CONNOR, CLARK & LUNN

CAPITAL MARKETS

2010

CANADIAN Financials & Utilities Split Corp.

Annual Report

March 31, 2010

CANADIAN Financials & Utilities Split Corp. Message to Shareholders

May 20, 2010

Dear Investor,

We are pleased to provide you with the annual report for the CANADIAN Financials and Utilities Split Corp. (the "Company") for the year ending March 31, 2010. The Company was established in February of 2007 to provide investors with a low cost, diversified investment in a high quality, passive portfolio comprised of Canadian banks, utilities and pipeline companies and non-bank financial companies, utilizing an innovative split share structure with a unique leveraging and deleveraging mechanism. The Company has invested in an equally weighted portfolio in each of the aforementioned sectors which have a history of strong dividend growth and stable cash flows.

During the year, the net asset value of the Company's Class A Shares rose by 49.7% compared to the 42.1% return generated by the S&P/TSX Composite Index (the "Index"). The Index ended the period just over 12,000, a level not seen since September 2008 in the early days of the collapse of Lehman Brothers, and a significant climb up from the low reached in March 2009 when the Index fell to approximately 7,657. Since the onset of the recovery in Canadian equities, banks have been the strong performing sector with the S&P/TSX Bank Index returning 75.4% for the year ending March 31, 2010. REITs have similarly produced strong returns in part driven by strong demand for yield, especially in anticipation of fewer high income opportunities with the onset of the taxation of income trusts in 2011. The S&P/TSX REIT Index returned 74.8% over the trailing 12-month period, slightly behind the banking sector.

The Company employs a leveraging and de-leveraging mechanism which offers the ability to increase leverage when the Company's portfolio appreciates in value and reduce leverage when the portfolio declines in value. With the significant decline in the value of the Company's portfolio in late 2008, under the terms of this unique mechanism, portfolio investments were sold and the proceeds were invested in cash or cash equivalents in order to provide additional assurance that the Company's objective to repay the $10.00 issue price of the Preferred Shares at maturity would be met and that the Preferred Shares continue to be rated P-1 by DBRS. As a result, the Class A Shares do not have leveraged exposure to the Company's portfolio since each dollar of cash and cash equivalents held has a matching liability, being the Preferred Shares, on the Company's balance sheet. As such, all else being equal, a one percent change in the market value of the equity securities held in the Company's portfolio will result in a corresponding change of approximately one percent in the net asset value of the Class A Shares before accounting for fees and expenses.

The Company has the ability to re-establish leverage as the portfolio's value increases. If the portfolio subsequently appreciates in value and the net asset value per Class A Share grows to approximately $7.37, cash will be reinvested in the names currently held in the portfolio which will restore leverage on the Class A Shares and likely result in the resumption of distributions to holders of Class A Shares.

The Preferred Shares pay fixed cumulative preferential quarterly distributions yielding 4.25% per annum on the original issue price and are rated Pfd-1 by Dominion Bond Rating Service ("DBRS"), which reflects both the high quality of the portfolio and the protective leveraging mechanism. The Company made all scheduled quarterly distributions to Preferred Share holders totalling $0.425 per Preferred Share during the year.

Please check our web site for quarterly investment updates and other timely information. We appreciate your investment in the Company and look forward to better performance as the Company matures.

Yours truly,

W. Neil Murdoch

W. Neil Murdoch
Chief Executive Officer
CANADIAN Financials & Utilities Split Corp.

Management Report of Fund Performance

This annual management report of fund performance for CANADIAN Financials & Utilities Split Corp. (the “Company”) contains financial highlights but does not contain the complete annual financial statements of the Company. **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. You can also obtain the annual financial statements by visiting www.sedar.com.

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

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

Investment Objectives and Strategy

The Company is a closed-end mutual fund corporation that is listed on the Toronto Stock Exchange under the symbol CFS for the Class A Shares and CFS.PR.A for the Preferred Shares.

Pursuant to a management agreement (“the Management Agreement”) the Company has retained Connor, Clark & Lunn Capital Markets Inc. (“the Manager”) to act as manager.

Investment Rationale

The Company was created to provide investors with a low cost, diversified investment in a high quality portfolio comprised of Canadian banks, Canadian utilities and pipeline issuers and Canadian non-bank financial issuers (the ‘‘Portfolio’’), utilizing a split share structure.

The Preferred Shares have been rated Pfd-1 by Dominion Bond Rating Service Limited (‘‘DBRS’’). The Preferred Shares continued to hold this rating as of March 31, 2010.

Investment Objectives

Investment objectives for the Preferred Shares:

(i) To provide their holders with quarterly fixed cumulative distributions equal to $0.10625 per Preferred Share ($0.425 per year or 4.25% of the Preferred Share offering price); and

(ii) to repay the original issue price of $10.00 per Preferred Share on redemption of the Preferred Shares on January 31, 2012.

Investment objectives for the Class A Shares:

(i) To provide their holders with tax-efficient regular monthly distributions, expected to be primarily returns of capital;

(ii) the opportunity for capital appreciation and dividend growth on a leveraged basis; and

(iii) low management fees.

The holders of Class A Shares will be entitled to all dividends and distributions received on the Portfolio (net of operating expenses and the Preferred Share distributions). On termination, the Class A Shares will be entitled to the value of the Company in excess of the value of the Preferred Shares.

With significant decline in the value of the Company's portfolio in late 2008, under the terms of leveraging and de-leveraging mechanism, portfolio securities were sold and the proceeds were invested in cash or cash equivalents in order to provide additional assurance that the Company's objective to repay the $10.00 issue price of the Preferred Shares at maturity will be met and that the Preferred Shares will continue to have a high rating from DBRS. Following the sale of portfolio securities, the Class A Shares continue to have exposure to the Company's equity portfolio on a non-leveraged, or approximately one to one basis before fees and expenses and distributions on the Class A Shares were suspended beginning in December 2008.

The Company has the ability to re-establish leverage as the portfolio's value increases. If the remaining portfolio subsequently appreciates in value and the net asset value per Class A Share grows to approximately $7.37, the cash held in an amount equal to the outstanding Preferred Shares raised will be re-invested in securities of the portfolio which will restore leverage on the Class A Shares and may result in the resumption of distributions to holders of Class A Shares.

Investment Strategy

In order to achieve the Company's investment objectives, the Company has invested, on a passive basis, the net proceeds of the offering in the equity securities of the six largest Canadian banks, in Canadian utilities and pipeline issuers and in Canadian non-bank financial issuers.

