes paid by the Fund on its expenses, and therefore increase the MER after the legislation comes into effect.

Results of Operations

Investment Advisor Commentary

Energy

Following the recovery in West Texas Intermediate ("WTI") oil prices through 2009 to US\$80/Bbl, WTI oil prices have remained within a range of US\$65/Bbl and US\$85/Bbl through 2010 – a range we expect will persist through the balance of the year. We see the lower end of this range supported by the marginal cost of supply at US\$65/Bbl while the higher end of the range is likely to be capped by weaker compliance from OPEC members that continue to hold significant excess spare capacity. Despite our outlook for oil prices to be somewhat range bound in 2010, this environment still provides a healthy environment for oil weighted producers to generate rates of return on investment in the 20 – 40% range.

By contrast, Henry Hub natural gas prices bottomed in the fall of 2009 but have not fully recovered back to our expected trading range of US\$5.00/Mcf to US\$6.50/Mcf. While gas prices may continue to languish near the US\$4.50/Mcf level through 2010 due to higher than expected supply levels and only a modest recovery in demand, we believe that producers will eventually need to curtail drilling levels at current gas prices given our view that the marginal cost of supply exceeds US\$5.00/Mcf. On this basis, we foresee a recovery in gas prices over the next 12 months to our expected trading range of US\$5.00/Mcf to US\$6.50/Mcf.

Overall valuations within the energy space remain at reasonable levels. In addition, a significant amount of new assets are currently being marketed by the large cap peer group, which should provide attractive opportunities for consolidation and future growth for the intermediate and junior sectors. We will continue to focus on producers that can generate reasonable rates of return on capital projects at current commodity prices and offer balance sheets that can withstand continued commodity price volatility while maintaining attractive upside exposure to rising commodity prices as the global economy recovers.

Gold

Gold has been through an interesting ride since the beginning of the year. Usually the Euro and gold are positively correlated while the Dollar and gold are inversely correlated. However, since the start of the European debt crisis, we have seen the opposite phenomenon. Given that we believe the European Sovereign crisis will be a long drawn out affair, we continue to remain positive on the outlook for gold given the implied pressure on the Euro. Gold has come a long way and we believe it is going through a consolidation phase, as it does every summer. In addition to the European debt crisis, the threat of deflation in the developed economies, as a result of increasing savings rates, will also be a positive catalyst for gold. Gold usually performs well in an environment with low real interest rates. We continue to believe gold will move higher and look to buy gold equities on weakness.

Base Metals

The base metals industry has come through a sluggish period as a result of worries that metals demand could weaken more sharply if European debt crisis worsens and or the ongoing credit tightening in China causes a sharp slowdown in industrial production. While these are legitimate concerns, we do not believe that the global economy will slip back into a double dip recession. We also expect that much of the government orchestrated slowdown in China is behind us and that the Chinese economy will see a reacceleration of growth again in 2011 albeit at a lower rate than experienced in 2009. We also believe that the supply challenges facing mining companies are having a negative impact on the supply. The supply challenges have in fact been intensified by recent events and this is likely to lead to continued strength in metal prices as the supply response lags structurally higher demand. Mining company management teams are still hesitant to commit to major capital expenditure programs and the global financial crisis has resulted in a 2-year delay (at least) in new projects proceeding. Therefore we remain positive on the outlook for base metals.

The following is an update on one of the companies in the portfolio.

Tourmaline Oil: The Tourmaline management team represents the latest iteration of the former group from Duvernay Oil – a successful gas focused exploration and production company that went public in 2004 at \$10.00/share and subsequently sold to Royal Dutch Shell in 2008 for \$83.00/share. In its short history since forming Tourmaline in 2008, management has already amassed 850 net sections of land in the Deep Basin of AB and BC (more than twice the size of Duvernay’s land position when it sold to RDS). Current production is approaching 20,000 Boe/d with a 2011 target of 30,000 Boe/d. Based on this 2011 production estimate, Tourmaline will generate production per share growth of almost 350% from mid-2009 levels. Flow-through funds from two equity raises in 2010 will be used to supplement an active \$285MM drilling program in 2010 that will remain focused within 3 core areas in the Deep Basin.

