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**CANADIAN Financials
& Utilities Split Corp.**Semi-Annual Report
September 30, 2008

November 28, 2008

Dear Investor,

We are pleased to provide you with the semi-annual report for the CANADIAN Financials and Utilities Split Corp. (the "Company") for the six-month period ending September 30, 2008. 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 of issuers in these sectors that have a history of strong dividend growth and generating stable cash flows.

The Class A Shares were designed to provide investors with leveraged exposure to price appreciation and dividend growth as well as tax-efficient regular monthly distributions, expected to be primarily returns of capital. In April 2008 distributions were increased to \$0.028 resulting in a 40% cumulative total increase since the Company's inception. 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 \$0.2125 per preferred share during the period under review.

In April 2008 distributions payable to holders of Class A Shares were increased to \$0.028 resulting in a 40% cumulative total increase since the Company's inception. The Class A Shares are leveraged investments by virtue of the Preferred Shares. As a result, the negative performance of the Company's portfolio had greater impact on the Class A Shares. During the period, several passive investments in the utilities and pipelines and non-bank financials sectors generated negative returns while select Canadian banks posted slightly positive returns after a period of significant weakness.

Subsequent to the end of the period, the Company's portfolio declined significantly in a period characterized by extreme and unprecedented market conditions and economic weakness. As a result, under the terms of the leveraging and deleveraging mechanism, portfolio securities were sold and the proceeds invested in cash and 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 will be 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 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.

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 semi-annual management report of fund performance for CANADIAN Financials & Utilities Split Corp. (the “Company”) contains financial highlights but does not contain the complete semi-annual financial statements of the Company. **The semi-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 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 CANADIAN Financials & Utilities Split Corp. (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 September 30, 2008.

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.

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 a merger, acquisition or other significant corporate actions or events affecting the Portfolio Securities, and (iii) in order to maintain the Interest Coverage Ratio at greater than 1.5 times. Trades affected 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 September 30, 2008, the debt to equity ratio (the ratio of Preferred Share capital to the net assets of the Class A Shares) was 107.6%. As a result, a 1.00% change in the value of the portfolio would have resulted in a 2.07% change in the value of the Class A Shares. The debt to equity ratio will increase as net asset value decreases and vice versa. 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

Portfolio Manager Commentary

All scheduled distribution payments have been made since inception of the Company to holders of the Preferred Shares and Class A Shares, respectively. In April 2008 distributions were increased to \$0.028 resulting in a 40% cumulative total increase since the Company's inception.

The leveraged exposure of the Class A Shares to the Company's portfolio negatively affected the performance during the period. For the six-month period ending September 30, 2008, the Class A Shares generated a total return of -7.65%. Over the same period, the S&P/TSX Canadian Bank and REIT sub-indices produced total returns of 3.3% and -5.5%, respectively, while utilities, as measured by the S&P/TSX Utilities Index, generated a return of -10.0%. As at September 30, 2008, Canadian banks represented 42.9% of the Company's portfolio, followed by non-bank financials, which includes REITs, at 35.9% and utility and pipelines at 21.2%.

During the third quarter, Canadian banks were the strongest performing sector and utilities were the weakest sector, reversing a trend from the previous two quarters. Royal Bank, CIBC and Bank of Montreal led the performance of the Company's portfolio with total returns of 11.4%, 10.4% and 9.7%, respectively during the quarter. The portfolio also had positive contributions from Great West Lifeco and Manulife Financial which generated returns of 8.7% and 8.1%, respectively. Both insurers increased their payments to investors with Manulife raising its dividend by 8.3% and Great West raising its dividend by 5.1%.

Despite the positive contribution from the banking sector and select insurers, it was not sufficient to offset the weakness in the remainder of the portfolio and in particular the utilities and pipelines sector. Notwithstanding the weakness in the past quarter, pipeline and utility stocks have historically performed well in down markets and many are well positioned to weather the credit market storm. Many companies have good liquidity and the ability to pass through higher funding costs as part of their regulatory frameworks and/or customer agreements. Transalta was among the weakest performers in the sector. In July, Transalta's board received an offer from private equity players to acquire the company at \$39 per share. The imbedded takeover premium in the company's share price subsequently disappeared with the onset of the credit crisis making any takeover unlikely to materialize.

