



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**CANADIAN Financials & Utilities
Split Corp.**

Semi-Annual Report
September 30, 2007

November 29, 2007

Dear Investor,

We are pleased to provide you with the first semi-annual report for the Canadian Financials and Utilities Split Corp. (the "Company").

The Company was created to provide investors with a low cost, diversified investment in a high quality 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 provide investors with tax-efficient regular monthly distributions, expected to be primarily returns of capital, and leveraged exposure to price appreciation and dividend growth. Monthly distributions per Class A share increased from \$0.02 to \$0.022 in March and to \$0.026 in November resulting in a 30% cumulative total increase since the Company's inception. To the extent that the issuers held within the Company's portfolio continue to increase dividends, the Company will continue to increase distributions payable to Class A Share holders.

For the six months ended September 30, 2007, the Class A Shares generated a total return of 0.04%. Over the same period, the S&P/TSX Canadian Bank and REIT sub-indices produced total returns of 0.6% and -1.7%, respectively, while utilities, as measured by the S&P/TSX Utilities Index, generated a return of 13.6%. Weakness in the banking and REIT sectors was partially offset by strong performance by several utility and pipeline issuers. As at September 30, 2007, Canadian banks represented 42.2% of the Company's portfolio, followed by non-bank financials, which includes REITs, at 34.4% and utility and pipelines at 23.4%.

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 for the six month period ended September 30, 2007.

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

Yours truly,



W. Neil Murdoch
Chief Executive Officer
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 annual financial statements of the Company. **The semi-annual financial statements and accompanying notes are attached to this report.**

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, 2007.

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”).

The Portfolio will be 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 will be 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, the debt to equity ratio (the ratio of Preferred Share capital to the NAV of the Class A Shares) was 76%. As a result, a 1.00% change in the value of the portfolio would have resulted in a 1.76% 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. Monthly distributions to Class A Share increased from \$0.02 to \$0.022 in March and to \$0.026 in November resulting in a 30% cumulative total increase since the Company's inception.

For the six months ended September 30, 2007, the Class A Shares generated a total return of 0.04%. Over the same period, the S&P/TSX Canadian Bank and REIT sub-indices produced total returns of 0.6% and -1.7%, respectively, while utilities, as measured by the S&P/TSX Utilities Index, generated a return of 13.6%. As at September 30, 2007, Canadian banks represented 42.2% of the Company's portfolio, followed by non-bank financials, which includes REITs, at 34.4% and utility and pipelines at 23.4%.

The uncertainty in the capital markets stemming from the fallout of the sub-prime mortgage market and issues surrounding asset-backed commercial paper (ABCP) resulted in greater volatility in the Canadian banking sector as several banks recorded significant writedowns. National Bank of Canada was the weakest performer in the portfolio, generating a total return of -10.9% for the six months ended September 30, 2007. The bank was negatively affected by the uncertainty surrounding the financial implications of its asset-backed commercial paper funding commitment. However, the weak performance of National Bank was offset by the strong performance of TD Bank which generated a total return of 11.6% over the same period. In August, TD announced a 7.5% increase in quarterly dividends to investors.

Transalta Corp. and Atco Ltd. led the performance of the portfolio by generating total returns of 27.4% and 24.6%, respectively. Both companies reported strong results ahead of the consensus estimates and Transalta received a positive reaction from the market after announcing an expanded share buyback program.

After a strong rally at the beginning of the year, valuations the REIT sector have trended downward over the past several months. Artis REIT and Boardwalk REIT have continued to perform well, generating total returns of 9.5% and 8.6%, respectively. Both REITs are focused on the strong western Canadian real estate market and benefited from strong organic growth through rent increases on lease rollovers, particularly in Alberta. Over the past six months, Boardwalk has increased its monthly distribution rate twice by a cumulative total of 22%. In the medium term we continue to believe that the REIT market is attractive and that a high proportion of the REIT market is vulnerable to takeovers which may support valuations and potentially push prices higher.

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 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, 2007 was 43.1%.

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, 2007 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, 2007, the Company had current assets of \$302,667. Current liabilities, including distributions accrued but not yet paid, totalled \$467,726.

Capital transactions

On February 06, 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, 2007, were \$533,179 for 43,900 of Class A Shares and \$439,000 for 43,900 of Preferred Shares.

Distributions

The Company has made all its scheduled distributions during the six month period ended September 30, 2007 to Class A Share holders, paying regular monthly distributions of \$0.022 per Class A Share to holders of record on the last business day of each month totalling \$0.132 per share.

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, 2007.

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 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. 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, 2007 were \$98,333 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 NAV calculated and payable monthly in arrears, plus applicable taxes.

