



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn Capital Class Inc.  
(Natural Resources Class)**

Semi-Annual Report  
December 31, 2010

February 28, 2011

Dear Investor,

I am pleased to provide the semi-annual report for the Connor, Clark & Lunn Capital Class Inc., Natural Resources Class (the "Fund") for the six month period ended December 31, 2010. The performance of the Fund has been very strong during this period. Its net asset value has gone from \$9.55 as of June 30, 2010 to \$14.33 as of December 31, 2010. Its 50.1% return compares favourably with the benchmark (S&P/TSX Oil & Gas Exploration Index) return of 20.2%.

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 Canadian 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 Natural Resources Class 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 Natural Resources Class Shares in exchange for the assets of the Partnership on a tax-deferred basis. Investors who received Natural Resources Class 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 Portfolio Class, Series 1 ("Balanced Portfolio Class"). It is managed by Connor, Clark & Lunn Managed Portfolios Inc. The goal of the Balanced Portfolio Class is to provide investors with modest growth of capital while utilizing fixed income investments to stabilize returns. The corporate class structure provides investors 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 Capital Class Inc.,  
Natural Resources Class

# Management Report of Fund Performance

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

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

Natural Resources Class, (the “Fund”) is a class of shares issued by the Connor, Clark & Lunn Capital Class Inc. (The “Corporation”) (a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation). 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***

The Canadian Accounting Standards Board ("AcSB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the AcSB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the AcSB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of mandatory adoption of IFRS for these entities. As a result, the Fund will delay implementation of IFRS until July 1, 2013.

The Fund's Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

## **Results of Operations**

### ***Investment Manager Commentary (February 2011)***

#### ***Energy***

As expected, oil prices, as measured by West Texas Intermediate ("WTI"), were range bound between US\$65 per barrel and US\$85 per barrel in 2010 with a late break-out in the year through the US\$90 per barrel level on improving economic fundamentals, both in developing and emerging economies. Barring a setback to economic fundamentals (which could push oil prices back towards the marginal cost of supply at US\$65 per barrel but is not within our forecast at this time), we believe that strong demand from emerging economies will drive overall global demand to new highs this year, setting our expected range for oil prices in 2011 at \$80.00 per barrel to \$100.00 per barrel. The high end of this limit is set based on expectations that OPEC would increase supply to mitigate the potential for demand destruction at oil prices above \$100 per barrel. While we do not forecast material upside in oil prices through 2011, this outlook still provides a very healthy

environment for oil weighted producers to generate rates of return on investment in excess of 30%.

Similarly, Henry Hub natural gas prices were range bound in 2010 between US\$4.00 per thousand cubic feet (“Mcf”) and US\$5.50/Mcf. While gas prices may continue to languish near the US\$4.00/Mcf level through 2011 due to higher than expected supply levels and only a modest recovery in demand, we are now seeing producers curtail drilling levels at current gas prices reflecting 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 to 18 months to the high end of our expected trading range of US\$4.00/Mcf to US\$5.50/Mcf. That said, our natural gas weighted investments remain selective with a focus on those producers that either offer the lowest cost projects or a high liquids content associated with gas production.

While overall valuations within the energy space have moved to premium levels (on a historical basis), we continue to see areas of opportunities within the junior/intermediate space where the market is not recognizing above average growth from premium management teams with top decile asset quality. We continue to remain selective and will continue to focus on producers that can generate reasonable rates of return on capital projects at current commodity prices, while maintaining strong balance sheets to withstand continued commodity price volatility.

### *Gold*

Gold appreciated strongly in 2010 aided by investors who were adding gold to their portfolios on a confluence of factors, including a weakening US dollar and inflation expectations. Central banks have also been steady buyers. In additions gold companies have also tried to eliminate gold hedge books. Considering the current global macro economic backdrop, we believe that the incentive to liquidate gold positions among investors and central banks remains small and with a high likelihood of further inflows into gold, market participants should remain net gold buyers. Hence, we see further support to prices in 2011.