The Portfolio is rebalanced (i) at least annually to adjust for changes in the market value of investments, (ii) to reflect the impact of mergers, acquisitions or other significant corporate actions or events affecting the Portfolio Securities, and (iii) in order to maintain the Interest Coverage Ratio (Interest Coverage Ratio means the quotient obtained by dividing the Net Cash Flow for Distributions received by the Company in any calendar quarter by the aggregate amount of the distributions payable on the Preferred Shares in such quarter) at greater than 1.5 times. Trades effected to rebalance the Portfolio are subject to the confirmation of DBRS that they will not result in a reduction in the rating of the Preferred Shares.

Risk

The Class A Shares are leveraged investments by virtue of the Preferred Securities, which have priority in payment of any distributions or proceeds upon redemption of the Company. The effects of leverage on the performance of the net asset value of the Class A Shares by virtue of the Preferred Shares has been muted as a consequence of selling portfolio securities and investing in short term notes. No material changes in the risk profile of the Company took place over the period. The risks of investing in the Company's shares are described in the prospectus dated January 30, 2007.

Recent Developments

Future accounting changes

In February 2008, the Canadian Accounting Standards Board 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 Company will adopt IFRS on April 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 Company'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.

Adoption of New Accounting Standards

CICA Section 3862, "Financial Instruments – Disclosures": In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Company adopted the amendments to Section 3862 as of April 1, 2009. This standard impacted the Company's disclosure provided but did not affect the Company's results or financial position.

EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities": On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The abstract requires the entity's own credit risk and the risk of the counterparty to be taken into consideration in assessing the fair value of financial assets and financial liabilities. The Company adopted the abstract as of April 1, 2009. This abstract did not significantly impact the Company's results or financial position.

Results of Operations

Manager Commentary

All scheduled distribution payments have been made since inception of the Company to holders of the Preferred Shares. Distributions payable to Class A Share holders have been suspended indefinitely commencing in December 2008.

For the year ending March 31, 2010, the Class A Shares generated a total return of 49.74%. During the year, the net asset value of the Company's Class A Shares rose by 49.7% compared to the 42.1% return generated by the S&P/TSX Composite Index (the "Index"). The Index ended the period just over 12,000, a level not seen since September 2008 in the early days of the collapse of Lehman Brothers, and a significant climb up from the low reached in March 2009 when the Index fell to approximately 7,657. Since the onset of the recovery in Canadian equities, banks have been the strong performing sector with the S&P/TSX Bank Index returning 75.4% for the year ending March 31, 2010. REITs have similarly produced strong returns in part driven by strong demand for yield, especially in anticipation of fewer high income opportunities with the onset of the taxation of income trusts in 2011. The S&P/TSX REIT Index returned 74.8% over the trailing 12-month period, slightly behind the banking sector. Insurance companies have yet to enjoy the same resurgence as their peers in the diversified financials sector, returning 49.3% over the same period. Utilities, which had been the best performing sector in the Company's portfolio during the market downturn, have lagged the other sectors in the Company's portfolio since the onset of the equity market recovery as investors regained an appetite for risk. For the one year period ending March 31, 2010, the S&P/TSX Utilities Index returned 39.4%.

Active Leverage Management

RBC Dominion Securities Inc. acts as the Leverage Agent (the "Leverage Agent") for the Company pursuant to the leverage management agreement dated February 6, 2007. Their duties include identifying when de-leveraging is required, as was the case in December 2008, and monitoring for when leverage can be re-instated.

Additional Leverage

In a typical split share structure, including this structure, initial leverage is provided through the issuance of the Preferred Shares. Further, in a typical split share structure, as the value of the Company's assets increases, the level of leverage as a percentage of the Company's assets decreases. In order to maintain the benefits of leverage, the Company has the ability to add additional leverage to restore the leverage to its inception level of 40% of total assets, subject to confirmation at the time from DBRS that the Pfd-1 rating of the Preferred Shares will not be impacted.

De-Leveraging

If the value of the Portfolio declines by 34% or more relative to the value of the initial Portfolio, the Leverage Agent, on behalf of the Company, will sell Portfolio Securities having a minimum value equal to the sum of the subscription amount of the Preferred Shares and the amount of any loan outstanding. Such amount will be used to repay any loan outstanding, with the balance invested in cash and cash equivalents until the earlier of:

(a) the Maturity Date; and

(b) the occurrence of a Re-Leveraging Event.

Following the occurrence of a de-leveraging event, the Class A Shares will continue to have exposure to the Portfolio on a non-leveraged basis. If the remaining Portfolio increases in value by the same percentage by which the value of the Portfolio decreased from the inception value (a ‘‘Re-Leveraging Event’’), the Leverage Agent will, upon instructions from the Manager, sell cash equivalents and the Manager will purchase Portfolio Securities. Thereafter, a de-leveraging event shall occur if the loan to value ratio (“LTV Ratio”) surpasses 65% (LTV Ratio means: the quotient obtained by dividing (i) the sum of the gross proceeds received from the sale of Preferred Shares and the outstanding balance owed by the Company in respect of any loan facility by (ii) the aggregate value of the Portfolio Securities, expressed as a percentage). The loan to value ratio at March 31, 2010 was 64.5%.

A de-leveraging event will also occur in the event that the Interest Coverage Ratio is less than 1.5 for any calendar quarter. The estimated Interest Coverage Ratio at March 31, 2010 was approximately 0.4 times.

Benefits of Active Leverage Management

The de-leveraging mechanism offers benefits to holders of both of the Preferred Shares and Class A Shares. Preferred Shareholders are expected to benefit from: (i) a continued high rating; and (ii) having the subscription price of their Preferred Shares placed in cash and short term investments if the Net Asset Value per Unit declines such that the loan to value ratio exceeds 65% resulting in enhanced assurance that the Company’s objectives with respect to the Preferred Shares will be met.

The Class A Shareholders are expected to benefit from (i) the ability to increase leverage after Portfolio appreciation, (ii) the economic advantage of lower cost leverage through the issue of Preferred Shares with a rating of Pfd-1, (iii) the removal of leverage which would lessen the impact of any further decline in value of the Portfolio in the event that the value of the Portfolio has declined resulting in the loan to value ratio exceeding 65%, a decline of more than 34% from the opening net asset value, and (iv) the ability to re-establish leverage after a de-leveraging event as the Portfolio’s value increases.

Capital transactions

On February 6, 2007, the Company completed an initial public offering pursuant to the prospectus dated January 30, 2007. $22,500,000 was raised through the issue of 1.5 million Class A Shares at $15.00 per Share, and $15,000,000 was also raised through the issue of 1.5 million Preferred Shares at $10.00 per Share. On February 22, 2007, the Agents exercised an over-allotment option in respect of 0.11 million Units, raising a further $1,650,000 from Class A Shares and $1,100,000 from Preferred Shares. Total proceeds from these two transactions after Agents’ fees and issue expenses were $37,683,000.

