



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**CANADIAN Financials
& Utilities Split Corp.**

Annual Report
March 31, 2009

June 12, 2009

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, 2009. The Company was created to provide investors with a low cost, diversified investment in a high quality, passive portfolio comprised of Canadian banks, utilities and pipeline issuers and non-bank financial issuers, 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 generating stable cash flows.

The past year has characterized by extreme and unprecedented economic weakness and market conditions during which time the benchmark S&P/TSX Composite Index dramatically fell to its lowest level in more than five years. The Company's portfolio was not immune to weakness in the market. The Company's split-share structure results in structural leverage for the Class A Shares which amplifies the impact of the return on the Company's portfolio on the net asset value of the Class A Shares. The weakness in the Company's portfolio amplified by the Company's structure resulted in a significant reduction in the net asset value of the Class A Shares during the period.

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 during 2008, under the terms of this unique mechanism, portfolio investments were sold in November 2008 and the proceeds were invested in cash. The de-leveraging mechanism provides 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 continue to be rated P-1 by DBRS. Following the sale of portfolio securities, the Class A Shares continue to have exposure to the portfolio but on a non-leveraged basis and distributions on the Class A Shares were suspended beginning in December. The removal of structural leverage benefitted the Class A Shares as the Company's investments followed the broader market's decline in value over the balance of the period under review. Should the portfolio continue to decline in value, the removal of leverage will lessen the impact of any further decline on the performance of the Class A Shares.

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 grew to approximately \$7.37, the cash raised will be re-invested in securities of 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
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.**

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, 2009.

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.

The value of the Company's portfolio declined significantly during the year, a period characterized by extreme and unprecedented market conditions and economic weakness, and has declined by more than 34% since its inception. As a result, under the terms of the prospectus, on November 20, 2008 RBC Dominion Securities Inc. ("RBC"), in its capacity as the Company's Leverage Agent, was required to sell portfolio securities and invest the proceeds 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 continue to have a high rating from DBRS. Following the sale of portfolio securities, the Class A Shares continue to have exposure to the portfolio on a non-leveraged basis and distributions on the Class A Shares were suspended beginning in December. Should the portfolio continue to decline in value, the removal of leverage will lessen the impact of any further decline on the performance of the Class A Shares.

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 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 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. Consequently, the potential portfolio returns, positive or negative, will be amplified for Class A investors. As at March 31, 2009, the debt to equity ratio (the ratio of Preferred Share capital to the net assets of the Class A Shares) was 271.4%. As a result, a 1.00% change in the value of the portfolio would have resulted in a 3.7% change in the value of the Class A Shares. The debt to equity ratio will increase as net asset value decreases and vice versa. The effects of leverage on 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 Fund took place over the period. The risks of investing in the Company's shares are described in the prospectus dated January 30, 2007.

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.

The leveraged exposure of the Class A Shares to the Company's portfolio negatively affected the performance during the period. For the year ending March 31, 2009, the Class A Shares generated a total return of -62.95%. Each of the three sectors the Company maintains passive exposure to contributed negatively to performance of the portfolio, including utilities which have typically been a safe harbour in troubled markets. Canadian banks, which represented 51.3% of the Company's portfolio as at March 31, 2009, returned -28.6% over the same period as measured by the S&P/TSX Banks Index. Non-bank financials, comprised primarily of Canadian REITs and insurance companies, represented 29.3% of the

Company's portfolio at year-end. The S&P/TSX REIT Index and S&P/TSX Insurance Index produced one-year returns of -44.7% and -52.2%, respectively. Utilities and pipeline companies accounted for the balance of the Company's portfolio and returned -29.5% during the year as measured by the S&P/TSX Utilities Index.

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.

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 fund's assets increases, the level of leverage as a percentage of the fund'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, 2009 was 71.9%.

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, 2009 was approximately 0.6 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.

Liquidity and Capital Resources

As at March 31, 2009, the Company had current assets of \$12,460,117. Current liabilities, including distributions accrued but not yet paid, totalled \$351,841.