### *Base Metals*

We see commodity prices moving higher in 2011 on the back of robust growth in the emerging markets and improving growth in developed markets. We also expect 2011 to be a bumpy year as we expect to see tighter monetary policy in emerging markets creating occasional short-term headwinds for commodities. However we still believe that supply-constrained commodities will perform well in 2011. Copper price strength in 2010 has been heavily influenced by a tightening physical market, reflected by steady declines of London Metal Exchange stocks. We expect increased demand, continued underperformance in copper mine output and low inventories will likely push copper to a new record in 2011. In addition we also remain bullish on the bulk sector, especially metallurgical coal, in 2011 on supply disruptions. Metallurgical coal demand has been easing since mid-2010 as Chinese steel production has weakened. Despite this, metallurgical coal spot prices have set new highs mainly due to supply issues in Queensland. The flooding situation in Queensland has triggered a number of force majeure declarations.

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

**Tourmaline Oil Corp.:** 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 (“RDS”) in 2008 for \$83.00/share. In its short history since forming Tourmaline in 2008, management has already amassed 1,200 net sections of land in the Deep Basin of Alberta and British Columbia (more than twice the size of Duvernay’s land position when it sold to RDS). Current production is approaching 23,000 barrels of equivalent oil per day (“Boe/d”) with a 2011 exit 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 \$350MM drilling program in 2011 that will remain focused within 3 core areas in the Deep Basin.

**Anvil Mining:** Anvil Mining operates in the Democratic Republic of the Congo in Central Africa. The company has an operating asset called Kinsevere Stage 1 HMS. However, the major focus of the Company is to complete the development and the construction of Kinsevere Stage II, a copper project with 60,000 tonnes per annum of expected capacity, in which Anvil Mining has a 95% interest. Construction of the Kinsevere Stage II project remains slightly behind schedule, with commissioning expected to begin in Q1 of 2011 and continue into Q2 of 2011. The company has 1,060 workers onsite and has spent approximately US\$316M of the total capital costs for the project of US\$400M (with a further US\$55M committed). We expect the stock to continue to outperform as the project moves towards completion in Q2 of 2011.

**Copper Mountain Mining Corp.:** Copper Mountain is developing the Copper Mountain project located in British Columbia. The Project is owned 75% by Copper Mountain Mining Corporation and 25% by Mitsubishi Materials

Corporation. Construction of the Copper Mountain project is progressing on schedule with full production expected to commence in June 2011. Copper Mountain is expected to produce approximately 29 kilotons of attributable copper per year over a 17-year mine life. We expect the company to re-rate as a producer upon commissioning. We believe there is good potential for deep-seated mineralization at the project and have introduced exploration value for resources outside the current resource estimate.

**Sabina Gold & Silver Corp.:** Sabina is a Canadian exploration company with 3 projects – the Hackett River silver-zinc project along with two gold properties called Goose Lake and George Lake (which are held under the umbrella Back River Gold Project). Company is in the process of restarting the drill program after a brief seasonal holiday due to weather related issues. The most recent infill drill results from Umwelt zone, which is part of the Black River Gold project increase our confidence in what we think will become a gold district. In addition to the infill results, Sabina’s step - out drilling to the southeast of Umwelt has extended the zone to 700m of strike length - an increase of 200m. In addition to the assets, Sabina also has a strong management team with a proven track record in Nunavut. Sabina’s senior management and some of its directors played the same roles in Miramar, successfully growing the Hope Bay gold project and taking it through permitting.

### ***Capital transactions***

On October 16, 2009, former limited partners of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (“the Partnership”) received 1.24962 Natural Resources Class 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 Natural Resources Class Shares.

On April 5, 2010, former limited partners of the Connor, Clark & Lunn 2008 Flow-Through Limited Partnership (“the Partnership”) received 2.5022 Natural Resources Class 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 Natural Resources Class Shares.