Investment Income and Capital Gains

During the period from October 16, 2009 (commencement of operations) to June 30, 2010, the Fund had net investment loss of \$256,310. In addition, the portfolio incurred \$262,522 in losses and had a \$432,106 unrealized losses on its investments. Investment losses, realized and unrealized losses combined for a total decrease in net assets from operations of \$950,938, or \$0.86 per Class A Share.

Capital transactions

On October 16, 2009, former limited partners of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (“the Partnership”) received 1.24962 Class A Shares of the Fund for each Partnership Unit held pursuant to a rollover transaction, for a total amount of \$9,996,948 or 999,695 Class A Shares.

On April 5, 2010, former limited partners of the Connor, Clark & Lunn 2008 Flow-Through Limited Partnership (“the Partnership”) received 2.5022 Class A Shares of the Fund for each Partnership Unit held pursuant to a rollover transaction, for a total amount of \$14,623,608 or 1,441,658 Class A Shares.

During the period from October 16, 2009 (commencement of operations) to June 30, 2010, the Fund paid \$8,866,827 to redeem 889,025 Class A Shares. During the same period, the Fund also had 50,045 Class A Shares transferred to Class B Shares for the amount \$496,238.

Distributions

The Fund may pay an annual distribution on or after the Fund’s tax year-end.

Related Party Transactions

Management Fees

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

The total management fees charged to the Fund during the period from October 16, 2009 (commencement of operations) to June 30, 2010 were \$160,054.

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

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period from October 16, 2009 (commencement of operation) to June 30, 2010.

Financial Highlights

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

The Fund's Net Assets per Class A Share:

	June 30, 2010 ⁽¹⁾
Net Assets, beginning of period	10.00
Increase (decrease) from operations:	
Total revenues	0.15
Total expenses	(0.38)
Realized gains (losses) for the period	(0.24)
Unrealized gains (losses) for the period	(0.39)
Total increase (decrease) from operations ⁽²⁾	(0.86)
Distributions:	
From income (excluding dividends)	—
From dividends	—
From capital gains	—
Return of capital	—
Total Distributions	—
Net Assets, end of period ⁽³⁾	9.52

⁽¹⁾ Results for the period from October 16, 2009 (commencement of operations) to June 30, 2010.

⁽²⁾ Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of shares outstanding over the financial period.

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

Ratios and Supplemental Data:

	June 30, 2010 ⁽¹⁾
Net asset value (000's)	14,349
Number of shares outstanding	1,502,781
Management expense ratio (annualized) ⁽²⁾	3.56%
Management expense ratio before waivers or absorptions (annualized) ⁽²⁾	3.56%
Portfolio turnover rate ⁽³⁾	230.75%
Trading expense ratio ⁽⁴⁾	1.32%
Net asset value per Class A Share ⁽⁵⁾	9.55

⁽¹⁾ Results for the period from October 16, 2009 (commencement of operations) to June 30, 2010.

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

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

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

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

Summary of Investment Portfolio as of June 30, 2010

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

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

Portfolio by Category	Market Value \$	% of NAV
Energy	7,200,107	50.2%
Materials	5,744,121	40.0%
Cash & Cash Equivalents	934,693	6.5%
 Top 25 Holdings		
Red Back Mining Inc.	966,069	6.8%
Tourmaline Oil Corp.	962,946	6.7%
Cash & Cash Equivalents	934,693	6.5%
Detour Gold Corp.	823,020	5.7%
Osisko Mining Corp.	803,600	5.7%
Suncor Energy Inc.	776,984	5.4%
Eldorado Gold Corp.	755,568	5.3%
Canadian Natural Resources Ltd.	685,402	4.8%
Calfrac Well Services Ltd.	674,475	4.7%
Progress Energy Resources Corp.	571,494	4.0%
Consolidated Thompson Iron Mines Ltd.	561,198	3.9%
Celtic Exploration Ltd.	494,747	3.4%
Copper Mountain Mining Corp.	468,174	3.3%
Precision Drilling Corp.	444,780	3.1%
Vermilion Energy Trust	393,939	2.7%
Talisman Energy Inc.	362,250	2.5%
Equinox Minerals Ltd.	337,192	2.3%
Potash Corp. of Saskatchewan	302,577	2.2%
Storm Exploration	295,240	2.1%
Mullen Group Ltd.	281,652	2.0%
Athabasca Oil Sands Corp.	242,220	1.7%
Wild Stream Exploration Inc.	228,000	1.6%
Crescent Point Energy Corp.	221,920	1.5%
EnCana Corp.	216,008	1.5%
Mercator Minerals Ltd.	203,550	1.4%
Net asset value (NAV)	14,349,277	