Active Leverage Management

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.

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 September 30, 2008 was 51.4%.

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 September 30, 2008 was approximately 1.8 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 cash equivalents 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.

RBC Dominion Securities Inc. will act as the Leverage Agent for the Company pursuant to a leverage management agreement.

Liquidity and Capital Resources

As at September 30, 2008, the Company had current assets of \$414,456. Current liabilities, including distributions accrued but not yet paid, totalled \$360,337.

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 six month period ended September 30, 2008, were \$434,415 for 42,800 of Class A Shares and \$428,000 for 42,800 of Preferred Shares.

Distributions

The Company has made all its scheduled distributions during the six month period ended September 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 \$0.168 per share. Distributions to Class A Shareholders have been suspended beginning December 2008 (see "Recent Developments" section below).

The Company has also made its scheduled quarterly distributions to Preferred Share holders of \$0.10625 per Preferred Share totalling \$0.2125 for the six month period ended September 30, 2008.

Recent Development

Subsequent to the end of the period, the Company's portfolio declined significantly in a period characterized by extreme and unprecedented market conditions and economic weakness. As a result, under the terms of the leveraging and deleveraging mechanism, portfolio securities were sold and the proceeds invested in cash and 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 will be 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 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.

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 six month period ended September 30, 2008 were \$74,165 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.

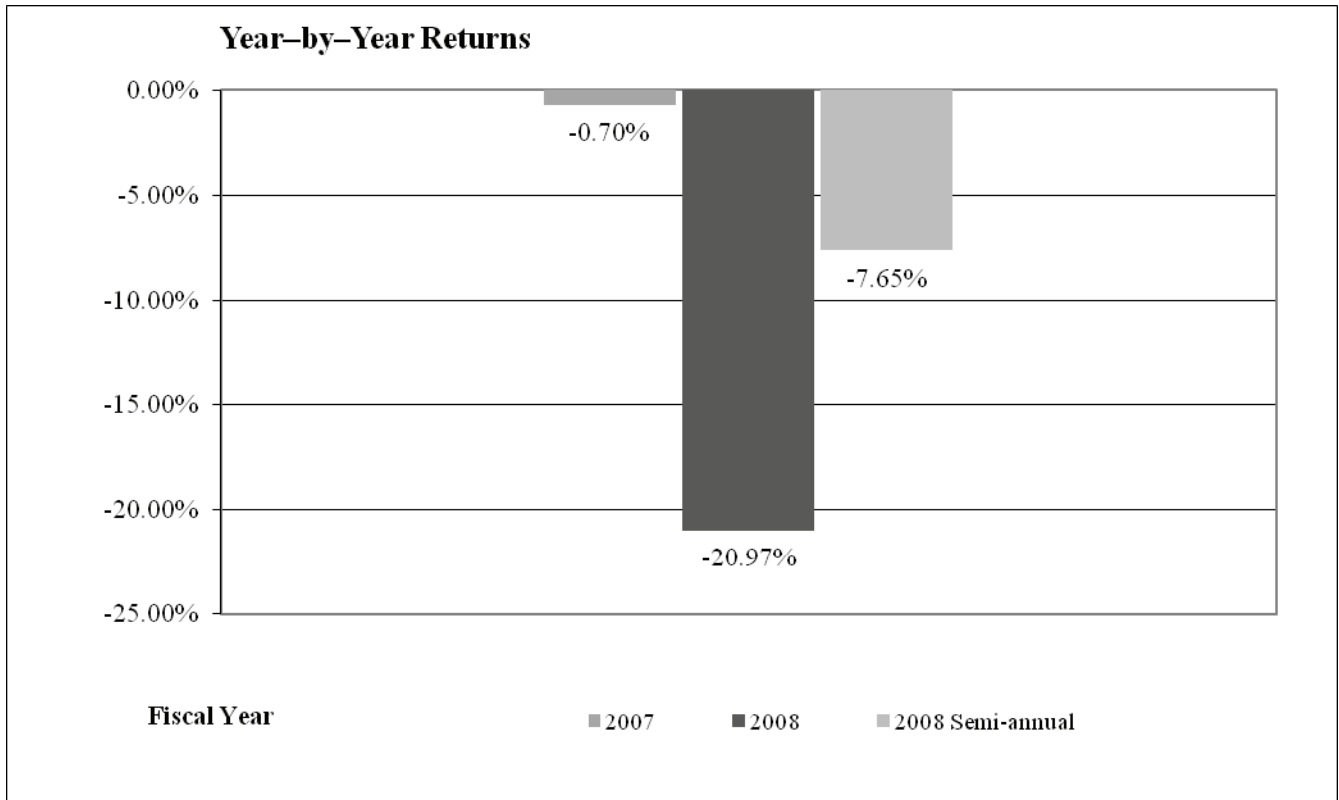
The total Leverage Agent Fees charged to the Company for the six month period ended September 30, 2008 were \$22,528 including GST. All Leverage Agent fees paid to date have been paid in Units.