The redemptions during the year ended March 31, 2010 were $881,789 for 172,559 of Class A shares and $1,725,590 for 172,559 of Preferred Shares ($981,143 for 186,983 of Class A shares and $1,869,830 for 186,983 of Preferred Shares during the year ended March 31, 2009).

Market repurchases

As set out in the Prospectus, the Company may at any time or times purchase Preferred Shares and Class A Shares for cancellation at prices per Unit not exceeding the NAV per Unit on the business day immediately prior to such purchase up to a maximum in any 12-month period of 10% of the outstanding public float of Preferred Shares and Class A Shares.

During the year ended March 31, 2010, the Company purchased and subsequently redeemed 4,700 of Class A Units for a total cost of $49,361 and 4,700 of Preferred Shares for a total cost of $47,000 (500 of Class A Units for a total cost of $4,710 and 500 of Preferred Shares for $5,000 during the year ended March 31, 2009). All Units purchased by the Company either were or will be cancelled.

Distributions

Distributions to Class A Shareholders have been suspended beginning December 2008 (see “Investment Objectives” section above).

The Company made its scheduled quarterly distributions to Preferred Shareholders of $0.10625 per Preferred Share totalling $0.425 for the year ended March 31, 2010 ($0.10625, totalling $0.425 per Preferred Share for the year ended March 31, 2009).

Related Party Transactions

Management Fees

As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Company, the Manager receives an annual management fee in an amount equal to 0.50% per annum of the net asset value of the Company to be calculated and payable monthly in arrears, plus applicable taxes.

The Management Fee may be paid in cash or Units (a “Unit” means one Preferred Share and one Class A Share), at the option of the Manager. To the extent that additional Shares are issued by the Company for this purpose, Units are issued at the net asset value per Unit. The distribution of Units to the Manager as payment of the Management Fee will have the effect of providing additional cash flow for distributions to Shareholders of the Company, while increasing the number of issued and outstanding Units once the distribution is made. The Company has reserved 300,000 Units to be issued to the Manager as payment of the Management Fee. The Manager has agreed that the payment of the Management Fee will be subordinated to the payment of distributions on the Preferred Shares. During January 2009, the Manager redeemed all units issued to them by the Company for the payment of management fees. There were nil units held by the Manager at year ended March 31, 2010 and 2009.

The total Management Fees charged to the Company for the year ended March 31, 2010 were $83,605 ($133,225 during the year ended March 31, 2009) including GST.

Leverage Agent Fee

The Leverage Agent receives a Leverage Agent Fee equal to 0.15% per annum of the Company’s net asset value calculated and payable monthly in arrears, plus applicable taxes.

The Leverage Agent Fee may be paid in cash or Units, at the option of the Leverage Agent. To the extent that additional Shares are issued by the Company for this purpose, Units are issued at the net asset value per Unit. The distribution of Units to the Leverage Agent as payment of the Leverage Agent Fee will have the effect of providing additional cash flow for distributions to Shareholders of the Company, while increasing the number of issued and outstanding Units once the distribution is made. The Company has reserved 300,000 Units to be issued to the Leverage Agent as payment of the Leverage Agent Fee. The Leverage Agent has agreed that the payment of the Leverage Agent Fee will be subordinated to the payment of distributions on the Preferred Shares.

The total Leverage Agent Fees charged to the Company for the year ended March 31, 2010 were $27,818 ($38,047 during the year ended March 31, 2009) including GST. All Leverage Agent fees are payable in Units. There were nil units held by the Leverage Agent at year ended March 31, 2010 and 2009.

Recommendations or Reports by the Independent Review Committee

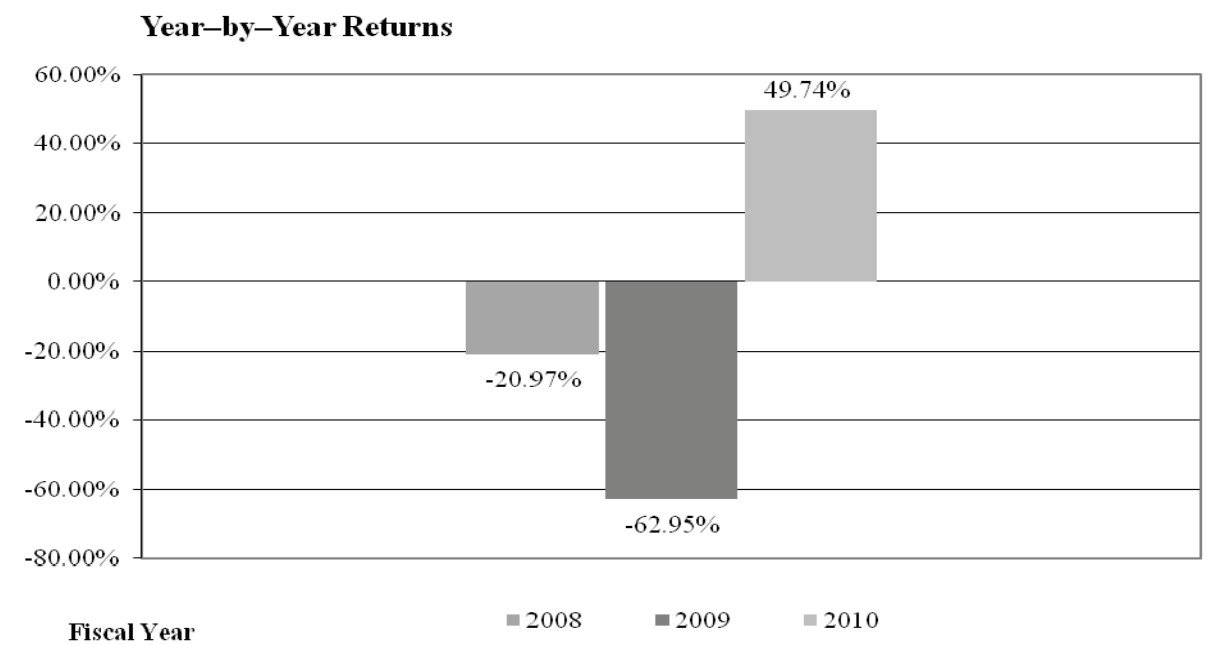
The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Company during the year ended March 31, 2010.

Past Performance

The following bar chart and table indicate the performance of the Class A Shares by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Company in the periods shown were reinvested. Past performance is not necessarily indicative of future performance.