Management's Responsibility for Financial Reporting

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

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

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



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



Michael W. Freund
Director
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

September 27, 2010

September 27, 2010

Auditors' Report

**To the Shareholders of
Connor, Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class)
(the Fund)**

We have audited the statements of investment portfolio and net assets of the Fund as at June 30, 2010 and the statements of operations and changes in net assets for the period from October 16, 2009 (commencement of operations) to June 30, 2010. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2010 and the results of its operations and changes in its net assets for the period from October 16, 2009 (commencement of operations) to June 30, 2010 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

**Connor, Clark & Lunn Natural Resources Fund Inc., Class A
(CC&L Natural Resources Class)**

Statement of Net Assets

As at June 30, 2010

	\$
Assets	
Cash	35,529
Short-term investments	899,164
Investments at fair value (cost - \$13,338,554)	12,906,413
Interest and dividends receivable	15,260
Receivable from investment sales	764,703
	<u>14,621,069</u>
Liabilities	
Payable for investment purchases	223,200
Redemptions payable	9,877
Accounts payable and accrued liabilities	49,809
Management fees payable	26,720
	<u>309,606</u>
Net Assets and Shareholders' Equity	<u>14,311,463</u>
Shares issued and outstanding (note 4)	<u>1,502,781</u>
Net assets per Class A share	<u>9.52</u>
Shareholders' Equity	
Share capital (note 4)	15,155,172
Contributed surplus (deficit)	107,229
Surplus (deficit)	(950,938)
Total Shareholders' Equity	<u>14,311,463</u>

Approved by the Manager



Director



Director

Connor, Clark & Lunn Natural Resources Fund Inc., Class A
(CC&L Natural Resources Class)

Statement of Operations

For the period from October 16, 2009 (commencement of operations) to June 30, 2010

	\$
Income	
Dividends	158,393
Interest	1,206
Other income	1,657
	<u>161,256</u>
Expenses	
Management fees (note 6)	160,054
Transaction costs	143,627
Service fees (note 6)	38,148
Transfer agent fees	16,836
Administration fees	13,577
Legal fees	13,551
Filing fees	11,108
Audit fees	10,753
Other	3,881
Custodial and other shareholders' fees	3,869
IRC fees	1,512
Interest expense	650
	<u>417,566</u>
Investment income (loss) for the period	(256,310)
Net realized gain (loss) on investments	
Net realized gain (loss) on investments	<u>(262,522)</u>
Net unrealized gain (loss) on investments	
Unrealized gain (loss) on investments	(432,141)
Unrealized gain (loss) on foreign exchange	35
	<u>(432,106)</u>
Net gain (loss) on investments	<u>(694,628)</u>
Increase (decrease) in net assets from operations	<u>(950,938)</u>
Increase (decrease) in net assets from operations per share *	<u>(0.86)</u>

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

Connor, Clark & Lunn Natural Resources Fund Inc., Class A
(CC&L Natural Resources Class)

Statement of Changes in Net Assets

For the period from October 16, 2009 (commencement of operations) to June 30, 2010