During the six month period ended December 31, 2010, the Fund paid \$4,305,681 to redeem 384,399 Natural Resources Class Shares. During the same period, the Fund also had 10,009 Natural Resources Class Shares transferred to Balanced Portfolio Class Shares for the amount of \$137,300.

### ***Distributions***

During the six month period ended December 31, 2010, the Fund declared capital gain distributions of \$6,504,913. The entire distribution amount was automatically consolidated so there is no change in the number of Natural Resources Class Shares outstanding as a result of the distribution.

## **Related Party Transactions**

### ***Management Fees***

Pursuant to a management agreement (“the Management Agreement”) the Fund retained Connor, Clark & Lunn Capital Markets Inc. (“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 six month period ended December 31, 2010 were \$163,427 (\$38,587 from October 16, 2009 (commencement of operations) to December 31, 2009).

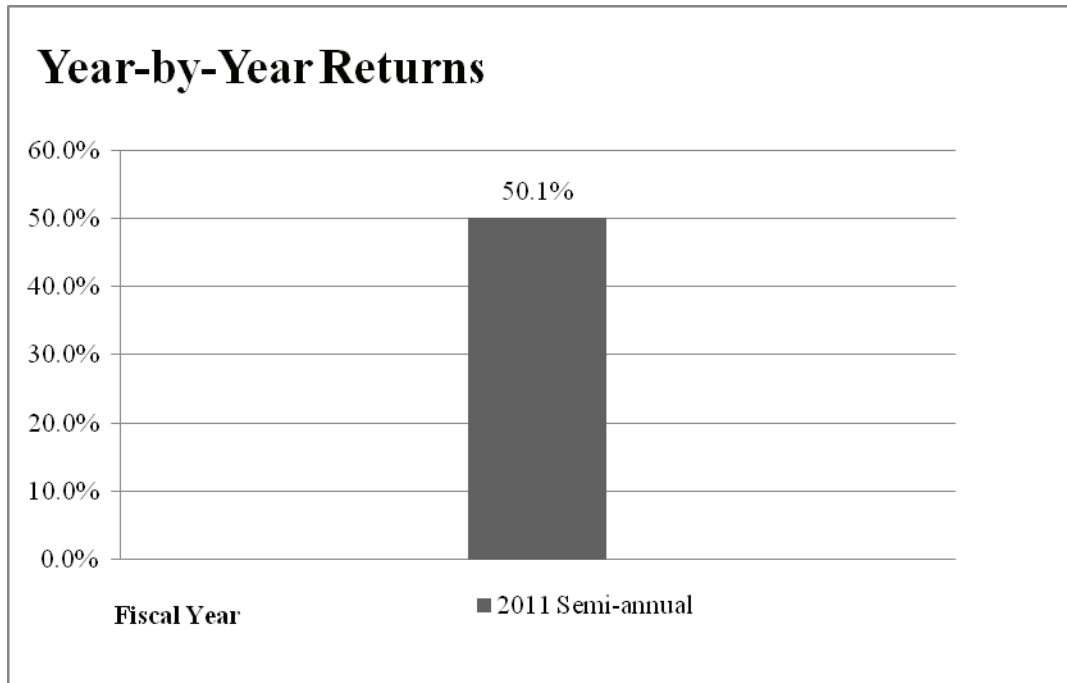
The Manager pays the Investment Manager out of the above management fees.

## **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 six month period ended December 31, 2010.

## Past Performance

The following bar chart shows the Fund's semi-annual performance for the six month period ended December 31, 2010 assuming all the distributions made by the Fund during the period shown were reinvested. This bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.