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Board of Directors tabled no special reports and made no extraordinary material recommendations to management of the Fund during the six month period ended September 30, 2008.

Past Performance

The following bar chart shows the Company's annual performance of the Class A Shares for the past years shown. It also shows the semi-annual performance for the six month period ended September 30, 2008. 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. Past performance is not necessarily indicative of future performance.



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 inception. 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:

	September 30, 2008 ⁽²⁾	March 31, 2008	March 31, 2007 ⁽¹⁾
Net Assets, beginning of period	20.23	23.24	25.00
Increase (decrease) from operations:			
Total revenues	0.48	0.94	0.15
Total expenses	(0.16)	(0.33)	(0.62)
Share issue expense ⁽³⁾	(0.01)	(0.01)	(1.16)
Realized gains (losses) for the period	0.01	0.10	–
Unrealized gains (losses) for the period	(0.87)	(3.01)	(0.12)
Total increase (decrease) from operations⁽⁴⁾	(0.55)	(2.31)	(1.75)
Distributions:			
From income (excluding dividends)	–	–	–
From dividends	(0.11)	(0.25)	(0.05)
From capital gains	–	–	–
Return of capital	(0.27)	(0.45)	(0.06)
Total Distributions⁽⁵⁾	(0.38)	(0.70)	(0.11)
Net Assets, end of period⁽⁶⁾	19.29	20.23	23.24

⁽¹⁾ Results for the period February 06, 2007 (commencement of operations) to March 31, 2007.

⁽²⁾ Results for the six month period ended September 30, 2008.

⁽³⁾ Issue expense of \$1,830,000 incurred in connection with the Class A Shares issuance, which has been treated as a reduction of capital.

⁽⁴⁾ Net asset value 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.

⁽⁵⁾ 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.

⁽⁶⁾ This is not reconciliation between the opening and the closing net asset values per unit.

Ratios and Supplemental Data:

	September 30, 2008 ⁽²⁾	March 31, 2008	March 31, 2007 ⁽¹⁾
Total net asset value, excluding liability for Preferred Shares (\$000's)	\$26,250	\$28,284	\$37,418
Total net asset value (\$000's)	\$12,643	\$14,300	\$21,318
Number of units outstanding	1,360,698	1,398,474	1,610,000
Base Management expense ratio ⁽²⁾⁽³⁾	1.54 %	1.42%	1.79%
Management expense ratio (annualized) ⁽³⁾⁽⁴⁾	3.67%	3.37%	10.88%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾⁽⁴⁾	3.67%	3.37%	10.88%
Portfolio turnover rate ⁽⁵⁾	0.00%	1.31%	0.00%
Trading expense ratio ⁽⁶⁾	0.00%	0.00%	0.49%
Closing market price (TSX) – Class A Share	\$7.43	\$7.86	\$14.54
Closing market price (TSX) – Preferred Share	\$10.02	\$10.40	\$10.20

⁽¹⁾ Results for the period February 06, 2007 (commencement of operations) to March 31, 2007.

⁽²⁾ Results for the six month period ended September 30, 2008.

⁽³⁾ 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.

⁽⁴⁾ 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.