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 retractions during the year ended March 31, 2009, were \$981,143 for 186,983 of Class A Shares and \$1,869,830 for 186,983 of Preferred Shares.

Distributions

Distributions to Class A Shareholders have been suspended beginning December 2008 (see "Investment Objectives" section above). The Company has made its scheduled distributions during the period ended November 30, 2008 to Class A Shareholders, paying regular monthly distributions of \$0.028 per Class A Share to holders of record on the last business day of each month totalling \$0.224 per share.

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, 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.

The total Management Fees charged to the Company for the year ended March 31, 2009 were \$133,225 including GST. All Management Fees paid to date have been paid in Units.

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, 2009 were \$38,047 including GST. All Leverage Agent fees paid to date have been paid in Units.

Recommendations or Reports by the Independent Review Committee

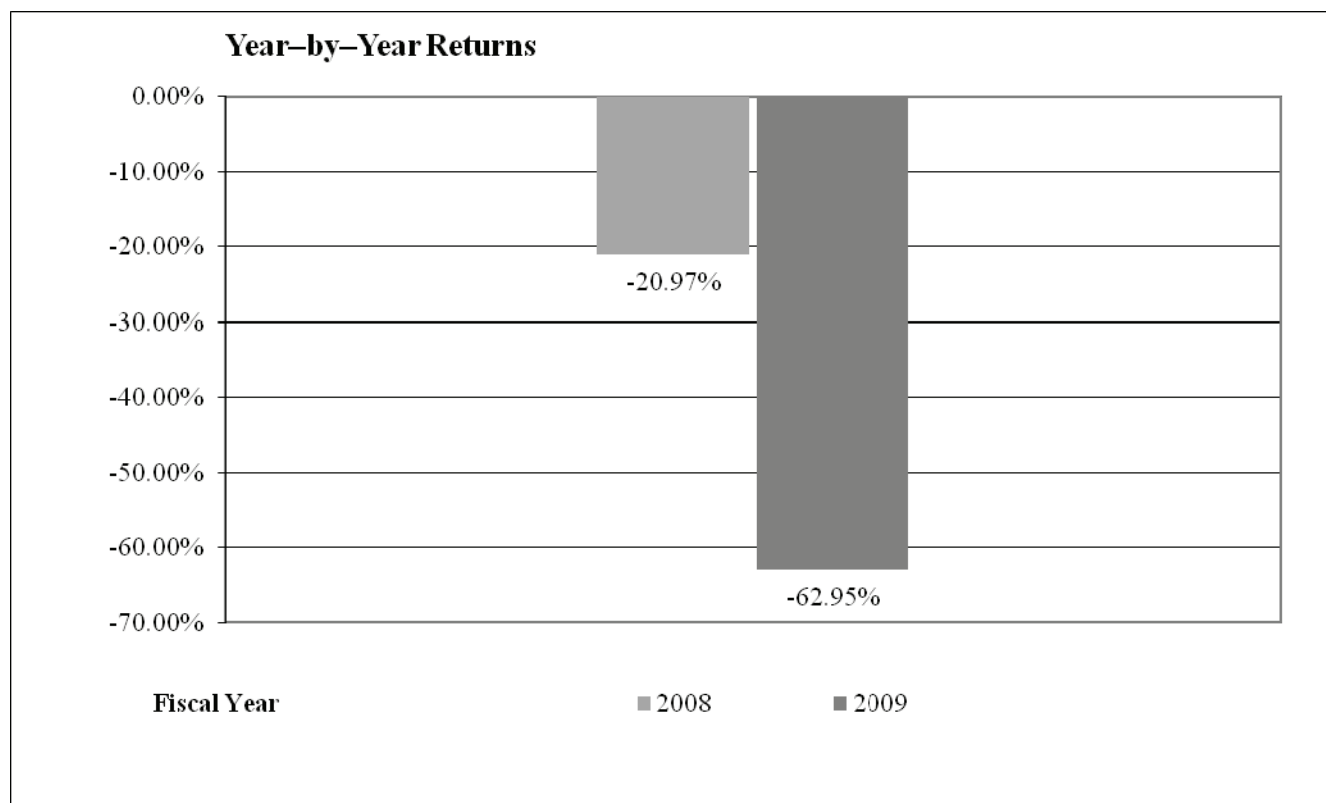
The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Company during the year ended March 31, 2009.