## Financial Highlights

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

The Fund's Net Assets per Natural Resources Class Share:

	December 31, 2010 <sup>(2)</sup>	June 30, 2010 <sup>(1)</sup>
<b>Net Assets, beginning of period</b>	<b>9.52</b>	<b>10.00</b>
<b>Increase (decrease) from operations:</b>		
Total revenues	0.02	0.15
Total expenses	(0.27)	(0.38)
Realized gains (losses) for the period	1.82	(0.24)
Unrealized gains (losses) for the period	3.07	(0.39)
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>4.64</b>	<b>(0.86)</b>
<b>Distributions:</b>		
From income (excluding dividends)	—	—
From dividends	—	—
From capital gains	—	—
Return of capital	—	—
<b>Total Distributions</b>	<b>—</b>	<b>—</b>
<b>Net Assets, end of period <sup>(4)</sup></b>	<b>14.30</b>	<b>9.52</b>

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

<sup>(2)</sup> Results for the six month period ended December 31, 2010.

<sup>(3)</sup> 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.

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

Ratios and Supplemental Data:

	December 31, 2010 <sup>(2)</sup>	June 30, 2010 <sup>(1)</sup>
Net asset value (000's)	15,887	14,349
Number of shares outstanding	1,108,373	1,502,781
Management expense ratio (annualized) <sup>(3)</sup>	3.99%	3.56%
Management expense ratio before waivers or absorptions (annualized) <sup>(3)</sup>	3.99%	3.56%
Portfolio turnover rate <sup>(4)</sup>	66.50%	230.75%
Trading expense ratio <sup>(5)</sup>	0.38%	1.32%
Net asset value per Natural Resources Class Share <sup>(6)</sup>	14.33	9.55

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

<sup>(2)</sup> Results for the six month period ended December 31, 2010.

<sup>(3)</sup> 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.

<sup>(4)</sup> 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.

<sup>(5)</sup> 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.

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

## Summary of Investment Portfolio as of December 31, 2010

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

A quarterly update is available at [www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com) and [www.sedar.com](http://www.sedar.com).

<b>Portfolio by Category</b>	<b>Market Value</b> \$	<b>% of NAV</b>
Energy	8,236,488	51.8%
Materials	7,560,602	47.6%
Cash & Cash Equivalents	163,102	1.0%
<b>Top 25 Holdings</b>		
Copper Mountain Mining Corp	1,212,981	7.6%
Consolidated Thompson Iron Mines Ltd.	1,089,157	6.9%
Anvil Mining	903,294	5.7%
Canadian Natural Resources Ltd.	860,390	5.4%
Tourmaline Oil Corp.	841,415	5.3%
Mercator Minerals Ltd.	751,124	4.7%
Huron Energy Corp. Flow Through	560,964	3.5%
Vero Energy	533,463	3.4%
Minera Andes Inc.	528,960	3.3%
Legacy Oil Plus Gas Inc.	497,600	3.1%
Niko resources Ltd.	495,264	3.1%
EnCana Corp.	494,530	3.1%
Sabina Gold & Silver Corp.	469,557	3.0%
Calfrac Well Services Ltd.	465,664	2.9%
Wild Stream Exploration Inc.	462,235	2.9%
Guyana Goldfields	452,610	2.8%
Surge Energy Inc.	446,264	2.8%
Centerra Gold Inc.	438,464	2.8%
Progress Energy Resources Corp.	434,340	2.7%
Semafo Inc.	398,825	2.5%
Ensign Energy Services	368,235	2.3%
Celtic Exploration Ltd.	347,312	2.2%
Athabasca Oil Sands Corp.	331,980	2.1%
Uranium One Inc.	321,776	2.0%
Lundin Mining	283,866	1.8%
<b>Net asset value (NAV)</b>	<b>15,886,735</b>	

**Connor, Clark & Lunn Capital Class Inc., Natural Resources Class**  
Financial Statements (Unaudited)  
**December 31, 2010**

***Notice to Reader:***

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

**Connor, Clark & Lunn Capital Class Inc., Natural Resources Class**

Statements of Net Assets (Unaudited)