⁽⁵⁾ Annualized management expense ratios include distributions paid to holders of Preferred Shares.

⁽⁶⁾ 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.

⁽⁷⁾ 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 September 30, 2008

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		
Financials	12,345,469	97.6%
Real Estate	6,508,982	51.5%
Utilities	3,858,412	30.5%
Insurance	1,779,017	14.1%
Energy	1,704,142	13.5%
Cash & Cash Equivalents	286,469	2.3%
Top 25 Holdings		
Royal Bank of Canada	2,069,680	16.4%
Toronto-Dominion Bank	1,954,135	15.5%
Bank of Nova Scotia	1,914,801	15.1%
National Bank of Canada	1,911,945	15.1%
Canadian Imperial Bank of Commerce	1,726,300	13.7%
Bank of Montreal	1,679,940	13.3%
TransCanada Pipelines Corp.	881,727	7.0%
Emera Inc.	871,792	6.9%
Enbridge Inc.	822,415	6.5%
Fortis Inc.	817,020	6.5%
Canadian Utilities, Class A	736,230	5.8%
Atco Ltd., Class I	724,090	5.7%
Transalta Corp.	709,280	5.6%
Manulife Financial Corp.	658,072	5.2%
Canadian Real Estate Investment Trust	649,832	5.1%
Great West Lifeco	634,280	5.0%
Canadian Apartment Properties Real Estate Investment Trust	623,298	4.9%
Riocan Real Estate Investment Trust	614,384	4.9%
Primaris Retail Real Estate Investment Trust	607,750	4.8%
Morguard Real Estate Investment Trust	604,890	4.8%
Dundee Real Estate Investment Trust	604,128	4.8%
Artis Real Estate Investment Trust	600,383	4.7%
Cominar Real Estate Investment Trust	583,916	4.6%
IGM Financial Inc.	568,468	4.5%
Boardwalk Real Estate Investment Trust	565,773	4.5%
Net assets	12,643,161	

CANADIAN Financials & Utilities Split Corp.

**Financial Statements (Unaudited)
September 30, 2008**

Notice to Reader:

These interim financial statements and related notes for the six-month period ending September 30, 2008 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Company have not audited or reviewed these interim financial statements.

CANADIAN Financials & Utilities Split Corp.

Statements of Net Assets

As at September 30, 2008 and March 31, 2008

	September 30, 2008 (Unaudited)	March 31, 2008 (Audited)
	\$	\$
Assets		
Cash	88,053	51,194
Short-term investments	198,416	198,246
Investments at market value (cost - \$32,302,518; March 31, 2008 - \$33,158,132)	26,196,022	28,254,528
Interest and dividends receivable	117,223	139,569
Prepaid expenses	10,764	28,423
Total Assets	26,610,478	28,671,960
Liabilities		
Distributions payable to Preferred Shares	147,371	148,588
Distributions payable to Class A Shares	38,100	36,360
Accounts payable and accrued liabilities	150,095	140,930
Management fees payable	24,771	61,723
Preferred share capital (note 5)	13,606,980	13,984,740
	13,967,317	14,372,341
Shareholders' Equity		
Class A and Class J share capital (note 5)	18,341,877	19,047,493
Retained earnings (Deficit)	(6,448,534)	(5,349,166)
Contributed surplus	749,818	601,292
	12,643,161	14,299,619
Total Liabilities and Shareholders' Equity	26,610,478	28,671,960
Number of units ⁽¹⁾ outstanding (note 5)	1,360,698	1,398,474
Net assets per unit ⁽¹⁾	19.29	20.23
Net assets per Class A Share outstanding	9.29	10.23
Number of Preferred Shares outstanding (note 5)	1,360,698	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 (Unaudited)