	\$
Increase (decrease) in net assets from operations	<u>(950,938)</u>
Shareholders' transactions (note 4):	
Sale of shares	4,910
Shares issued pursuant to Transfer Agreement	24,620,556
Transfers to Class B shares	(496,238)
Payments on redemption of shares	<u>(8,866,827)</u>
	<u>15,262,401</u>
Change in net assets during the period	<u>14,311,463</u>
Net assets - Beginning of period	<u>-</u>
Net assets - End of period	<u>14,311,463</u>
Surplus (deficit), beginning of period	-
Increase (decrease) in net assets from operations	<u>(950,938)</u>
Surplus (deficit), end of period	<u>(950,938)</u>
Contributed surplus (deficit), beginning of period	-
Cost of shares redeemed at less than original issue price	<u>107,229</u>
Contributed surplus (deficit), end of period	<u>107,229</u>

Connor, Clark & Lunn Natural Resources Fund Inc., Class A
(CC&L Natural Resources Class)
Statement of Investment Portfolio
As at June 30, 2010

	Interest rate	Maturity date	Par Value/ Quantity	Average Cost \$	Fair Value \$	% of Net Assets
Short Term Paper						
Bankers acceptances						
Royal Bank	0.51%	7/29/2010	450,000	449,816	449,816	3.1%
Bank of Nova Scotia	0.99%	9/2/2010	200,000	199,658	199,658	1.4%
Bank of Nova Scotia	0.86%	9/13/2010	150,000	149,739	149,739	1.0%
Bearer deposit notes						
Bank of Nova Scotia	1.26%	7/14/2010	100,000	99,951	99,951	0.7%
				<u>899,164</u>	<u>899,164</u>	<u>6.2%</u>
Investments						
Canadian equities						
Energy						
Artek Exploration Ltd.			138,100	486,207	153,291	1.1%
Athabasca Oil Sands Corp.			22,000	335,500	242,220	1.7%
Calfrac Well Services Ltd.			34,500	702,711	666,540	4.7%
Canadian Natural Resources Ltd.			19,400	731,155	685,402	4.8%
Celtic Exploration Ltd.			45,100	455,529	491,590	3.4%
Crescent Point Energy Corp.			5,972	230,508	221,740	1.5%
EnCana Corp.			6,700	213,727	216,008	1.5%
Huron Energy Corp. (*)			36,988	110,964	107,265	0.7%
Mullen Group Ltd.			19,600	319,269	279,888	2.0%
Niko Resources Ltd.			800	77,485	79,208	0.6%
Precision Drilling Corp.			63,000	477,354	444,150	3.1%
Progress Energy Resources Corp.			46,200	577,702	568,722	4.0%
Storm Exploration			22,000	262,880	294,360	2.1%
Suncor Energy Inc.			24,800	852,704	776,984	5.5%
Talisman Energy Inc.			22,500	396,518	362,250	2.5%
Tourmaline Oil Corp. (*)			53,497	962,946	962,946	6.8%
Vermilion Energy Trust			11,700	384,934	392,301	2.7%
Wild Stream Exploration Inc.			40,000	223,200	226,000	1.6%
				<u>7,801,293</u>	<u>7,170,865</u>	<u>50.3%</u>
Materials						
Anvil Mining			47,100	158,893	131,410	0.9%
Cathay Forest Products Corp.			351,700	241,180	126,612	0.9%
Consolidated Thompson Iron Mines Ltd.			77,300	577,550	559,652	3.9%
Copper Mountain Mining Corp.			219,800	678,228	468,174	3.3%
Detour Gold Corp.			34,800	620,855	822,324	5.7%
Eldorado Gold Corp.			39,600	531,764	755,568	5.3%
Equinox Minerals Ltd.			90,400	363,348	334,480	2.3%
Lundin Mining			57,300	282,542	172,473	1.2%
Mercator Minerals Ltd.			135,700	336,661	202,193	1.4%
Osisko Mining Corp.			70,000	598,639	802,200	5.6%
Potash Corp. of Saskatchewan			3,300	358,784	302,544	2.1%
Red Back Mining Inc.			35,900	695,685	965,710	6.8%
Taseko Mines Ltd.			20,400	110,313	92,208	0.6%
				<u>5,554,442</u>	<u>5,735,548</u>	<u>40.0%</u>
Total Canadian equities				<u>13,355,735</u>	<u>12,906,413</u>	<u>90.3%</u>
Total Investments (before transaction costs)				<u>13,355,735</u>	<u>12,906,413</u>	<u>90.3%</u>
Transaction costs (note 3)				<u>(17,181)</u>	<u>-</u>	<u>0.0%</u>
Total investments				<u>13,338,554</u>	<u>12,906,413</u>	<u>90.3%</u>
Other assets less liabilities					<u>505,886</u>	<u>3.5%</u>
Net assets					<u>14,311,463</u>	<u>100.0%</u>