As at December 31, 2010 and June 30, 2010

	<b>December 31, 2010</b>	<b>June 30, 2010</b>
	\$	\$
<b>Assets</b>		
Cash	63,388	35,529
Short-term investments	99,714	899,164
Investments at fair value (cost - \$12,228,432; June 30, 2010 - \$13,338,554)	15,758,431	12,906,413
Interest and dividends receivable	8,536	15,260
Receivable from investment sales	-	764,703
Prepaid expenses	64,137	-
	<u>15,994,206</u>	<u>14,621,069</u>
<b>Liabilities</b>		
Payable for investment purchases	-	223,200
Redemptions payable	49,486	9,877
Accounts payable and accrued liabilities	70,320	49,809
Management fees payable	26,323	26,720
	<u>146,129</u>	<u>309,606</u>
<b>Net Assets and Shareholders' Equity</b>	<u>15,848,077</u>	<u>14,311,463</u>
<b>Shares issued and outstanding</b> (note 4)	<u>1,108,373</u>	<u>1,502,781</u>
<b>Net assets per Natural Resources Class share</b>	<u>14.30</u>	<u>9.52</u>
<b>Shareholders' Equity</b>		
Share capital (note 4)	17,682,584	15,155,172
Contributed surplus (deficit)	(358,251)	107,229
Surplus (deficit)	<u>(1,476,256)</u>	<u>(950,938)</u>
<b>Total Shareholders' Equity</b>	<u>15,848,077</u>	<u>14,311,463</u>

Approved by the Manager



Director



Director

## Connor, Clark & Lunn Capital Class Inc., Natural Resources Class

### Statements of Operations (Unaudited)

For the six month period ended December 31, 2010 and for the period from October 16, 2009 (commencement of operations) to December 31, 2009

	2010	2009
	\$	
<b>Income</b>		
Dividends	21,203	14,535
Interest	1,524	327
	<u>22,727</u>	<u>14,862</u>
<b>Expenses</b>		
Management fees (note 6)	163,427	38,587
Transaction costs	56,414	43,222
Service fees (note 6)	37,530	11,418
Audit fees	35,640	7,718
Transfer agent fees	12,119	4,039
Administration fees	10,812	3,491
Legal fees	9,312	3,932
Custodial and other shareholders' fees	9,197	6,207
Other	8,792	1,033
Filing fees	7,634	3,223
Printing fees	1,114	-
Interest expense	291	551
IRC fees	-	741
	<u>352,282</u>	<u>124,162</u>
<b>Investment income (loss) for the period</b>	(329,555)	(109,300)
<b>Net realized gain (loss) on investments</b>		
Net realized gain (loss) on investments	<u>2,347,066</u>	<u>(274,380)</u>
<b>Net unrealized gain (loss) on investments</b>		
Change in unrealized gain (loss) on investments	3,962,140	272,269
Change in unrealized gain (loss) on foreign exchange	(56)	(4)
	<u>3,962,084</u>	<u>272,265</u>
<b>Net gain (loss) on investments</b>	<u>6,309,150</u>	<u>(2,115)</u>
<b>Increase (decrease) in net assets from operations</b>	<u>5,979,595</u>	<u>(111,415)</u>
<b>Increase (decrease) in net assets from operations per share *</b>	<u>4.64</u>	<u>(0.13)</u>

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

**Connor, Clark & Lunn Capital Class Inc., Natural Resources Class**

## Statements of Changes in Net Assets

For the six month period ended December 31, 2010 and for the period from October 16, 2009 (commencement of operations) to December 31, 2009

	2010	2009
	\$	\$
<b>Increase (decrease) in net assets from operations</b>	<u>5,979,595</u>	<u>(111,415)</u>
<b>Distributions to unitholders from:</b>		
Net realized gain on investments	<u>(6,504,913)</u>	-
<b>Shareholders' transactions (note 4):</b>		
Sale of shares	-	2,411
Shares issued pursuant to Transfer Agreement	-	9,996,949
Transfers to Class B shares	(137,300)	-
Distributions reinvested	6,504,913	-
Payments on redemption of shares	<u>(4,305,681)</u>	<u>(1,960,803)</u>
	<u>2,061,932</u>	<u>8,038,557</u>
<b>Change in net assets during the period</b>	<u>1,536,614</u>	<u>7,927,142</u>
<b>Net assets - Beginning of period</b>	<u>14,311,463</u>	-
<b>Net assets - End of period</b>	<u>15,848,077</u>	<u>7,927,142</u>
<b>Surplus (deficit), beginning of period</b>	(950,938)	-
Increase (decrease) in net assets from operations	5,979,595	-
Distributions to unitholders	<u>(6,504,913)</u>	-
<b>Surplus (deficit), end of period</b>	<u>(1,476,256)</u>	-
<b>Contributed surplus (deficit), beginning of period</b>	107,229	-
Cost of shares redeemed at less than original issue price	<u>(465,480)</u>	-
<b>Contributed surplus (deficit), end of period</b>	<u>(358,251)</u>	-