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 | Since Inception ⁽¹⁾ |
|-------------------------|-----------|--------------------------------|
| Based on NAV | -62.95% | -43.69% |
| Based on share price | -60.28% | -50.51% |
| S&P/TSX Composite Index | -34.68% | -17.50% |

⁽¹⁾ Annualized for the period February 6, 2007 (Commencement of operations) to March 31, 2009.

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, 2009 | March 31, 2008 | March 31, 2007 ⁽¹⁾ |
|--|----------------|----------------|-------------------------------|
| Net Assets, beginning of period | 20.23 | 23.24 | 25.00 |
| Increase (decrease) from operations: | | | |
| Total revenues | 0.78 | 0.94 | 0.15 |
| Total expenses | (0.28) | (0.33) | (0.62) |
| Share issue expense ⁽³⁾ | (0.01) | (0.01) | (1.16) |
| Realized gains (losses) for the period | (7.47) | 0.10 | – |
| Unrealized gains (losses) for the period | 1.06 | (3.01) | (0.12) |
| Total increase (decrease) from operations^{(4) (5)} | (5.92) | (2.31) | (1.75) |
| Distributions: | | | |
| From income (excluding dividends) | – | – | – |
| From dividends | (0.26) | (0.25) | (0.05) |
| From capital gains | – | – | – |
| Return of capital | (0.39) | (0.45) | (0.06) |
| Total Distributions⁽⁵⁾ | (0.65) | (0.70) | (0.11) |
| Net Assets, end of period⁽⁶⁾ | 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 paid by the Class A Shares are expected to consist primarily of dividends for tax purposes.

⁽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, 2009 | March 31, 2008 | March 31, 2007 ⁽¹⁾ |
|---|----------------|----------------|-------------------------------|
| Net assets, excluding liability for Preferred Shares (\$000's) | \$16,696 | \$28,284 | \$37,418 |
| Net assets (\$000's) | \$4,495 | \$14,300 | \$21,318 |
| Number of units outstanding | 1,219,597 | 1,398,474 | 1,610,000 |
| Base Management expense ratio ^{(2) (3)} | 1.60% | 1.42% | 1.79% |
| Management expense ratio ^{(3) (4)} | 4.06% | 3.37% | 10.88% |
| Management expense ratio before waivers or absorptions ^{(3) (4)} | 4.06% | 3.37% | 10.88% |
| Portfolio turnover rate ⁽⁵⁾ | 1.09% | 1.31% | 0.00% |
| Trading expense ratio ⁽⁶⁾ | 0.01% | 0.00% | 0.49% |
| Net asset value per share | 13.69 | 20.23 | 23.24 |
| Closing market price (TSX) – Class A Share | \$3.03 | \$7.86 | \$14.54 |
| Closing market price (TSX) – Preferred Share | \$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 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's 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, 2009