Year – by –Year Returns

The following bar chart shows the Company's annual performance for the years shown. This bar chart shows, in percentage terms, how much an investment made on the first day of the financial year would have grown or decreased by the last day of the financial year.



Annual Compound Returns

	Past Year	Three Years	Since Inception [(1)]
Based on NAV	49.74%	-24.01%	-23.20%
Based on share price	45.21%	-31.53%	-30.35%
S&P/TSX Composite Index	42.15%	-0.03%	0.06%

(1) Annualized for the period February 6, 2007 (Commencement of operations) to March 31, 2010.

Financial Highlights

The following tables show selected key financial information about the Company on a per Unit basis and are intended to aid in understanding the Company's financial performance since commencement of operations. Each Unit of the Company consists of one Class A Share and one Preferred Share. This information is derived from the Company's audited annual financial statements:

The Company's Net Assets per Unit:

	March 31, 2010	March 31, 2009	March 31, 2008	March 31, 2007 (1)
Net Assets, beginning of period	**13.69**	**20.23**	**23.24**	**25.00**
Increase (decrease) from operations:				
Total revenues	0.32	0.78	0.94	0.15
Total expenses	(0.24)	(0.28)	(0.33)	(0.62)
Share issue expense (3)	–	(0.01)	(0.01)	(1.16)
Realized gains (losses) for the period	(0.24)	(7.47)	0.10	–
Unrealized gains (losses) for the period	2.40	1.06	(3.01)	(0.12)
Total increase (decrease) from operations (4) (5)	**2.24**	**(5.92)**	**(2.31)**	**(1.75)**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	(0.08)	(0.26)	(0.25)	(0.05)
From capital gains	–	–	–	–
Return of capital	(0.34)	(0.39)	(0.45)	(0.06)
Total Distributions (5)	**(0.42)**	**(0.65)**	**(0.70)**	**(0.11)**
Net Assets, end of period (6)	**15.50**	**13.69**	**20.23**	**23.24**

(1) Results for the period February 06, 2007 (commencement of operations) to March 31, 2007.
(2) Issue expense of $1,830,000 incurred in connection with the Class A Shares issuance, which has been treated as a reduction of capital.
(3) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of shares outstanding over the financial period.
(4) Distributions are payable in cash. The rates used to allocate distributions among income, dividends, capital gain and return on capital were estimated and may be different for tax purposes. Distributions to Class A Shareholders have been suspended beginning December 2008.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

The Class A Shares' Ratios and Supplemental Data:

	March 31, 2010	March 31, 2009	March 31, 2008	March 31, 2007 (1)
Net assets, excluding liability for Preferred Shares ($000's)	16,229	$16,696	$28,284	$37,418
Net assets ($000's)	5,758	$4,495	$14,300	$21,318
Number of units outstanding	1,047,038	1,219,597	1,398,474	1,610,000
Base Management expense ratio (2) (3)	1.64%	1.60%	1.42%	1.79%
Management expense ratio (3) (4)	4.45%	4.06%	3.37%	10.88%
Management expense ratio before waivers or absorptions (3) (4)	4.45%	4.06%	3.37%	10.88%
Portfolio turnover rate (5)	1.11%	1.09%	1.31%	0.00%
Trading expense ratio (6)	0.00%	0.01%	0.00%	0.49%
Net asset value per share	5.50	3.69	10.23	13.24
Closing market price (TSX) – Class A Share	4.40	$3.03	$7.86	$14.54
Closing market price (TSX) – Preferred Share	10.35	$9.40	$10.40	$10.20

(1) Results for the period February 06, 2007 (commencement of operations) to March 31, 2007. Ratios are annualized figures.
(2) A separate base management expense ratio has been presented to include the normal operating expenses of the Company and exclude (a) distributions on preferred shares, and (b) the one time initial share offering issue expenses, and (c) broker commission charges.
(3) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses which are one-time expenses, are not annualized.
(4) Annualized management expense ratios include distributions paid to holders of Preferred Shares.
(5) The Company's turnover rate indicates how actively the Company' portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company'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 Company.
(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Summary of Investment Portfolio as of March 31, 2010

The summary of investment portfolio may change due to ongoing portfolio transactions of the Company. A quarterly update is available at www.cclcapitalmarkets.com and at www.sedar.com.

	Market Value $	% of NAV
Portfolio by Category		
Cash & Short Term Investments	10,509,950	64.8%
Banks	2,668,194	16.4%
Non-Bank Financials	2,011,745	12.4%
Utilities and Pipelines	1,361,397	8.4%
Top 25 Holdings		
Cash & Short Term Investments	10,509,950	64.8%
Toronto-Dominion Bank	471,424	2.9%
Bank of Montreal	454,052	2.8%
Canadian Imperial Bank of Commerce	452,254	2.8%
Bank of Nova Scotia	435,778	2.7%
Royal Bank of Canada	432,078	2.7%
National Bank of Canada	422,608	2.6%
Canadian Utilities Ltd., Class A	206,136	1.3%
Atco Ltd., Class I	203,251	1.3%
TransCanada Pipelines Corp.	200,988	1.2%
Enbridge Inc.	190,611	1.2%
Emera Inc.	190,108	1.2%
Fortis Inc.	186,869	1.2%
Transalta Corp.	183,434	1.1%
Great West Lifeco Inc.	139,872	0.9%
Boardwalk Real Estate Investment Trust	132,660	0.8%
Dundee Real Estate Investment Trust	130,662	0.8%
Calloway Real Estate Investment Trust	129,320	0.8%
IGM Financial Inc.	129,311	0.8%
Sun Life Financial Inc.	127,831	0.8%
Morguard Real Estate Investment Trust	126,852	0.8%
Manulife Financial Corp.	123,814	0.8%
H&R Real Estate Investment Trust	122,988	0.8%
Artis Real Estate Investment Trust	122,960	0.8%
Cominar Real Estate Investment Trust	122,880	0.8%
Net asset value (NAV)	**$16,228,788**	

Management's Responsibility for Financial Reporting

The accompanying financial statements of **CANADIAN Financials and Utilities Split Corp.** (the "Company") and all of the information have been prepared by Connor, Clark & Lunn Capital Markets Inc. in its capacity as Manager of the Company and have been approved by the Board of Directors of the Manager. The Company's Manager is responsible for all of 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 unitholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders 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

May 20, 2010

PRICEWATERHOUSECOOPERS

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May 20, 2010

Auditors' Report

To the Shareholders of
CANADIAN Financials & Utilities Split Corp.