(*) Private placement

(See accompanying notes to financial statements)

Connor, Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class)

Notes to Financial Statements

June 30, 2010

1 Formation of Partnership

Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class) (the "Fund" or "Class A") is a class of share issued by the Connor, Clark & Lunn Natural Resources Fund Inc. (the "Corporation") (a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation). The Fund has been created to acquire all of the assets of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership and Connor, Clark & Lunn 2008 Flow-Through Limited Partnership (the "Flow-Through LPs"), which consisted primarily of common shares of resource issuers, in exchange for shares of the Fund, as a result of transfer agreements dated October 3, 2007 and February 15, 2008 respectively.

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

2 Investment objectives

The Fund seeks to generate long term growth by providing investors with exposure to Canadian natural resource companies. The principal business of the companies that the Fund can invest in include:

- (i) oil and gas exploration, development and production;
- (ii) mineral exploration, development and production;
- (iii) forestry-related industries;
- (iv) alternative energy development and production; and
- (v) resource-related services such as service and infrastructure providers for natural resource companies.

Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") utilizes an active fundamentals based approach to achieve the Fund's investment objectives. When assessing a resource company, the Investment manager looks at the number of key characteristics: (i) strong and experienced management team; (ii) demonstrated ability to create shareholder value; (iii) well-defined strategic plan with visibility; (iv) quality assets that provide organic growth potential; (v) strong board and corporate governance; (vi) strong balance sheet and funding ability; (vii) diversified risk exposures; and (viii) defined financial metric goals.

3 Summary of significant accounting policies

Basis of presentation

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

Future accounting changes

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on July 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Share as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

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

Valuation of Investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Fund calculates its daily Net Asset Value for the purchase and redemption of shares in accordance with part 14.2 of National Instrument 81-106 ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day). The Fund did not change its methodology in this respect.

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

	<u>Transactional</u> NAV	<u>Section 3855</u> Adjustment	<u>GAAP</u> Net Assets
Per Share			
Closing Value – June 30, 2010	9.55	(0.03)	9.52

Connor, Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class)

Notes to Financial Statements

June 30, 2010

Cash & Short Term Investments

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

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives which are deemed held for trading.

Foreign currency translation

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

Increase (decrease) in net assets from operations per share

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

Valuation of Shares

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

4 Shareholders' Equity

The Fund is authorized to issue an unlimited number of Class A shares. The Manager has entered into a transfer agreement dated October 3, 2007 (the "2007 Transfer Agreement"), pursuant to which the Fund acquired all of the assets of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership ("the 2007 Partnership"), which consists primarily of shares of resource issuers, in exchange for Shares of the Fund. On October 16, 2009, former limited partners of the 2007 Partnership received 1.24962 Class A Shares of the Fund for each 2007 Partnership Unit held pursuant to a rollover transaction, for a total amount of \$9,996,948 or 999,695 Class A Shares. The NAV of the Shares issued during the initial distribution period was \$10.00. Immediately after the initial distribution period, the Fund began issuing and redeeming Class A Shares based on the NAV per Class A Share going forward. The initial distribution period ended once the Fund completed its acquisition of the assets of the Flow-Through LP in exchange for Shares of the Fund in accordance with the 2007 Transfer Agreement.