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 | 12,401,952 | 74.3% |
| Banks | 2,116,147 | 12.7% |
| Non-Bank Financials | 1,508,177 | 9.0% |
| Utilities and Pipelines | 963,272 | 5.8% |
| Top 25 Holdings | | |
| Cash & Short term investments | 12,401,952 | 74.3% |
| Royal Bank of Canada | 394,416 | 2.4% |
| National Bank of Canada | 374,418 | 2.2% |
| Toronto-Dominion Bank | 356,372 | 2.1% |
| Bank of Nova Scotia | 345,876 | 2.1% |
| Bank of Montreal | 328,700 | 2.0% |
| Canadian Imperial Bank of Commerce | 316,365 | 1.9% |
| Atco Ltd., Class I | 150,948 | 0.9% |
| Canadian Utilities Ltd., Class A | 143,325 | 0.9% |
| Fortis Inc. | 139,419 | 0.8% |
| Enbridge Inc. | 138,130 | 0.8% |
| TransCanada Pipelines Corp. | 136,942 | 0.8% |
| Emera Inc. | 130,893 | 0.8% |
| Transalta Corp. | 123,615 | 0.7% |
| Dundee Real Estate Investment Trust | 110,229 | 0.7% |
| Morguard Real Estate Investment Trust | 102,720 | 0.6% |
| Great West Lifeco Inc. | 99,064 | 0.6% |
| Canadian Real Estate Investment Trust | 99,050 | 0.6% |
| Boardwalk Real Estate Investment Trust | 98,496 | 0.6% |
| Artis Real Estate Investment Trust | 97,656 | 0.6% |
| IGM Financial Inc. | 97,312 | 0.6% |
| H&R Real Estate Investment Trust | 97,280 | 0.6% |
| CI Financial Corp. | 94,316 | 0.6% |
| Canadian Apartment Properties Real Estate Investment Trust | 93,525 | 0.6% |
| Calloway Real Estate Investment Trust | 92,907 | 0.6% |
| Net asset value (NAV) | \$16,695,872 | |

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

June 12, 2009

June 12, 2009

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.** as at March 31, 2009, the statements of net assets as at March 31, 2009 and 2008 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, 2009 and 2008 and the results of its operations, the changes in its shareholders' equity, its 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, 2009 and 2008

| | 2009 | 2008 |
|---|--------------------------|--------------------------|
| | \$ | \$ |
| Assets | | |
| Cash | 19,753 | 51,194 |
| Short-term investments | 12,382,199 | 198,246 |
| Investments at fair value (cost - \$8,055,259; 2008 - \$33,158,132) | 4,587,596 | 28,254,528 |
| Interest and dividends receivable | 43,428 | 139,569 |
| Prepaid expenses | 17,517 | 28,423 |
| | <u>17,050,493</u> | <u>28,671,960</u> |
| Liabilities | | |
| Distributions payable to Preferred Shares | 136,100 | 148,588 |
| Distributions payable to Class A Shares | - | 36,360 |
| Payable for investment purchases | 4,710 | - |
| Accounts payable and accrued liabilities | 187,234 | 140,930 |
| Management fees payable | 31,577 | 61,723 |
| Preferred share capital (note 5) | 12,195,970 | 13,984,740 |
| | <u>12,555,591</u> | <u>14,372,341</u> |
| Shareholders' Equity | | |
| Class A and Class J share capital (note 5) | 16,384,520 | 19,047,493 |
| Retained earnings (Deficit) | (14,056,499) | (5,349,166) |
| Contributed surplus | 2,166,881 | 601,292 |
| | <u>4,494,902</u> | <u>14,299,619</u> |
| Total Liabilities and Shareholders' Equity | <u>17,050,493</u> | <u>28,671,960</u> |
| | | |
| Number of units ⁽¹⁾ outstanding (note 5) | 1,219,597 | 1,398,474 |
| Net assets per unit ⁽¹⁾ | 13.69 | 20.23 |
| Net assets per Class A Share outstanding | 3.69 | 10.23 |
| Number of Preferred Shares outstanding (note 5) | 1,219,597 | 1,398,474 |
| 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



Director



Director

CANADIAN Financials & Utilities Split Corp.