We have audited the statement of investment portfolio of **CANADIAN Financials & Utilities Split Corp.** (the Company) as at March 31, 2010, the statements of net assets as at March 31, 2010 and 2009 and the statements of operations, changes in shareholders' equity, deficit and contributed surplus and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the Company's 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 Company as at March 31, 2010 and 2009 and the results of its operations, the changes in its shareholders' equity, deficit and contributed surplus and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

CANADIAN Financials & Utilities Split Corp.

Statements of Net Assets

As at March 31, 2010 and 2009

	2010	2009
	$	$
Assets		
Cash	91,647	19,753
Short-term investments	10,440,617	12,382,199
Investments at fair value (cost - $6,674,472; 2009 - $8,055,259)	6,041,336	4,587,596
Interest and dividends receivable	23,776	43,428
Prepaid expenses	26,783	17,517
Total Assets	**16,624,159**	**17,050,493**
Liabilities		
Distributions payable to Preferred Shares	117,477	136,100
Payable for investment purchases	21,119	4,710
Accounts payable and accrued liabilities	249,466	187,234
Management fees payable	7,309	31,577
Preferred share capital (note 5)	10,470,380	12,195,970
	10,865,751	**12,555,591**
Shareholders' Equity		
Class A and Class J share capital (note 5)	14,069,259	16,387,969
Retained earnings (Deficit)	(11,911,204)	(14,056,499)
Contributed surplus	3,600,353	2,163,432
	5,758,408	4,494,902
Total Liabilities and Shareholders' Equity	**16,624,159**	**17,050,493**
Number of units (1) outstanding (note 5)	1,047,038	1,219,597
Net assets per unit (1)	15.50	13.69
Net assets per Class A Share outstanding	5.50	3.69
Number of Preferred Shares outstanding (note 5)	1,047,038	1,219,597
Net assets per Preferred Share outstanding	10.00	10.00
Number of Class J Shares outstanding (note 5)	100	100
Net assets per Class J Share outstanding	1.00	1.00

(1) *One Unit equals one Preferred Share and one Class A Share*

Approved by the Manager

W. Neil Murdoch

Director

Director

(See accompanying notes to financial statements)

CANADIAN Financials & Utilities Split Corp.

Statements of Operations

For the years ended March 31, 2010 and 2009

	2010	2009
	$	$
Income		
Dividends	320,745	978,799
Interest	56,585	71,011
	377,330	1,049,810
Expenses		
Management fees (note 7)	83,605	133,225
Service fees	23,396	34,058
Leverage agent fee (note 8)	27,818	38,047
Audit fees	25,089	20,916
Custodial and other unitholders' fees	22,914	25,654
Rating agency fees	21,199	21,199
Board of Directors fees	20,093	20,131
Administration fees	17,954	17,764
Transfer agent fees	16,712	19,384
Filing fees	13,133	13,553
Listing fees	7,902	11,574
Printing fees	3,387	3,387
Other	2,128	8,106
IRC fees	1,893	1,927
Insurance premium fees	790	1,913
Transaction costs (note 10)	613	2,113
Interest expense	7	53
Legal fees	-	12,085
	288,633	385,089
Net investment income before distributions on Preferred Shares	88,697	664,721
Distributions on Preferred Shares	(492,822)	(574,176)
Net investment income (loss)	(404,125)	90,545
Net realized gain (loss) on investments	(285,107)	(10,109,849)
Change in unrealized gain (loss) on investments	2,834,527	1,435,941
Increase (decrease) in net assets from operations	2,145,295	(8,583,363)
Increase (decrease) in net assets from operations per unit *	1.82	(6.34)

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

(See accompanying notes to financial statements)

CANADIAN Financials & Utilities Split Corp.

Statements of Changes in Shareholders' Equity, Deficit and Contributed surplus

For the years ended March 31, 2010 and 2009

	2010	2009
	$	$
Changes in shareholders' equity		
Class A and Class J share capital - beginning of year	16,387,969	19,049,323
Class A shares issued to the manager (notes 5&7)	-	82,312
Expenses of issue of class A shares	-	(14,040)
Distributions to class A shareholders from return of capital	-	(184,513)
Payments on redemption of class A shares	(881,789)	(981,143)
Cost of shares repurchased at less than the original issue price	(1,436,921)	(1,563,970)
Class A and Class J share capital - end of year	14,069,259	16,387,969
Changes in Deficit		
Deficit - beginning of year	(14,056,499)	(5,349,166)
Increase (decrease) in net assets from operations	2,145,295	(8,583,363)
Distributions to class A shareholders from dividends	-	(123,970)
Deficit - end of year	(11,911,204)	(14,056,499)
Contributed surplus		
Contributed surplus, beginning of year	2,163,432	599,462
Cost of shares repurchased at less than the original issue price	1,436,921	1,563,970
Contributed surplus, end of year	3,600,353	2,163,432

(See accompanying notes to financial statements)

CANADIAN Financials & Utilities Split Corp.

Statements of Cash Flow

For the years ended March 31, 2010 and 2009

	2010	2009
	$	$
Operating Activities		
Increase (decrease) in net assets from operations	2,145,295	(8,583,363)
Items not affecting cash:		
Net realized (gain) loss on investments	285,107	10,109,849
Change in unrealized (gain) loss on investments	(2,834,527)	(1,435,941)
Class A shares issued to the manager (notes 5&7)	-	82,312
Preferred Shares shares issued to the manager (notes 5&7)	-	81,060
Changes in non-cash working capital		
(Increase) decrease in interest and dividends receivable	19,652	96,141
(Increase) decrease in prepaid expenses	(9,266)	10,906
Increase (decrease) in accounts payable and accrued liabilities	62,232	46,304
Increase (decrease) in management fees payable	(24,268)	(30,146)
Cost of investments purchased	(177,934)	(257,320)
Proceeds from investments sold	1,290,023	15,255,054
Net cash flow provided by (used in) operating activities	756,314	15,374,856
Financing Activities		
Payments on redemptions of Preferred Shares	(1,725,590)	(1,869,830)
Payments on redemptions of Class A Shares	(881,789)	(981,143)
Unit issue costs	-	(14,040)
Increase (decrease) in distributions payable to Preferred Shares	(18,623)	(12,488)
Distributions paid to Class A shareholders	-	(344,843)
Net cash flow provided by (used in) financing activities	(2,626,002)	(3,222,344)
Net increase (decrease) in cash and short-term investments	(1,869,688)	12,152,512
Cash and short-term investments - beginning of year	12,401,952	249,440
Cash and short-term investments - end of year	10,532,264	12,401,952

(See accompanying notes to financial statements)

CANADIAN Financials & Utilities Split Corp.