## Connor, Clark & Lunn Capital Class Inc., Natural Resources Class

Statement of Investment Portfolio (Unaudited)

As at December 31, 2010

	Interest rate	Maturity date	Par Value/ Quantity	Average Cost \$	Fair Value \$	% of Net Assets
<b>Short Term Paper</b>						
<b>Bankers acceptances</b>						
Toronto Dominion Bank	1.21%	3/25/2011	100,000	99,714	99,714	0.6%
<b>Investments</b>						
<b>Canadian equities</b>						
<b>Energy</b>						
Athabasca Oil Sands Corp.			22,000	242,000	330,000	2.1%
Calfrac Well Services Ltd.			13,600	303,398	465,528	2.9%
Calmena Energy Services Inc.			131,500	79,150	101,255	0.6%
Canadian Natural Resources Ltd.			19,400	703,460	859,226	5.4%
Celtic Exploration Ltd.			19,600	197,968	347,312	2.2%
EnCana Corp.			17,000	521,385	493,680	3.1%
Ensign Energy Services			24,500	361,926	368,235	2.3%
Huron Energy Corp. Flow Through*			186,988	563,964	560,964	3.5%
Legacy Oil Plus Gas Inc.			32,000	358,473	497,600	3.1%
Mantra Resources			24,500	149,695	193,795	1.2%
Niko Resources Ltd.			4,800	453,353	495,264	3.1%
Progress Energy Resources Corp.			34,200	427,649	434,340	2.7%
Storm Resources			69,997	270,096	276,488	1.7%
Strateco Resources Inc.			203,600	165,466	197,492	1.2%
Surge Energy Inc.			61,300	347,066	445,038	2.8%
Tourmaline Oil Corp.			38,597	694,746	839,485	5.3%
Uranium One Inc.			67,600	332,277	321,776	2.0%
Vero Energy			93,100	579,017	533,463	3.4%
Wild Stream Exploration Inc.			47,900	274,445	457,924	2.9%
				7,025,534	8,218,865	51.5%
<b>Materials</b>						
Anvil Mining			149,800	463,911	895,804	5.7%
Bear Creek Mining Corp.			17,200	147,610	163,400	1.0%
Cathay Forest Products Corp.			351,700	241,180	130,129	0.8%
Centerra Gold Inc.			22,100	453,658	438,464	2.8%
Consolidated Thompson Iron Mines Ltd.			77,300	577,550	1,089,157	6.9%
Copper Mountain Mining Corp			186,900	573,310	1,211,112	7.6%
Detour Gold Corp.			9,600	171,270	280,224	1.8%
Ecu Silver Mining Inc			122,100	151,465	161,172	1.0%
Golden Minerals Company			4,800	106,768	125,760	0.8%
Guyana Goldfields			42,300	448,469	452,610	2.9%
Keegan Resources Inc			18,600	148,033	162,750	1.5%
Lundin Mining			39,100	185,785	283,866	1.8%
Mercator Minerals Ltd.			189,200	493,967	751,124	4.7%
Minera Andes Inc			182,400	365,949	528,960	3.3%
Sabina Gold & Silver Corp.			83,700	369,720	466,209	2.9%
Semafo Inc.			37,100	337,732	398,825	2.5%
				5,236,377	7,539,566	48.0%
<b>Total Canadian equities</b>				12,261,911	15,758,431	99.5%
<b>Total Investments (before transaction costs)</b>				12,261,911	15,758,431	99.5%
Transaction costs (note 3)				(33,479)	-	0.0%
<b>Total investments</b>				12,228,432	15,758,431	99.5%
<b>Other liabilities less assets</b>					(10,068)	-0.1%
<b>Net assets</b>					15,848,077	100.0%