Statements of Operations

For the years ended March 31, 2009 and 2008

| | 2009 | 2008 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Income | | |
| Dividends | 978,799 | 1,445,506 |
| Interest | 71,011 | 9,825 |
| | <u>1,049,810</u> | <u>1,455,331</u> |
| Expenses | | |
| Management fees (note 7) | 133,225 | 185,735 |
| Service fees | 55,257 | 99,870 |
| Leverage agent fee (note 8) | 38,047 | 55,720 |
| Custodial and other unitholders' fees | 25,654 | 28,146 |
| Audit fees | 20,916 | 28,846 |
| Board of Directors fees | 20,131 | 20,332 |
| Other | 8,106 | 639 |
| Administration fees | 17,764 | 17,255 |
| Transfer agent fees | 19,384 | 18,020 |
| Legal fees | 12,085 | 12,151 |
| Listing fees | 11,574 | 12,995 |
| Filing fees | 13,553 | 8,208 |
| Printing fees | 3,387 | 3,335 |
| Insurance premium fees | 1,913 | 537 |
| Transaction costs (note 10) | 2,113 | 3,468 |
| IRC fees | 1,927 | - |
| Interest expense | 53 | 276 |
| Expenses of issue of Preferred Shares | - | 9,060 |
| | <u>385,089</u> | <u>504,593</u> |
| Net investment income before distributions on Preferred Shares | 664,721 | 950,738 |
| Distributions on Preferred Shares | <u>(574,176)</u> | <u>(654,018)</u> |
| Net investment income | 90,545 | 296,720 |
| Net realized gain (loss) on investments | (10,109,849) | 159,894 |
| Change in unrealized gain (loss) on investments | <u>1,435,941</u> | <u>(4,685,874)</u> |
| Increase (decrease) in net assets from operations | <u>(8,583,363)</u> | <u>(4,229,260)</u> |
| Increase (decrease) in net assets from operations per unit * | <u>(6.34)</u> | <u>(2.30)</u> |
| Distributions per unit | <u>0.65</u> | <u>0.70</u> |

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

CANADIAN Financials & Utilities Split Corp.

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

For the years ended March 31, 2009 and 2008

| | 2009 | 2008 |
|--|---------------------|--------------------|
| | \$ | \$ |
| Changes in shareholders' equity | | |
| Class A and Class J share capital - beginning of year | 19,047,493 | 22,279,737 |
| Class A shares issued to the manager (notes 5&7) | 82,312 | 83,948 |
| Expenses of issue of class A shares | (14,040) | (13,590) |
| Distributions to class A shareholders from return of capital | (184,513) | (280,805) |
| Payments on redemption of class A shares | (981,143) | (2,420,505) |
| Cost of shares repurchased at less than the original issue price | <u>(1,565,589)</u> | <u>(601,292)</u> |
| Class A and Class J share capital - end of year | <u>16,384,520</u> | <u>19,047,493</u> |
| Changes in Deficit | | |
| Deficit - beginning of year | (5,349,166) | (961,276) |
| Increase (decrease) in net assets from operations | (8,583,363) | (4,229,260) |
| Distributions to class A shareholders from dividends | <u>(123,970)</u> | <u>(158,630)</u> |
| Deficit - end of year | <u>(14,056,499)</u> | <u>(5,349,166)</u> |
| Contributed surplus | | |
| Contributed surplus, beginning of year | 601,292 | - |
| Cost of shares repurchased at less than the original issue price | <u>1,565,589</u> | <u>601,292</u> |
| Contributed surplus, end of year | <u>2,166,881</u> | <u>601,292</u> |

CANADIAN Financials & Utilities Split Corp.