Statement of Investment Portfolio

As at March 31, 2010

	Maturity Date	Par Value / Quantity	Average Cost $	Fair Value $	2010 % of Portfolio	2009 % of Portfolio
Short-Term Investments						
Bankers Acceptance						
Royal Bank of Canada	4/15/2010	1,700,000	1,694,067	1,699,692	16.3%	
Bank of Montreal	4/26/2010	1,400,000	1,398,964	1,399,562	13.4%	
Bank of Nova Scotia	4/26/2010	100,000	99,927	99,969	1.0%	
National Bank of Canada	5/3/2010	800,000	799,448	799,680	7.7%	
Bank of Nova Scotia	5/6/2010	1,900,000	1,897,111	1,899,164	18.2%	
Canadian Imperial Bank of Commerce	6/10/2010	1,050,000	1,044,971	1,048,993	10.0%	
Toronto Dominion Bank	6/23/2010	1,200,000	1,193,760	1,198,555	11.5%	
Bank of Montreal	7/22/2010	1,050,000	1,043,417	1,048,048	10.0%	
Canadian Imperial Bank of Commerce	9/17/2010	1,250,000	1,246,638	1,246,954	11.9%	
			10,418,303	10,440,617	100.0%	
Investments						
Canadian Common stock						
Utilities and Pipelines						
Atco Ltd., Class I		3,990	193,268	203,251	3.4%	
Canadian Utilities, Class A		4,200	182,684	206,136	3.4%	
Emera Inc.		7,750	167,512	190,108	3.1%	
Fortis Inc.		6,475	175,032	186,869	3.1%	
Transalta Corp.		8,200	199,169	183,434	3.0%	
Enbridge Inc.		3,935	153,218	190,611	3.2%	
TransCanada Pipelines Corp.		5,400	205,283	200,988	3.3%	
			1,276,166	1,361,397	22.5%	21.0%
Banks						
Bank of Montreal		7,365	514,007	454,052	7.5%	
Bank of Nova Scotia		8,580	427,626	435,778	7.2%	
Canadian Imperial Bank of Commerce		6,100	606,624	452,254	7.5%	
National Bank of Canada		6,835	425,365	422,608	7.0%	
Royal Bank of Canada		7,290	364,343	432,078	7.2%	
Toronto-Dominion Bank		6,230	418,682	471,424	7.8%	
			2,756,647	2,668,194	44.2%	46.2%
Non-Bank Financials						
Artis Real Estate Investment Trust		10,600	174,421	122,960	2.0%	
Boardwalk Real Estate Investment Trust		3,300	145,286	132,660	2.2%	
CI Financial Income Fund		5,600	147,433	119,896	2.0%	
IGM Financial Inc.		2,900	148,177	129,311	2.2%	
Calloway Real Estate Investment Trust		6,100	176,180	129,320	2.1%	
Canadian Apartment Properties Real Estate Investment Trust		8,500	158,467	121,975	2.0%	
Canadian Real Estate Investment Trust		4,400	140,075	121,660	2.0%	
Cominar Real Estate Investment Trust		6,400	149,163	122,880	2.0%	
Dundee Real Estate Investment Trust		5,100	205,241	130,662	2.2%	
H&R Real Estate Investment Trust		7,400	185,332	122,988	2.0%	
Great West Lifeco		4,800	154,778	139,872	2.4%	
Manulife Financial Corp.		6,200	227,844	123,814	2.0%	
Morguard Real Estate Investment Trust		9,300	135,436	126,852	2.1%	

(See accompanying notes to financial statements)

CANADIAN Financials & Utilities Split Corp.

Statement of Investment Portfolio, Continued

As at March 31, 2010

	Par Value / Quantity	Average Cost $	Fair Value $	2010 % of Portfolio	2009 % of Portfolio
Non-Bank Financials, Continued					
Primaris Retail Real Estate Investment Trust	7,300	133,756	122,640	2.0%	
Riocan Real Estate Investment Trust	6,300	161,168	116,424	2.0%	
Sun Life Financial Inc.	3,920	199,199	127,831	2.1%	
		2,641,956	2,011,745	33.3%	32.8%
Total investments (before transaction costs)		6,674,769	6,041,336	100.0%	100.0%
Transaction costs (note 3)		(297)	-	0.0%	0.0%
Total investments		6,674,472	6,041,336	100.0%	100.0%

(See accompanying notes to financial statements)

1 Formation of Company

CANADIAN Financials & Utilities Split Corp. (the ''Company'') is a mutual fund corporation established under the laws of the Province of Ontario on October 26, 2006, began investment operations on February 06, 2007 and will be terminated on January 31, 2012. The Manager of the Company is Connor, Clark & Lunn Capital Markets Inc. (the "Manager").

2 Investment objectives

Preferred Shares

(i) To provide their holders with quarterly fixed cumulative distributions equal to $0.10625 per Preferred Share ($0.425 per year or 4.25% of the Preferred Share offering price); and
(ii) to repay the original issue price of $10.00 per Preferred Share on redemption of the Preferred Shares on January 31, 2012.

Class A Shares

(i) To provide their holders with tax-efficient regular monthly distributions, expected to be primarily returns of capital;
(ii) the opportunity for capital appreciation and dividend growth on a leveraged basis; and
(iii) low management fees.

In order to meet its investment objectives, the Company invested the net proceeds in a portfolio comprised of Canadian banks, Canadian utilities and pipeline issuers and Canadian non-bank financial issuers (the "Portfolio"), utilizing a split share structure.

The holders of Class A Shares will be entitled to all dividends and distributions received on the Portfolio (net of operating expenses and the Preferred Share distributions). On termination, the Class A Shares will be entitled to the value of the Company in excess of the value of the Preferred Shares.

3 Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates.

Future accounting changes

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

Adoption of New Accounting Standards

CICA Section 3862, "Financial Instruments – Disclosures": In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Company adopted the amendments to Section 3862 as of April 1, 2009. This standard impacted the Company's disclosure provided but did not affect the Company's results or financial position.

EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities": On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The abstract requires the entity's own credit risk and the risk of the counterparty to be taken into consideration in assessing the fair value of financial assets and financial liabilities. The Company adopted the abstract as of April 1, 2009. This abstract did not significantly impact the Company's results or financial position.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("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. Investments are deemed to be categorized as "held for trading" in accordance with CICA Section 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded. Should the quoted value for a security, in the opinion of the Managers, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques.

Cash and short-term investments

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

Income recognition

Interest income is recorded on the accrual basis. Dividend income and distributions from income trusts are recorded on the ex-dividend date. Distributions received from income trusts are recorded as income, capital gains or a return on capital based on the best information available to the trustee.

Preferred share capital

The Company accounts for preferred share capital and retained earnings attributable to preferred shareholders as a financial liability, in accordance with the recommendations contained in CICA Section 3863, Financial Instruments – Presentation.