For the six month periods ended September 30, 2008 and 2007

	2008	2007
	\$	\$
Income		
Dividends	667,150	721,835
Interest	3,352	4,416
	<u>670,502</u>	<u>726,251</u>
Expenses		
Management fees (note 7)	74,165	98,333
Service fees	39,291	58,735
Leverage agent fee (note 8)	22,528	29,499
Custodial and other unitholders' fees	13,671	16,669
Audit fees	12,078	15,943
Board of Directors fees	10,361	10,633
Other	9,712	411
Administration fees	8,876	8,032
Transfer agent fees	7,665	6,125
Legal fees	6,059	6,059
Listing fees	5,803	7,276
Filing fees	4,117	4,251
Printing fees	1,698	2,314
Insurance premium fees	1,228	-
Transaction costs (note 10)	596	426
Interest expense	28	156
	<u>217,876</u>	<u>264,862</u>
Net investment income before distributions on Preferred Shares	452,626	461,389
Distributions on Preferred Shares	<u>(294,989)</u>	<u>(337,684)</u>
Net investment income	157,637	123,705
Net realized gain (loss) on investments	13,678	97,099
Change in unrealized gain (loss) on investments	<u>(1,202,583)</u>	<u>(231,918)</u>
Increase (decrease) in net assets from operations	<u>(1,031,268)</u>	<u>(11,114)</u>
Increase (decrease) in net assets from operations per unit *	<u>(0.75)</u>	<u>(0.01)</u>
Distributions per unit	<u>0.38</u>	<u>0.35</u>

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

CANADIAN Financials & Utilities Split Corp.

Statements of Changes in Shareholders' Equity, Deficit and Contributed Surplus (Unaudited)

For the six month periods ended September 30, 2008 and 2007

	2008	2007
	\$	\$
Changes in shareholders' equity		
Class A and Class J share capital - beginning of period	19,047,493	22,279,737
Class A shares issued to the manager (notes 5&7)	60,878	-
Expenses of issue of class A and class J shares	(14,040)	(22,650)
Distributions to class A shareholders from return of capital	(169,513)	(26,047)
Payments on redemption of class A shares	(434,415)	(533,179)
Cost of shares repurchased at less than the original issue price	<u>(148,526)</u>	<u>-</u>
Class A and Class J share capital - end of period	<u>18,341,877</u>	<u>21,697,861</u>
Changes in retained earnings (deficit)		
Retained earnings (deficit) - beginning of period	(5,349,166)	(961,276)
Increase (decrease) in net assets from operations	(1,031,268)	(11,114)
Distributions to class A shareholders from dividends	<u>(68,100)</u>	<u>(184,542)</u>
Retained earnings (deficit) - end of period	<u>(6,448,534)</u>	<u>(1,156,932)</u>
Contributed surplus		
Contributed surplus, beginning of period	601,292	-
Cost of shares repurchased at less than the original issue price	<u>148,526</u>	<u>-</u>
Contributed surplus, end of period	<u>749,818</u>	<u>-</u>

CANADIAN Financials & Utilities Split Corp.

Statements of Cash Flow

For the six month periods ended September 30, 2008 and 2007

	2008	2007
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	(1,031,268)	(11,114)
Items not affecting cash:		
Net realized (gain) loss on investments	(13,678)	(97,099)
Change in unrealized (gain) loss on investments	1,202,583	231,918
Changes in non-cash working capital		
(Increase) decrease in interest and dividends receivable	22,346	(3,452)
(Increase) decrease in prepaid expenses	17,659	(2,909)
Increase (decrease) in distributions payable to Preferred Shares	(1,217)	53,921
Increase (decrease) in accounts payable and accrued liabilities	9,165	(572,011)
Increase (decrease) in redemptions payable	-	47,487
Increase (decrease) in management fees payable	(36,952)	98,333
Net cash flow provided by (used in) operating activities	<u>168,638</u>	<u>(254,926)</u>
Investing Activities		
Proceeds from investments sold	<u>869,601</u>	<u>863,681</u>
Net cash provided by (used in) investing activities	<u>869,601</u>	<u>863,681</u>
Financing Activities		
Class A shares issued to the manager (notes 5&7)	60,878	-
Preferred Shares shares issued to the manager (notes 5&7)	50,240	-
Payments on redemptions of Preferred Shares	(428,000)	(439,000)
Payments on redemptions of Class A Shares	(434,415)	(533,179)
Unit issue costs	(14,040)	(22,650)
Distributions paid to Class A shareholders	(235,873)	(211,509)
Net cash flow provided by (used in) financing activities	<u>(1,001,210)</u>	<u>(1,206,338)</u>
Net increase (decrease) in cash and short-term investments	37,029	(597,583)
Cash and short-term investments - beginning of period	<u>249,440</u>	<u>704,966</u>
Cash and short-term investments - end of period	<u>286,469</u>	<u>107,383</u>

CANADIAN Financials & Utilities Split Corp.