The Manager has also entered into a second transfer agreement dated February 15, 2008 (the "2008 Transfer Agreement"), pursuant to which the Fund acquired all of the assets of the Connor, Clark & Lunn 2008 Flow-Through Limited Partnership ("the 2008 Partnership"). On April 5, 2010, former limited partners of the 2008 Partnership received 2.5022 Class A Shares of the Fund for each 2008 Partnership Unit held pursuant to a rollover transaction, for a total amount of \$14,623,608 or 1,441,658 Class A Shares at \$10.14 per Class A Share.

The Fund has no restrictions or specific requirements on the subscription and redemption of Class A shares. Class A shares can be purchased and/or redeemed through a dealer as outlined in the prospectus dated September 30, 2009.

During April 2010, the Corporation issued a second class of shares, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1 (CC&L Balanced Portfolio Class) (the "Class B"). Holders of Class A Shares can switch into Class B Shares on a tax-deferred basis and vice versa.

During the period from October 16, 2009 (commencement of operations) to June 30, 2010, the Fund paid \$8,866,827 to redeem 889,025 Class A Shares. During the same period, the Fund also had 50,045 Class A Shares transferred to Class B Shares for the amount \$496,238.

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

Changes in outstanding shares during the period from October 16, 2009 (commencement of operation) to June 30, 2010 are summarized as follows:

	Number of Shares
Opening balance	—
Sales	498
Shares issued pursuant to Transfer Agreement	2,441,353
Transfers to Class B shares	(50,045)
Redeemed during the period	<u>(889,025)</u>
Ending balance	<u>1,502,781</u>

Connor, Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class)

Notes to Financial Statements

June 30, 2010

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

5 Custodian

Pursuant to the Trust Agreement RBC Dexia Investor Services Trust (“the Custodian”) acts as custodian of the assets of the Fund, whose credit rating was AA- by S&P as of June 30, 2010. The Custodian is also responsible for certain aspects of the Fund’s day-to-day operations, including calculating the Net Asset Value (“NAV”), net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian.

6 Management fees and other expenses

The Manager receives a Management Fee from the Fund equal to 2.00% per annum of the Net Asset Value of the Fund, which is accrued daily and paid monthly. The management fees charged to the Fund during the period from October 16, 2009 (commencement of operation) to June 30, 2010 were \$160,054. The Manager is responsible for payment of the investment management fees out of these management fees. The Manager pays the Investment Manager out of the above management fees.

The Fund also pays a service fee to dealers whose clients hold Class A Shares in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.50% annually of the Net Asset Value of the Class A Shares held by clients of the dealers. The service fee charged to the Fund during the period from October 16, 2009 (commencement of operation) to June 30, 2010 was \$38,148.

7 Broker commission charges and soft dollar services

There were \$143,627 broker commissions paid during the period from October 16, 2009 (commencement of operation) to June 30, 2010 in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

8 Income taxes

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

9 Financial instruments

Assets	\$
Held for trading	13,841,106
Loans and receivables	779,963
Total assets	14,621,069
Liabilities	
Held for trading	-
Financial liabilities at amortized cost	309,606
Total liabilities	309,606

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

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

Assets at fair value as at June 30, 2010 (\$)	Level 1	Level 2	Level 3	Total
Equities	11,836,202	-	1,070,211	12,906,413
Short-term notes	-	899,164	-	899,164
Total	11,836,202	899,164	1,070,211	13,805,577

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

Connor, Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class)

Notes to Financial Statements

June 30, 2010

Equities: The Fund's long equity positions are classified as Level 1 as all these securities are actively traded and a reliable quote is observable. Securities classified as Level 3 are investments in private placements. The assessment of the fair values of these private placements requires the use of significant unobservable inputs.

The following is a reconciliation of investments in which significant unobservable (Level 3) were used in determining value:

	Level 3 (\$)
Opening Balance at commencement of operations	-
Accrued discount/premiums	-
Realized gain (loss)	(6,500)
Unrealized appreciation/depreciation	(3,699)
Purchases	2,823,910
Sales	935,500
Net transfers in and/or out of Level 3	(395,511)
Closing Balance at June 30, 2010	1,070,211
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2010	(3,699)

In the Manager's view, use of reasonably possible other assumptions in the valuation of level 3 securities at year end is not estimated to change the fair value by more than -\$248,000 (or -1.7% of Net Assets) to +\$248,000 (or +1.7% of Net Assets) calculated on an aggregated basis. In practice, the actual results may differ from these estimates materially both on an aggregate and on an individual security basis. Estimates of fair value are reviewed monthly by the Manager.