Value per preferred share

The value per preferred share presented in the statement of net assets represents the assets of the Company less its liabilities (excluding preferred share capital) and the value of Class A Shares outstanding, divided by the number of preferred shares outstanding.

4 Fund administration

The Company has retained RBC Dexia to act as custodian of the assets of the Company. The Custodian is also responsible for certain aspects of the Company's day-to-day operations. In consideration for these services, the Company pays a fee to the Custodian.

5 Units of the Company

The Company is authorized to issue an unlimited number of Preferred Shares, Class A Shares and Class J Shares of which the holders of Class J Shares are not entitled to receive distributions. The holders of the Class J Shares will be entitled to one vote per share. The Class J Shares are redeemable and retractable at a price of $1.00 per share. Holders of Class J Shares are not entitled to distributions (other than returns of capital) on the dissolution, liquidation or winding-up of the Company. A trust established for the benefit of the holders from time to time of the Preferred Shares and the Class A Shares owns all of the issued and outstanding Class J Shares. Each Unit of the Company (the "Unit") consist of one Class A share and one Preferred Share.

Preferred Shares and Class A Shares

The holders of Preferred Shares are entitled to receive quarterly fixed cumulative preferential quarterly distributions of $0.10625 per Preferred Share on the last business day of December, March, June and September.

Preferred Shares and Class A Shares will be redeemed by the Company on January 31, 2012. The redemption price payable by the Company for a Preferred Share on that date will be equal to the lesser of (i) $10.00 plus any accrued and unpaid distributions in respect of the Preferred Shares, and (ii) the NAV of the Company on that date divided by the number of Preferred Shares then outstanding. The redemption price payable by the Company for a Class A Share on that date will be equal to the greater of (i) the NAV per Unit minus the sum of $10.00 and any accrued and unpaid distributions on the Preferred Shares, and (ii) nil.

Preferred Shares and Class A Shares may be surrendered at any time for retraction by the Company but are retracted only on a monthly Retraction Date. Preferred Shares and Class A Shares surrendered for retraction by a Shareholder at least 10 business days prior to a Retraction Date are retracted on such Retraction Date and such Shareholder is paid on or before the 15th day of the following month. Shareholders whose Preferred Shares are retracted on a Retraction Date is entitled to receive a retraction price per share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date less the cost to the Company of the purchase of Class A Share for cancellation, and (ii) $10.00. Shareholders whose Class A Shares are retracted on a Retraction Date is entitled to receive a retraction price per Class A Share equal to 96% of the difference between (i) NAV per Unit determined as of the relevant Retraction Date, and (ii) the cost to the Company of the purchase of a Preferred Share for cancellation. On any monthly retraction of Preferred Shares the Company will purchase for cancellation an equal number of Class A Shares in the market so that there is an equal number of Preferred Shares and Class A Shares outstanding at all times. Likewise, on any monthly retraction of Class A Shares the Company will purchase for cancellation an equal number of Preferred Shares in the market so that there is an equal number of Class A Shares and Preferred Shares outstanding at all times.

A holder of a Preferred Shares and / or Class A Shares may concurrently retract an equal number of Preferred Shares and /or Class A Shares on the Annual Retraction Date of each year, commencing in January 2008, at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.

Preferred Shares rank in priority to the Class A Shares with respect to the payment of distributions and the repayment of capital in the dissolution, liquidation or winding up of the Company.

On February 6, 2007, the Company issued 100 Class J Shares for cash consideration of $100 and 1,500,000 Units at a price of $25.00 ($15.00 per Class A Share and $10 per Preferred Share) for aggregate gross proceeds of $37,500,000. On February 22, 2007, the Agents exercised an over-allotment option in respect of 110,000 Units, raising a further $2,750,000 ($1,650,000 from Class A Shares and $1,100,000 from Preferred Shares). Issue costs of $2,567,000 incurred in connection with the unit issuance have been charged against retained earnings leaving net proceeds of $37,683,000.

During January 2009, the Manager redeemed all units issued to them by the Company for the payment of management fees. There were nil units held by the Manager at year ended March 31, 2010.During the year ended March 31, 2010 the Company issued nil Units to the Manager to pay for $83,605 of accrued management fees (8,106 Units were issued to the Manager to pay for $133,225 of accrued management fees during the year ended March 31, 2009).

The redemptions during the year ended March 31, 2010 were $881,789 for 172,559 of Class A shares and $1,725,590 for 172,559 of Preferred Shares ($981,143 for 186,983 of Class A shares and $1,869,830 for 186,983 of Preferred Shares during the year ended March 31, 2009).

Changes in outstanding units are summarized as follows:

	March 31, 2010			March 31, 2009		
	Class A Shares	**Preferred Shares**	**Class J Shares**	**Class A Shares**	**Preferred Shares**	**Class J Shares**
Balance – Beginning of year	1,219,597	1,219,597	100	1,398,474	1,398,474	100
Shares issued	-	-	-	8,106	8,106	-
Shares redeemed / retracted	(172,559)	(172,559)	-	(186,983)	(186,983)	-
Balance – End of year	1,047,038	1,047,038	100	1,219,597	1,219,597	100

The Company considers capital to include shareholders equity and preferred shares. The Company manages their capital in accordance with the objectives outlined in Note (2).

6 Distributions

Distributions to Class A Shareholders were suspended commencing in December 2008 (see note 2 “Investment objectives”).

The Company has made its scheduled quarterly distributions to Preferred Shareholders of $0.10625, totalling $0.425 per Preferred Share for the year ended March 31, 2010 ($0.10625, totalling $0.65 per Preferred Share for the year ended March 31, 2009).

7 Management fees

Pursuant to a management agreement (“the Management Agreement”) the Company has retained Connor, Clark & Lunn Capital Markets Inc. (“the Manager”) to act as a manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Company, the Manager receives an annual management fee in an amount equal to 0.50% per annum of the net asset value of the Company to be calculated and payable monthly in arrears, plus applicable taxes.

The Management Fee may be paid in cash or Units, at the option of the Manager. To the extent that additional Shares are issued by the Company for this purpose, Units are issued at the net asset value per Unit. The distribution of Units to the Manager as payment of the Management Fee will have the effect of providing additional cash flow for distributions to Shareholders of the Company, while increasing the number of issued and outstanding Units once the distribution is made. The Company has reserved 300,000 Units to be issued to the Manager as payment of the Management Fee.

The total management fees charged to the Company for the year ended March 31, 2010 were $83,605 including GST ($133,225 for the year ended March 31, 2009), and all are payable in Units (see note 5).

