

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 the annual report.**

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

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

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

Investment Objectives and Strategy

The Company is a closed-end mutual fund corporation that is listed on the Toronto Stock Exchange under the symbol CFS for the Class A Shares and CFS.PR.A for the Preferred Shares. Each Unit of the Fund is comprised of one Class A share and one Preferred Share.

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, 2011.

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:

To provide their holders with:

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

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

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

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

Investment Strategy

In order to achieve the Company's investment objectives, the Company has invested, on a passive basis, the net proceeds of the Class A 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 (distributions, dividends and interest income) in any calendar quarter by the aggregate amount of the distributions payable on the Preferred Shares in such quarter) at greater than 1.5 times. Trades effected to rebalance the Portfolio are subject to the confirmation of DBRS that they will not result in a reduction in the rating of the Preferred Shares.

Risk

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

Results of Operations

Manager Commentary

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

During the year, the market price and net asset value of the Company's Class A Shares rose by 17.05% and 6.61%, respectively. REITs were the best performing sector during the year, returning 27.6% as measured by the S&P/TSX

REIT Index. Utilities and banks also generated strong performance during the year, with the S&P/TSX Utilities Index and S&P/TSX Banks Index returning 16.1% and 9.4%, respectively. Insurance companies continued to lag, returning -7.5% during the year as measured by the S&P/TSX Insurance 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. Their duties include identifying when de-leveraging is required, as was the case in December 2008, and monitoring for when leverage can be re-instated.

Additional Leverage

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

De-Leveraging

The Company’s prospectus dated January 30, 2007 states that 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, 2011 was 62.9% (2010 – 64.5%).

A de-leveraging event will also occur in the event that the Interest Coverage Ratio is less than 1.5 for any calendar quarter. The estimated Interest Coverage Ratio at March 31, 2011 was approximately 0.35 times (2010 - 0.40 times).

Benefits of Active Leverage Management

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

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

increases.

Capital transactions

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

The Company is authorized to issue an unlimited number of Preferred Shares, Class A Shares and Class J Shares. 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. CANADIAN Financials & Utilities Split Trust was 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.

The redemptions during the year ended March 31, 2011 were \$892,607 for 165,844 of Class A Shares and \$1,658,440 for 165,844 of Preferred Shares (\$881,789 for 172,559 of Class A Shares and \$1,725,590 for 172,559 of Preferred Shares during the year ended March 31, 2010).

Purchase for cancellation

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

During the year ended March 31, 2011, the Company purchased and subsequently redeemed 21,000 Preferred Shares for a total cost of \$224,613 (4,700 of Class A Shares for a total cost of \$49,361 and 4,700 of Preferred Shares for \$47,000 during the year ended March 31, 2010). All Shares purchased by the Company either were or are in the process of being cancelled.

Distributions

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

The Company made its scheduled quarterly distributions to Preferred Shareholders of \$0.10625 per Preferred Share totalling \$0.425 for the year ended March 31, 2011 (\$0.10625, totalling \$0.425 per Preferred Share for the year ended March 31, 2010).

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. There were nil Units held by the Manager at year ended March 31, 2011 and 2010.

The total Management Fees charged to the Company for the year ended March 31, 2011 were \$82,858 (\$83,605 during the year ended March 31, 2010).

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 Units 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, 2011 were \$27,692 (\$27,818 during the year ended March 31, 2010). All Leverage Agent fees are payable in Units. There were nil Units held by the Leverage Agent at year ended March 31, 2011 and 2010.