Statement of Investment Portfolio

As at September 30, 2008

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Market Value \$	% of portfolio
Short Term Paper						
Bankers acceptance						
Canadian Imperial Bank of Commerce		14/11/2008	100,000	99,192	99,192	50.0%
Canadian Imperial Bank of Commerce		3/12/2008	100,000	99,224	99,224	50.0%
				<u>198,416</u>	<u>198,416</u>	<u>100.0%</u>
Investments						
Canadian common stock						
Energy						
Enbridge Inc.			20,900	795,310	822,415	3.1%
TransCanada Pipelines Corp.			23,100	898,971	881,727	3.4%
				<u>1,694,281</u>	<u>1,704,142</u>	<u>6.5%</u>
Financials						
Bank of Montreal			36,600	2,596,451	1,679,940	6.4%
Bank of Nova Scotia			39,900	2,067,857	1,914,801	7.3%
Canadian Imperial Bank of Commerce			28,300	2,814,339	1,726,300	6.6%
National Bank of Canada			39,300	2,545,687	1,911,945	7.3%
Royal Bank of Canada			41,000	2,243,769	2,069,680	7.9%
Toronto-Dominion Bank			30,500	2,139,641	1,954,135	7.5%
CI Financial Income Fund			28,900	760,860	520,200	2.0%
IGM Financial Inc.			14,800	756,215	568,468	2.2%
				<u>15,924,819</u>	<u>12,345,469</u>	<u>47.2%</u>
Insurance						
Great West Lifeco			20,200	712,728	634,280	2.4%
Manulife Financial Corp.			17,200	701,596	658,072	2.5%
Sun Life Financial Inc.			13,100	679,437	486,665	1.9%
				<u>2,093,761</u>	<u>1,779,017</u>	<u>6.8%</u>
Real Estate						
Artis Real Estate Investment Trust			43,100	709,202	600,383	2.3%
Boardwalk Real Estate Investment Trust			16,300	717,623	565,773	2.2%
Calloway Real Estate Investment Trust			29,800	860,682	551,300	2.1%
Canadian Apartment Properties Real Estate Investment Trust			39,300	755,174	623,298	2.4%
Canadian Real Estate Investment Trust			23,200	761,507	649,832	2.5%
Cominar Real Estate Investment Trust			27,700	655,632	583,916	2.2%
Dundee Real Estate Investment Trust			20,300	816,940	604,128	2.3%
H&R Real Estate Investment Trust			33,600	841,506	503,328	1.9%
Morguard Real Estate Investment Trust			51,700	752,905	604,890	2.3%
Primaris Retail Real Estate Investment Trust			37,400	743,438	607,750	2.3%
Riocan Real Estate Investment Trust			30,400	777,698	614,384	2.3%
				<u>8,392,307</u>	<u>6,508,982</u>	<u>24.8%</u>

CANADIAN Financials & Utilities Split Corp.

Statement of Investment Portfolio Continued

As at September 30, 2008

	Par Value / Quantity	Average Cost \$	Market Value \$	% of portfolio
Utilities				
Atco Ltd., Class I	19,000	923,148	724,090	2.8%
Canadian Utilities, Class A	19,400	853,099	736,230	2.8%
Emera Inc.	41,200	877,872	871,792	3.3%
Fortis Inc.	34,000	926,946	817,020	3.1%
Transalta Corp.	24,800	616,285	709,280	2.7%
		<u>4,197,350</u>	<u>3,858,412</u>	<u>14.7%</u>
Total investments		<u>32,302,518</u>	<u>26,196,022</u>	<u>100.0%</u>

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements

September 30, 2008

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

As of September 30, 2008 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 2009 year end and will disclose this plan in the 2009 annual financial statements.