Statements of Cash Flow

For the years ended March 31, 2009 and 2008

| | 2009 | 2008 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Operating Activities | | |
| Increase (decrease) in net assets from operations | (8,583,363) | (4,229,260) |
| Items not affecting cash: | | |
| Net realized (gain) loss on investments | 10,109,849 | (159,894) |
| Change in unrealized (gain) loss on investments | (1,435,941) | 4,685,874 |
| Class A shares issued to the manager (notes 5&7) | 82,312 | 83,948 |
| Preferred Shares shares issued to the manager (notes 5&7) | 81,060 | 68,390 |
| Changes in non-cash working capital | | |
| (Increase) decrease in interest and dividends receivable | 96,141 | 674 |
| (Increase) decrease in prepaid expenses | 10,906 | (28,423) |
| Increase (decrease) in distributions payable to Preferred Shares | (12,488) | 35,888 |
| Increase (decrease) in accounts payable and accrued liabilities | 46,304 | (523,540) |
| Increase (decrease) in management fees payable | (30,146) | 33,397 |
| Cost of investments purchased | (257,320) | (456,751) |
| Proceeds from investments sold | 15,255,054 | 5,090,411 |
| Net cash flow provided by (used in) operating activities | <u>15,362,368</u> | <u>4,600,714</u> |
| Financing Activities | | |
| Payments on redemptions of Preferred Shares | (1,869,830) | (2,183,650) |
| Payments on redemptions of Class A Shares | (981,143) | (2,420,505) |
| Unit issue costs | (14,040) | (13,590) |
| Distributions paid to Class A shareholders | (344,843) | (438,495) |
| Net cash flow provided by (used in) financing activities | <u>(3,209,856)</u> | <u>(5,056,240)</u> |
| Net increase (decrease) in cash and short-term investments | 12,152,512 | (455,526) |
| Cash and short-term investments - beginning of year | <u>249,440</u> | <u>704,966</u> |
| Cash and short-term investments - end of year | <u>12,401,952</u> | <u>249,440</u> |

CANADIAN Financials & Utilities Split Corp.

Statement of Investment Portfolio

As at March 31, 2009

| | Maturity Date | Par Value / Quantity | Average Cost \$ | Fair Value \$ | % of Portfolio |
|--|------------------|-------------------------|-----------------------|---------------------|----------------------|
| Short Term Investments | | | | | |
| Treasury bills | | | | | |
| Canada Treasury Bills | 4/2/2009 | 9,250,000 | 9,236,680 | 9,236,680 | 74.6% |
| Canada Treasury Bills | 4/30/2009 | 650,000 | 648,703 | 648,703 | 5.2% |
| Bankers acceptance | | | | | |
| Canadian Imperial Bank of Commerce | 6/25/2009 | 1,300,000 | 1,298,388 | 1,298,388 | 10.5% |
| Bearer deposit notes | | | | | |
| Bank of Nova Scotia | 6/8/2009 | 1,200,000 | 1,198,428 | 1,198,428 | 9.7% |
| | | | <u>12,382,199</u> | <u>12,382,199</u> | <u>100.0%</u> |
| Investments | | | | | |
| Canadian common stock | | | | | |
| Utilities and Pipelines | | | | | |
| Atco Ltd., Class I | | 4,200 | 204,064 | 150,948 | 3.3% |
| Canadian Utilities, Class A | | 3,900 | 169,517 | 143,325 | 3.1% |
| Emera Inc. | | 6,900 | 147,022 | 130,893 | 2.9% |
| Fortis Inc. | | 6,300 | 169,299 | 139,419 | 3.0% |
| Transalta Corp. | | 6,700 | 165,929 | 123,615 | 2.7% |
| Enbridge Inc. | | 3,800 | 144,602 | 138,130 | 3.0% |
| TransCanada Pipelines Corp. | | 4,600 | 177,851 | 136,942 | 3.0% |
| | | | <u>1,178,284</u> | <u>963,272</u> | <u>21.0%</u> |
| Banks | | | | | |
| Bank of Montreal | | 10,000 | 697,904 | 328,700 | 7.2% |
| Bank of Nova Scotia | | 11,100 | 553,222 | 345,876 | 7.5% |
| Canadian Imperial Bank of Commerce | | 6,900 | 686,182 | 316,365 | 6.9% |
| National Bank of Canada | | 9,300 | 578,770 | 374,418 | 8.2% |
| Royal Bank of Canada | | 10,800 | 539,768 | 394,416 | 8.6% |
| Toronto-Dominion Bank | | 8,200 | 551,074 | 356,372 | 7.8% |
| | | | <u>3,606,920</u> | <u>2,116,147</u> | <u>46.2%</u> |
| Non-Bank Financials | | | | | |
| Artis Real Estate Investment Trust | | 15,600 | 256,695 | 97,656 | 2.1% |
| Boardwalk Real Estate Investment Trust | | 3,800 | 167,299 | 98,496 | 2.1% |
| CI Financial Income Fund | | 6,800 | 179,026 | 94,316 | 2.1% |
| IGM Financial Inc. | | 3,200 | 163,506 | 97,312 | 2.1% |
| Calloway Real Estate Investment Trust | | 9,300 | 268,602 | 92,907 | 2.0% |
| Canadian Apartment Properties Real Estate Investment Trust | | 7,500 | 144,117 | 93,525 | 2.0% |
| Canadian Real Estate Investment Trust | | 5,000 | 159,176 | 99,050 | 2.2% |
| Cominar Real Estate Investment Trust | | 6,400 | 149,163 | 86,144 | 1.9% |
| Dundee Real Estate Investment Trust | | 8,700 | 350,117 | 110,229 | 2.4% |
| H&R Real Estate Investment Trust | | 12,800 | 320,574 | 97,280 | 2.1% |
| Great West Lifeco | | 5,600 | 180,574 | 99,064 | 2.2% |
| Manulife Financial Corp. | | 5,000 | 203,952 | 70,850 | 1.5% |
| Morguard Real Estate Investment Trust | | 10,700 | 155,824 | 102,720 | 2.2% |