Recommendations or Reports by the Independent Review Committee

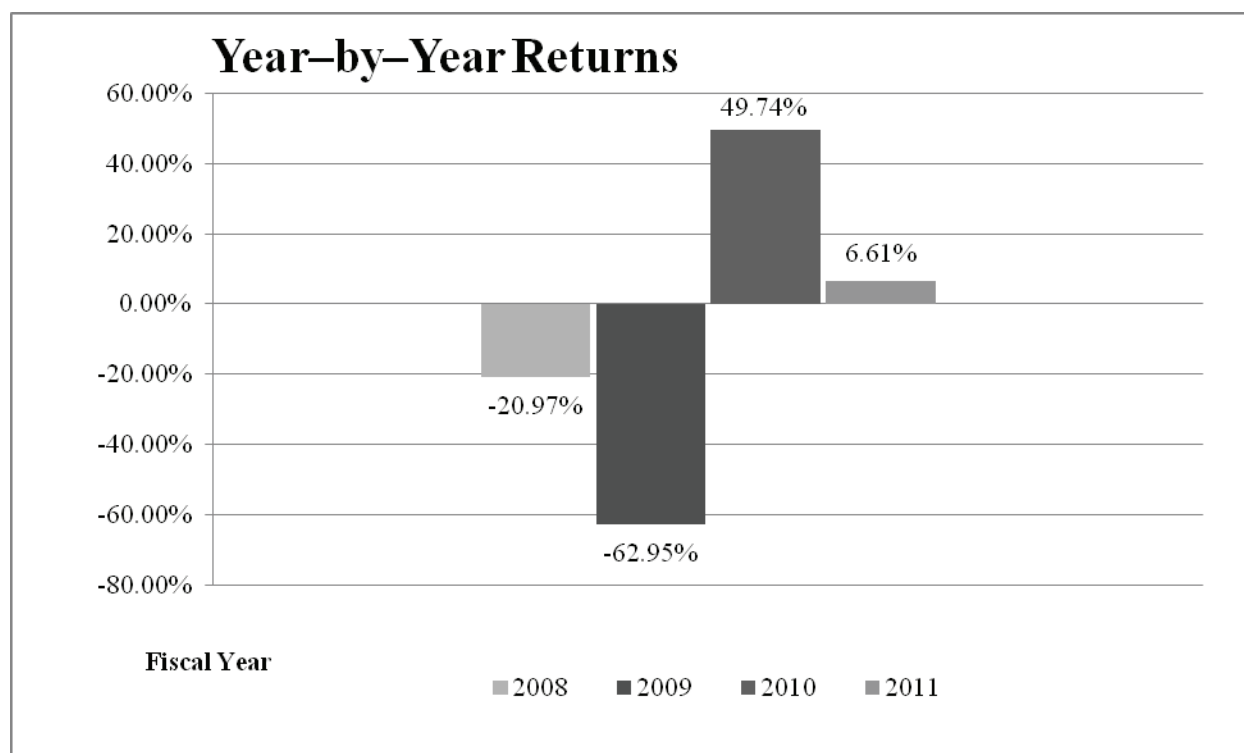
The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Company during the year ended March 31, 2011.

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 Class A Shares’ annual performance for the years shown. This bar chart shows, in percentage terms, how much an investment made on the first day of the financial year would have grown or decreased by the last day of the financial year.



Annual Compound Returns

	Past Year	Three Years	Since Inception ⁽¹⁾
Based on NAV	6.61%	-16.06%	-16.88%
Based on share price	17.05%	-12.27%	-21.07%
S&P/TSX Composite Index	20.41%	4.97%	4.62%

⁽¹⁾ Annualized for the period February 6, 2007 (Commencement of operations) to March 31, 2011.

The S&P/TSX Composite Index is the benchmark for the Company’s Class A Shares. The S&P/TSX Composite Index is a capitalization weighted index designed to measure market activity of stocks listed on the TSX. The equity securities represented in the Company’s Portfolio are well represented in the benchmark; however the benchmark broadly represents the Canadian equity market and includes sectors that are not represented in the Company’s portfolio. In addition, the Class A Shares were leveraged prior to the deleveraging event. As a result of these factors, the performance of the benchmark may differ materially from the performance of the Class A Shares

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, 2011	March 31, 2010	March 31, 2009	March 31, 2008	March 31, 2007 ⁽¹⁾
Net Assets, beginning of period	15.50	13.69	20.23	23.24	25.00
Increase (decrease) from operations:					
Total revenues	0.35	0.32	0.78	0.94	0.15
Total expenses	(0.31)	(0.24)	(0.28)	(0.33)	(0.62)
Share issue expense ⁽²⁾	–	–	(0.01)	(0.01)	(1.16)
Realized gains (losses) for the period	–	(0.24)	(7.47)	0.10	–
Unrealized gains (losses) for the period	0.70	2.40	1.06	(3.01)	(0.12)
Distributions to Preferred Shares	(0.43)	(0.43)	(0.43)	(0.43)	(0.07)
Total increase (decrease) from operations⁽³⁾	0.31	1.81	(6.35)	(2.74)	(1.82)
Distributions:					
From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	(0.07)	(0.12)	(0.01)
From capital gains	–	–	–	–	–
Return of capital	–	–	(0.15)	(0.16)	(0.03)
Total Distributions⁽⁴⁾	–	–	(0.22)	(0.28)	(0.04)
Net Assets, end of period⁽⁵⁾	15.89	15.50	13.69	20.23	23.24

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

⁽²⁾ Issue expense of \$1,830,000 incurred in connection with the Class A Shares issuance since inception, which has been treated as a reduction of capital.