(\*) Private placement

(See accompanying notes to financial statements)

# Connor, Clark & Lunn Capital Class Inc., Natural Resources Class

## Notes to Financial Statements (Unaudited)

December 31, 2010

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### 1 Formation of Partnership

Clark & Lunn Natural Resources Fund Inc., Natural Resources Class (the "Fund") is a class of share issued by the Connor, Clark & Lunn Capital Class Inc. (the "Corporation") (a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation). 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

The Canadian Accounting Standards Board ("AcSB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the AcSB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the AcSB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012.

The Fund will adopt IFRS on July 1, 2013. The Fund's Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

#### Valuation of Investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the 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:

**Connor, Clark & Lunn Capital Class Inc., Natural Resources Class**  
**Notes to Financial Statements (Unaudited)**  
**December 31, 2010**

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	<u>Transactional</u>	<u>Section 3855</u>	<u>GAAP</u>
	NAV	Adjustment	Net Assets
<b>Per Share</b>			
Opening Value – June 30, 2010	9.55	(0.03)	9.52
Closing Value – December 31, 2010	14.33	(0.03)	14.30

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

**4 Shareholders' Equity**

The Fund is authorized to issue an unlimited number of Natural Resources Class 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 1,249,622 Natural Resources Class 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 Natural Resources Class 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 Natural Resources Class Shares based on the NAV per Natural Resources Class 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 2,502,222 Natural Resources Class 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 Natural Resources Class Shares at \$10.14 per Natural Resources Class Share.

The Fund has no restrictions or specific requirements on the subscription and redemption of Natural Resources Class Shares. Natural Resources Class 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 Capital Class Inc., Balanced Portfolio Class, Series 1 (Balanced Portfolio Class). Holders of Natural Resources Class Shares can switch into Balanced Portfolio Class Shares on a tax-deferred basis and vice versa.

During the six month period ended December 31, 2010, the Fund paid \$4,305,681 to redeem 384,399 Natural Resources Class Shares (\$1,960,803 was paid to redeem 201,458 shares during the period from October 16, 2009 (commencement of operations) to December 31, 2009). During the same period, the Fund also had 10,009 Natural Resources Class Shares transferred to Balanced Portfolio Class Shares for the amount \$137,300 (no Natural Resources Class Shares were transferred to Balanced Portfolio Class Shares during the period from October 16, 2009 (commencement of operations) to December 31, 2009).

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 six month period ended December 31, 2010 and during the period from October 16, 2009 (commencement of operation) to December 31, 2009 are summarized as follows:

**Connor, Clark & Lunn Capital Class Inc., Natural Resources Class**  
**Notes to Financial Statements (Unaudited)**  
**December 31, 2010**

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	2010	2009
Opening balance	1,502,781	–
Sales	–	248
Shares issued pursuant to Transfer	–	999,695
Transfers to Balanced Portfolio Class Shares	(10,009)	–
Redeemed during the period	(384,399)	(201,458)
Ending balance	<u>1,108,373</u>	<u>1,502,781</u>

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

**5 Custodian**

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

**6 Distribution**

During the six month period ended December 31, 2010, the Fund declared distributions of \$6,504,913. The entire distribution amount was automatically consolidated so there is no change in the number of Natural Resources Class Shares outstanding as a result of the distribution.