CANADIAN Financials & Utilities Split Corp.

Statement of Investment Portfolio Continued

As at March 31, 2009

| | Par Value / Quantity | Average Cost \$ | Fair Value \$ | % of Portfolio |
|---|-------------------------|-----------------------|---------------------|----------------------|
| Non-Bank Financials... Continued | | | | |
| Primaris Retail Real Estate Investment Trust | 10,100 | 185,059 | 91,708 | 2.0% |
| Riocan Real Estate Investment Trust | 7,000 | 179,075 | 87,080 | 1.9% |
| Sun Life Financial Inc. | 4,000 | 207,462 | 89,840 | 2.0% |
| | | <u>3,270,221</u> | <u>1,508,177</u> | <u>32.8%</u> |
| Total investments (before transaction costs) | | <u>8,055,425</u> | <u>4,587,596</u> | <u>100.0%</u> |
| Transaction costs (note 3) | | <u>(166)</u> | <u>-</u> | <u>0.0%</u> |
| Total investments | | <u>8,055,259</u> | <u>4,587,596</u> | <u>100.0%</u> |

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements

March 31, 2009

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.

The value of the Company's portfolio has declined significantly in recent months, a period characterized by extreme and unprecedented market conditions and economic weakness, and has declined by more than 34% since its inception. As a result, under the terms of the prospectus, RBC Dominion Securities Inc. ("RBC"), in its capacity as the Leverage Agent, is required to sell portfolio securities and invest the proceeds 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 continue to have a high rating from DBRS. Following the sale of portfolio securities, the Class A Shares continue to have exposure to the portfolio on a non-leveraged basis and distributions on the Class A Shares were suspended beginning in December 2008. Should the portfolio continue to decline in value, the removal of leverage will lessen the impact of any further decline on the performance of the Class A Shares.

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, additional funds will be re-invested in securities of 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.

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

The Canadian Accounting Standards Board ("AcSB") confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. IFRS will apply to fiscal years beginning on or after January 1, 2011. As of March 31, 2009 the manager has not developed a changeover plan to IFRS nor has it assessed the impact of IFRS on business arrangements, net asset value per unit and accounting policies. The Manager will develop a plan prior to the January 1, 2011 deadline and will disclose this plan in the Company's 2010 annual reports.

Recent accounting pronouncements

On April 1, 2008, the Company adopted the new CICA Section 1535 of, Capital Disclosures, which requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacted the Company's disclosures provided but did not affect the Company's results or financial position.

On April 1, 2008 the Company adopted the new CICA Section 3862, Financial Instruments – Disclosures ("Section 3862") and CICA Section 3863, Financial Instruments – Presentation ("Section 3863") which replaced CICA Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards impacted the Company's disclosures provided but did not affect the Company's results or financial position.