Recent accounting pronouncements

On April 1, 2008, the Company adopted Section 1535 of the CICA Handbook, 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 CICA Sections 3862, Financial Instruments – Disclosures ("Section 3862") and 3863, Financial Instruments – Presentation ("Section 3863") which replaced Handbook 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. This standard 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 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 security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred.

The Company continues to calculate its net asset value for unitholder transaction purposes using the latest available bid price. As at September 30, 2008, there were no differences between the net assets value per unit and the net assets per unit.

Cash and cash equivalents

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

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements

September 30, 2008

Investment transactions

Investment transactions are recorded on the trade date. Realized and unrealized gains or losses on sales of investments are determined based on the average cost of investments.

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. The Company does not currently intend to issue additional Preferred Shares or Class A Shares to the public. 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 six month period ended September 30, 2008 the Company issued 5,024 Units to the Manager to pay for \$111,118 of accrued management fees.

The redemptions during the six month period ended September 30, 2008 were \$434,415 for 42,800 of Class A shares and \$428,000 for 42,800 of Preferred shares (\$533,179 for 43,900 of Class A shares and \$439,000 for 43,900 of Preferred shares during the six month period ended September 30, 2007).

Changes in outstanding units are summarized as follows:

	September 30, 2008		September 30, 2007	
	Class A shares	Preferred shares	Class A shares	Preferred shares
Balance – Beginning of period	1,398,474	1,398,474	1,610,000	1,610,000
Shares issued	5,024	5,024	-	-
Shares redeemed / retracted	(42,800)	(42,800)	(43,900)	(43,900)
Balance – End of period	<u>1,360,698</u>	<u>1,360,698</u>	<u>1,566,100</u>	<u>1,566,100</u>

6 Distributions

The Company has made all its scheduled distributions to Class A Share holders for the six month period September 30, 2008 paying regular monthly distributions of \$0.028 for totalling \$0.168 per share (\$0.022 per share, totalling \$0.132 for six month period ended September 30, 2007). Distributions to Class A shareholders are suspended commencing December 2008 (see note 13).

The Company has also made its scheduled quarterly distributions to Preferred Share holders of \$0.10625, totalling \$0.2125 per Preferred Share for the six month period ended September 30, 2008 (\$0.10625, totalling \$0.2125 per Preferred Share for the six month period ended September 30, 2007).

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 NAV 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.

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements

September 30, 2008

The total management fees charged to the Company for the six month period ended September 30, 2008 were \$74,165 including GST (\$98,333 for the six month period ended September 30, 2007), 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 six month period ended September 30, 2008 (all paid in units) were \$22,528 including GST (\$29,499 for the six month period ended September 30, 2007).

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 \$596 broker commissions paid during the six month period ended September 30, 2008 (\$426 for the six month period ended September 30, 2007) in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

11 Financial instruments

<u>Assets</u>	\$
Held for trading	26,482,491
Loans and receivables	127,987
Total assets	26,610,478
<u>Liabilities</u>	
Held for trading	-
Financial liabilities at amortized cost	13,967,317
Total liabilities	13,967,317

For the purposes of categorization in accordance with section 3862, interest and dividends receivable, amounts due from brokers, and other assets are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, bank overdrafts, distributions payable, amounts due to brokers, preferred share capital and other liabilities are deemed to be financial liabilities and reported at amortized cost.

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements

September 30, 2008

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 market 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. As at September 30, 2008, interest rate risk was negligible as the Company had no significant exposure to interest-bearing investments.

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 September 30, 2008, 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 September 30, 2008, all other variables held constant, the net assets of the Company would have increased or decreased, respectively, by approximately \$2,620,000. 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 an 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 Fund retains sufficient cash and cash equivalents 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 cash equivalents 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. Subsequent to September 30, 2008, these mechanisms were utilized to maintain liquidity (See Note 13).

13 Subsequent event

Subsequent to the end of the period, the Company's Portfolio declined significantly in a period characterized by extreme and unprecedented market conditions and economic weakness. As a result, under the terms of the leveraging and deleveraging mechanism, Portfolio securities were sold and the proceeds invested in cash and 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 will be 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 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.