⁽³⁾ Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of shares outstanding over the financial period.

⁽⁴⁾ Distributions are payable in cash. The rates used to allocate distributions among income, dividends, capital gain and return on capital were estimated and may be different for tax purposes. Distributions to Class A Shareholders have been suspended beginning December 2008.

⁽⁵⁾ This is not reconciliation between the opening and the closing net assets per Unit.

Ratios and Supplemental Data:

	March 31, 2011	March 31, 2010	March 31, 2009	March 31, 2008	March 31, 2007 ⁽¹⁾
Net asset value, excluding liability for Preferred Shares (\$000's)	14,000	16,229	16,696	28,284	37,418
Net asset value – Class A (\$000's)	5,188	5,758	4,495	14,300	21,318
Number of Units outstanding	881,194	1,047,038	1,219,597	1,398,474	1,610,000
Base Management expense ratio ⁽²⁾	2.02%	1.64%	1.60%	1.42%	1.79%
Management expense ratio ⁽²⁾⁽³⁾	4.77%	4.45%	4.06%	3.37%	10.88%
Management expense ratio before waivers or absorptions ⁽²⁾⁽³⁾	4.77%	4.45%	4.06%	3.37%	10.88%
Portfolio turnover rate ⁽⁴⁾	0.00%	1.11%	1.09%	1.31%	0.00%
Trading expense ratio ⁽⁵⁾	0.00%	0.00%	0.01%	0.00%	0.49%
Net asset value per Class A share	5.89	5.50	3.69	10.23	13.24
Net asset value per Unit	15.89	15.50	13.69	20.23	23.24
Closing market price (TSX) – Class A Share	5.15	4.40	3.03	7.86	14.54
Closing market price (TSX) – Preferred Share	10.13	10.35	9.40	10.40	10.20

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

⁽²⁾ A separate base management expense ratio has been presented to include the normal operating expenses of the Company and exclude (a) distributions on preferred shares, and (b) the one time initial share offering issue expenses, and (c) broker commission charges.

⁽³⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses which are one-time expenses, are not annualized.

⁽⁴⁾ 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. The portfolio turnover rate calculation does not include purchases and sales of cash and cash equivalents.

⁽⁵⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

Summary of Investment Portfolio as of March 31, 2011

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.

	Rate %	Maturity Date	Market Value \$	% of NAV
Portfolio by Category				
Short-term investments			8,799,995	62.9%
Banks			2,359,983	16.9%
Non-Bank Financials			1,915,018	13.7%
Utilities and Pipelines			835,909	6.0%
Energy			355,665	2.5%
Cash			17,991	0.1%
Top 25 Holdings				
Ontario Treasury Bills	0.95%	06/08/11	2,286,590	16.3%
Bank of Montreal (Bankers Acceptance)	1.26%	06/30/11	2,236,118	16.0%
Canadian Imperial Bank of Commerce (Bankers Acceptance)	1.25%	06/06/11	1,440,619	10.3%
Toronto Dominion Bank (Bearer deposit notes)	1.28%	07/11/11	993,650	7.1%
Canadian Imperial Bank of Commerce (Bankers Acceptance)	1.17%	05/04/11	847,748	6.1%
Royal Bank of Canada (Bankers Acceptance)	1.17%	05/02/11	546,695	3.9%
Bank of Nova Scotia (Bankers Acceptance)	1.17%	05/02/11	448,575	3.2%
National Bank of Canada			404,963	2.9%
Toronto-Dominion Bank			403,260	2.9%
Royal Bank of Canada			400,666	2.9%
Canadian Imperial Bank of Commerce			390,365	2.8%
Bank of Montreal			388,087	2.8%
Bank of Nova Scotia			372,642	2.7%
TransCanada Pipelines Corp.			179,811	1.3%
Enbridge Inc.			175,854	1.3%
Atco Ltd. Class I			171,873	1.2%
Canadian Utilities Class A			168,696	1.2%
Transalta Corp.			167,362	1.2%
Emera Inc.			167,112	1.2%
Fortis Inc.			160,866	1.1%
IGM Financial Inc.			132,813	0.9%
Canadian Apartment Properties Real Estate Investment Trust			126,032	0.9%
Canadian Real Estate Investment Trust			124,560	0.9%
Riocan Real Estate Investment Trust			123,659	0.9%
Dundee Real Estate Investment Trust			123,607	0.9%
Net asset value (NAV)			13,999,686	