Valuation of investments

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. Fair value is determined by the Managers on the basis of the most recently reported information for the security, similar securities and the markets in which the

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements

March 31, 2009

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.

On April 1, 2007, the Company adopted CICA Section 3855 for financial reporting purposes ("GAAP Net Assets"). Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for the security. In addition, Section 3855 requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Company be charged to net income in the period.

On September 8, 2008, the Canadian Securities Administration issued the amended National Instrument 81-106 ("NI 81-106"). Section 14.2 of this amended NI 81-106 requires an investment fund to calculate its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day). The Company did not change its methodology in this respect.

There were no differences between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Section 3855.

Cash and short term investments

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

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.

4 Fund administration

Pursuant to a custodian agreement ("the Custodian Agreement"), 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.

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 the year ended March 31, 2009 the Company issued 8,106 Units to the Manager to pay for \$133,225 of accrued management fees (6,839 Units were issued to the Manager to pay for \$152,338 of accrued management fees during the year ended March 31, 2008).

The redemptions during the year ended March 31, 2009 were \$981,143 for 186,983 of Class A shares and \$1,869,830 for 186,983 of Preferred Shares (\$2,420,505 for 218,365 of Class A shares and \$2,183,650 for 218,365 of Preferred Shares during the year ended March 31, 2008).

Changes in outstanding units are summarized as follows:

| | March 31, 2009 | | | March 31, 2008 | | |
|-----------------------------|----------------|------------------|----------------|----------------|------------------|----------------|
| | Year Ended | Year Ended | Year Ended | Year Ended | Year Ended | Year Ended |
| | Class A Shares | Preferred Shares | Class J Shares | Class A Shares | Preferred Shares | Class J Shares |
| Balance – Beginning of year | 1,398,474 | 1,398,474 | 100 | 1,610,000 | 1,610,000 | 100 |
| Shares issued | 8,106 | 8,106 | - | 6,839 | 6,839 | - |
| Shares redeemed / retracted | (186,983) | (186,983) | - | (218,365) | (218,365) | - |
| Balance – End of year | 1,219,597 | 1,219,597 | 100 | 1,398,474 | 1,398,474 | 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).

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements

March 31, 2009

6 Distributions

Distributions to Class A Shareholders were suspended commencing in December 2008 (see note 2 "Investment objectives"). The Company has made its scheduled distributions to Class A Shareholders for the period from April 1, 2008 to ended November 30, 2008 paying regular monthly distributions of \$0.028 totalling \$0.224 per share (\$0.022 per share, for April to October 2007 period and \$0.026 for November 2007 to March 2008 period, totalling \$0.284 per share).

The Company has also made its scheduled quarterly distributions to Preferred Shareholders of \$0.10625, totalling \$0.425 per Preferred Share for the year ended March 31, 2009 (\$0.10625, totalling \$0.425 per Preferred Share for the year ended March 31, 2008).

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, 2009 were \$133,225 including GST (\$185,735 for the year ended March 31, 2008), and all will be paid 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.

The total Leverage Agent Fees charged to the Company for the year ended March 31, 2009 (all paid in units) were \$38,047 including GST (\$55,720 for the year ended March 31, 2008).

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.

10 Broker commission charges and soft dollar services

There were \$2,113 in broker commissions paid during the year ended March 31, 2009 (\$3,468 for the year ended March 31, 2008) in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

11 Financial instruments

| | |
|---|-------------------|
| Assets | \$ |
| Held for trading | 16,989,548 |
| Loans and receivables | 60,945 |
| Total assets | 17,050,493 |
| Liabilities | |
| Held for trading | - |
| Financial liabilities at amortized cost | 12,555,591 |
| Total liabilities | 12,555,591 |

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements

March 31, 2009

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.

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.

| | 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, 2009, 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 \$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, 2009, 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, 2009, currency risk was negligible as the Company had no significant 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, 2009, all other variables held constant, the net assets of the Company would have increased or decreased, respectively, by approximately \$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").