**7 Management fees and other expenses**

The Manager receives a management fee from the Fund equal to 2.00% per annum of the Net Asset Value of the Fund, which is accrued daily and paid monthly. The management fees charged to the Fund during the six month period ended December 31, 2010 were \$163,427 (\$38,587 during the period from October 16, 2009 (commencement of operation) to December 31, 2009). 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 Natural Resources Class Shares in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.50% annually of the Net Asset Value of the Natural Resources Class Shares held by clients of the dealers. The service fee charged to the Fund during the six month period ended December 31, 2010 was \$37,530 (\$11,418 during the period from October 16, 2009 (commencement of operation) to December 31, 2009).

**8 Broker commission charges and soft dollar services**

There were \$56,414 broker commissions paid during the six month period ended December 31, 2010 (\$43,222 during the period from October 16, 2009 (commencement of operation) to December 31, 2009) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

**9 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

# Connor, Clark & Lunn Capital Class Inc., Natural Resources Class

## Notes to Financial Statements (Unaudited)

### December 31, 2010

#### 10 Financial instruments

<u>Assets</u>	December 31, 2010	June 30, 2010
Held for trading	15,921,533	13,841,106
Loans and receivables	8,536	779,963
<b>Total assets</b>	<b>15,930,069</b>	<b>14,621,069</b>
<u>Liabilities</u>		
Held for trading	-	-
Financial liabilities at amortized cost	146,129	309,606
<b>Total liabilities</b>	<b>146,129</b>	<b>309,606</b>

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 December 31, 2010 and June 30, 2010:

<u>Assets at fair value as at December 31, 2010</u>	Level 1	Level 2	Level 3	Total
Equities	15,197,467	-	560,964	15,758,431
Short-term notes	-	99,714	-	99,714
<b>Total</b>	<b>15,197,467</b>	<b>99,714</b>	<b>560,964</b>	<b>15,858,145</b>

<u>Assets at fair value as at June 30, 2010</u>	Level 1	Level 2	Level 3	Total
Equities	11,836,202	-	1,070,211	12,906,413
Short-term notes	-	899,164	-	899,164
<b>Total</b>	<b>11,836,202</b>	<b>899,164</b>	<b>-</b>	<b>13,805,577</b>

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.

The Fund's long equity positions are classified as Level 1 as all these securities are actively traded and a reliable quote is observable. Short-term notes are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities. 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 June 30, 2010	1,070,211
Accrued discount/premiums	-
Realized gain (loss)	-
Unrealized appreciation/depreciation	699
Purchases	453,000
Sales	-
Net transfers in and/or out of Level 3	(962,946)
Closing Balance at December 31, 2010	560,964
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2010	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 -\$28,000 (or -0.2% of Net Assets) to +\$28,000 (or +0.2% 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.

#### 11 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.

# Connor, Clark & Lunn Capital Class Inc., Natural Resources Class

## Notes to Financial Statements (Unaudited)

December 31, 2010

December 31, 2010

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
<b>Investments</b>	–	–	–	–	15,758,431	15,758,431
<b>Cash and cash equivalents</b>	99,714	–	–	–	63,388	163,102
<b>Other assets</b>	–	–	–	–	8,536	8,536
<b>Liabilities</b>	–	–	–	–	(146,129)	(146,129)
<b>Net assets</b>						15,783,940

June 30, 2010

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
<b>Investments</b>	–	–	–	–	13,158,413	13,158,413
<b>Cash and cash equivalents</b>	899,164	–	–	–	35,529	934,693
<b>Other assets</b>	–	–	–	–	527,963	527,963
<b>Liabilities</b>	–	–	–	–	(309,606)	(309,606)
<b>Net assets</b>						14,311,463

As at December 31, 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 \$230 (June 30, 2010 - \$1,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

### Credit risk

The Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at December 31, 2010.

As at December 31, 2010, the Fund had 0.6% (June 30, 2010 – 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 December 31, 2010 and 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 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 December 31, 2010, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$1,576,000 (June 30, 2010 - \$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.

# Connor, Clark & Lunn Capital Class Inc., Natural Resources Class

## Notes to Financial Statements (Unaudited)

### December 31, 2010

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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.