10 Financial instrument risk

The Fund may be exposed to a variety of financial risks. The Investment Manager seeks to minimize potential adverse effects of these risks on the Fund's performance through daily monitoring of the Fund's positions and market events, and by diversifying the investment portfolio within the constraints of the investment objective. The investment portfolio is comprised of junior resource issuers.

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. Other assets and liabilities are short-term in nature and non-interest bearing. The table below summarizes the Fund's exposure to interest rate risks. It includes the assets and trading liabilities at fair values for the Fund, 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	-	-	-	-	13,158,413	13,158,413
Cash and cash equivalents	899,164	-	-	-	35,529	934,693
Other assets	-	-	-	-	527,963	527,963
Liabilities	-	-	-	-	(309,606)	(309,606)
Net assets						14,311,463

As at June 30, 2010, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$1,000. In practice, 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 June 30, 2010.

As at June 30, 2010 the Fund had 6.2% of its Net Assets invested in short term notes rated A-1+ by Standard & Poor's ("S&P"), and no debt securities were contractually past due or 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.

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 risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. As at June 30, 2010, currency risk was negligible as the Fund had no significant exposure to securities denominated in currencies other than the Canadian dollar.

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 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

Connor, Clark & Lunn Natural Resources Fund Inc., Class A (CC&L Natural Resources Class)

Notes to Financial Statements

June 30, 2010

within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. 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 June 30, 2010, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$1,316,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Commodity risk

Investments in natural resource companies or in income or royalty trusts based on commodities, such as oil and gas, will be affected by changes in commodity prices. Commodity prices tend to be cyclical and can move dramatically in short periods of time. In addition, new discoveries or changes in government regulations can affect the price of commodities.

For small companies, start-ups, resource companies and companies in emerging sectors, the risks and potential rewards are usually greater. The share price of such companies is often more volatile than the share price of larger, more established companies. For example, some of the products and services offered by emerging technology companies can become obsolete as science and technology advance, causing volatility to the share prices of such companies.

Concentration risk

The business activities of investees are speculative and may be adversely affected by factors outside the control of those issuers. Resource Issuers may not hold or discover commercial quantities of petroleum, natural gas or minerals and their profitability may be affected by adverse fluctuations in commodity prices, demand for commodities, general economic conditions and cycles, unanticipated depletion of reserves or resources, native land claims, liability for environmental damage, competition, imposition of tariffs, duties or other tax and government regulation, as applicable. Resource Issuers in the renewable energy and energy efficient sector that may incur Canadian Renewable and Conservation Expenses, in particular, may be adversely affected by drought and variations in the water flow of watersheds upon which such issuers have plants.

Since the Fund invests primarily in securities issued by firms engaged in the oil and gas, mineral exploration, forestry-related industries, alternative energy industries and resource-related services, the Net Assets may be more volatile than portfolio with a more diversified investment focus. Also, the Net Assets may fluctuate with underlying market prices for commodities produced by those sectors of the economy.

Liquidity risk

Liquidity risk refers to the possibility that an asset is not able to be sold on an organized market for a price that approximates the amount at which we value the same asset for purposes of calculating the Net Assets. There can be a number of reasons that an asset or a security is not liquid. For example, some issuers may be less well known or have fewer securities outstanding. A security or asset can also be considered to be illiquid because the pool of potential buyers is smaller. Sometimes securities are restricted in the sense that resales are prohibited by a promise or agreement made by the holder of the securities, and this in turn may reduce the amount of capital appreciation or magnify the capital loss in the Fund's investment portfolio. Such securities are identified separately on the Statement of Investment Portfolio.

All liabilities are current and are due within the ninety days following year end.