8 Leverage agent fee

RBC Dominion Securities Inc. acts as a Leverage Agent (the “Leverage Agent”) for the Company pursuant to the leverage management agreement dated February 6, 2007. The Leverage Agent receives a Leverage Agent Fee equal to 0.15% per annum of the Company’s net asset value calculated and payable monthly in arrears, plus applicable taxes. The Leverage Agent Fee may be paid in cash or Units, at the option of the Leverage Agent. To the extent that additional Shares are issued by the Company for this purpose, Units are issued at the net asset value per Unit. The distribution of Units to the Leverage Agent as payment of the Leverage Agent Fee will have the effect of providing additional cash flow for distributions to Shareholders of the Company, while increasing the number of issued and outstanding Units once the distribution is made. The Company has reserved 300,000 Units to be issued to the Leverage Agent as payment of the Leverage Agent Fee. As at March 31, 2010, the Company has not paid any Leverage Agent Fee through issuance of units.

The total Leverage Agent Fees charged to the Company for the year ended March 31, 2010 (payable in units) were $27,818 including GST ($38,047 for the year ended March 31, 2009).

9 Income taxes

The Company qualifies as a mutual fund corporation as defined by the Income Tax Act (Canada). As a mutual fund corporation the Company 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 Company 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.

As at March 31, 2010, the Company had net capital losses of $10,288,786 (March 31, 2009 - $10,274,711), which may be carried forward indefinitely to reduce future realized capital gains and non-capital losses of $1,349,919 (March 31, 2009 - $892,387), which expire within the next twenty years as shown in the following table:

Year of the realized non-capital tax loss	Amount of tax loss	Expiry date
2007	59,015	2025
2008	407,161	2026
2009	883,743	2028
Total	**1,349,919**	

10 Broker commission charges and soft dollar services

There were $613 in broker commissions paid during the year ended March 31, 2010 ($2,113 for the year ended March 31, 2009) in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

11 Financial instruments

Assets	**2010 $**	**2009 $**
Held for trading	16,573,600	16,989,548
Loans and receivables	50,559	60,945
Total assets	**16,624,159**	**17,050,493**
Liabilities		
Held for trading	–	–
Financial liabilities at amortized cost	10,865,751	12,555,591
Total liabilities	**10,865,751**	**12,555,591**

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

During 2009, Section 3862 was amended to include enhanced disclosures about inputs to fair value measurement. The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at March 31, 2010:

Assets at fair value as at March 31, 2010	Level 1	Level 2	Level 3	Total
Equities	6,041,336	–	–	6,041,336
Short term investments	–	10,440,617	–	10,440,617
Total	**6,041,336**	**10,440,617**	–	**16,481,953**

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. Instruments classified into Level 3 are using valuation models that employ unobservable inputs.

Equities: The Company's long equity positions are classified as Level 1 as all these securities are actively traded and a reliable quote is observable.

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

There were no transfers among the three levels during the year ended March 31, 2010.

12 Financial instrument risk

The Company may be exposed to a variety of financial risks which are described below. The Company's exposure to these risks is concentrated in its investment holdings. In determining the risks that apply, and the extent to which they apply, reference should be made to the Statement of Investment Portfolio that groups securities by asset class and market segment. The Manager is limited to the extent it can mitigate the potential effects of these financial risks on the Company's performance because of restrictions imposed by its prospectus. On at least an annual basis, the Manager is required to rebalance the weights of the securities in the Portfolio to their weights at inception. All rebalancing trades require the confirmation of DBRS, the rating agency that rates the Preferred Shares. Investments are restricted to securities issued by one of the six largest Canadian banks, one of the Canadian utilities or pipeline issuers included in the S&P/TSX Composite Index and Canadian non-bank financial issuers.

Interest rate risk

Interest rate risk is the risk that the fair value of the Company's interest-bearing investments will fluctuate due to changes in prevailing interest rates. The Company's exposure to interest rate risk is concentrated in its investment in debt securities (typically short-term investments). Other assets and liabilities are short-term in nature and non-interest bearing. The table below summarizes the Company's exposure to interest rate risks. It includes the Company's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

As at March 31, 2010:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	–	–	6,041,336	**6,041,336**
Cash and short term notes	10,440,617	–	–	–	91,647	**10,532,264**
Other assets	–	–	–	–	50,559	**50,559**
Liabilities	–	–	–	–	(10,865,751)	**(10,865,751)**
Net assets						**5,758,408**

As at March 31, 2009:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	–	–	4,587,596	**4,587,596**
Cash and short term notes	12,382,199	–	–	–	19,753	**12,401,952**
Other assets	–	–	–	–	60,645	**60,645**
Liabilities	–	–	–	–	(12,555,591)	**(12,555,591)**
Net assets						**4,494,902**

As at March 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 $18,000 (2009 - $6,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The credit exposure of cash, short term investments and other assets is represented by their carrying amount.

As at March 31, 2010, the Company was exposed to credit risk through its investment in short-term debt instruments. All of the short-term investments were rated "A-1" or better by Standard & Poor's.

Currency risk

Currency risk is the risk that the value of monetary assets and liabilities denominated in currencies other than the Canadian dollar (the functional currency of the Company) will fluctuate due to changes in foreign exchange rates.

As at March 31, 2010, currency risk was negligible as the Company had no exposure to foreign currencies.

Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Company's equity investments 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 March 31, 2010, all other variables held constant, the net assets of the Company would have increased or decreased, respectively, by approximately $604,000 (2009 - $459,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company's exposure to liquidity risk is concentrated in the quarterly distributions on its Preferred Shares, monthly distributions on its Class A Shares and retraction of its Preferred Shares and Class A Shares on a monthly basis and unlimited concurrent retractions on annual basis in January of each year. The Company invests primarily in securities that are traded in active markets and can be readily disposed for working capital purposes. In addition, the Company retains sufficient cash and short term investments to maintain minimum liquidity. In the event liquidity is compromised, the Leverage Agent is required to sell Portfolio securities and invest the proceeds in cash or short term investments to be used to fund distributions to, and eventual redemption of, the Preferred Shares. The manager may also suspend distributions on the Class A shares. During December 2008, these mechanisms were utilized to maintain liquidity (See Note 2 "Investment objectives"). All liabilities are due within three months.

Concentration risk

The investments of the Company are concentrated in the in the Financial sector, and will be especially affected by factors particular to this sector. Factors influencing this sector may include changes in government policy, fluctuations in the capital markets and conditions of the overall economy. Changes that specifically affect the provision of financial services may cause the Net Assets of the Company to be more volatile than the value of a more broadly diversified portfolio.

The Statement of Investments summarizes the Company's exposure to the concentration risk.