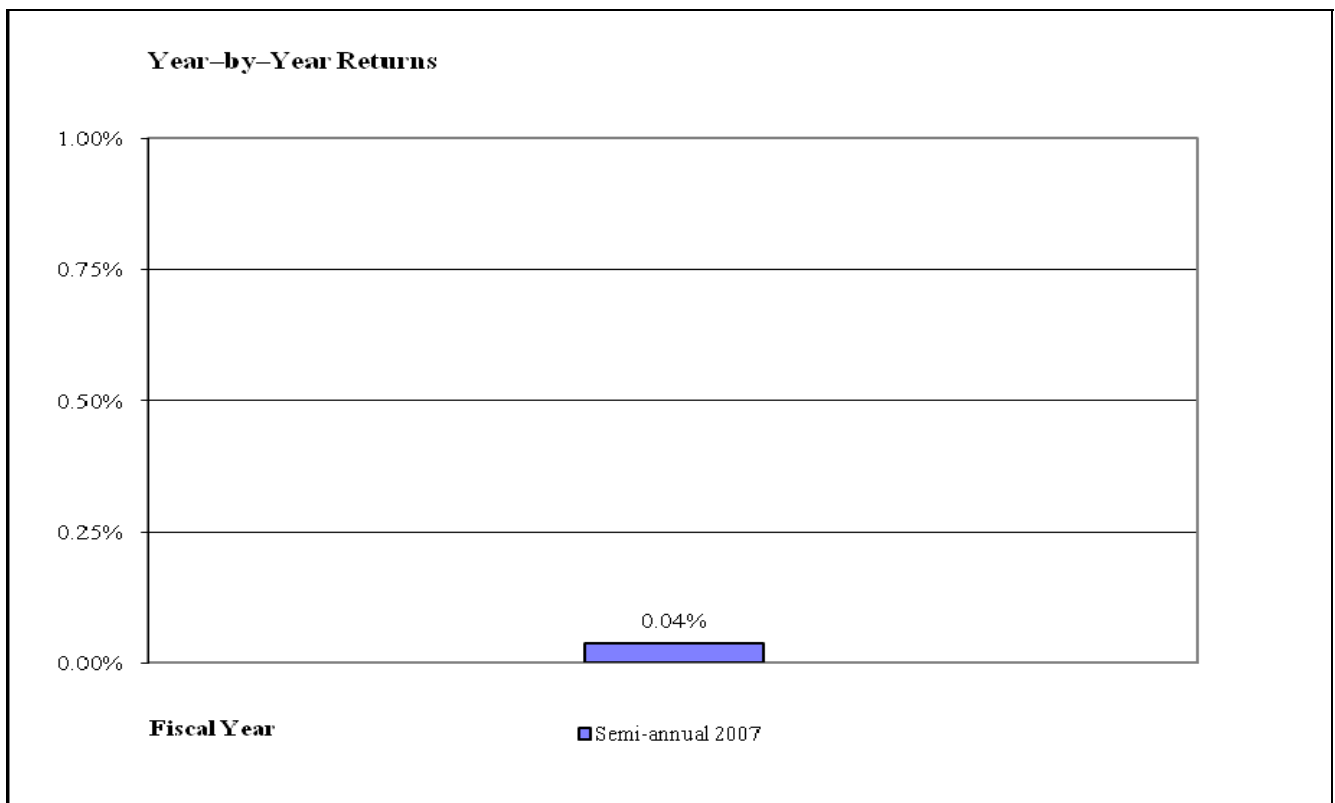
The Leverage Agent Fee may be paid in cash or Units, at the option of the Leverage Agent. To the extent that additional Shares are issued by the Company for this purpose, Units are issued at the Net Asset Value per Unit. The distribution of

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, 2007 were \$29,499 including GST. All Leverage Agent fees paid to date have been paid in Units.

Past Performance

The following bar chart shows the Company's semi-annual performance for the six-month period ended September 30, 2007 assuming all the distributions made by the Company during the period shown were paid. This bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.



Financial Highlights

The following tables show selected key financial information about the 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 Asset Value per Unit:

	September 30, 2007 ⁽²⁾	March 31, 2007 ⁽¹⁾
Net Asset Value, beginning of period	23.24	25.00
Increase (decrease) from operations:		
Total revenues	0.45	0.15
Total expenses	(0.38)	(0.62)
Share issue expense ⁽³⁾	–	(1.16)
Realized gains (losses) for the period	0.06	–
Unrealized gains (losses) for the period	(0.14)	(0.12)
Total increase (decrease) from operations ⁽⁴⁾	(0.01)	(1.75)
Distributions:		
From income (excluding dividends)	–	–
From dividends	(0.31)	(0.05)
From capital gains	–	–
Return of capital	(0.04)	(0.06)
Total Distributions ⁽⁵⁾	(0.35)	(0.11)
Net Asset Value, end of period ⁽⁶⁾	23.12	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, 2007.

⁽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, 2007 ⁽²⁾	March 31, 2007 ⁽¹⁾
Net Assets, excluding liability for Preferred Shares (\$000's)	\$36,202	\$37,418
Net assets (\$000's)	\$20,541	\$21,318
Number of units outstanding	1,566,100	1,610,000
Base Management expense ratio ⁽³⁾⁽⁴⁾	1.42%	1.79%
Management expense ratio (annualized) ⁽⁴⁾⁽⁵⁾	3.30%	11.36%
Management expense ratio before waivers or absorptions (annualized) ⁽⁴⁾⁽⁵⁾	3.30%	11.36%
Portfolio turnover rate ⁽⁶⁾	0.00%	0.00%
Trading expense ratio ⁽⁷⁾	0.01%	0.49%
Closing market price (TSX) – Class A Share	\$11.75	\$14.54
Closing market price (TSX) – Preferred Share	\$10.11	\$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, 2007.

⁽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, (b) the one time initial share offering issue expenses, and (c) Broker commission charges.

⁽⁴⁾ Management expense ratio is based on total expenses (including interest expense on bank indebtedness) 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, 2007

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	16,982,959	82.7%
Real Estate	8,228,007	40.1%
Utilities	6,179,034	30.1%
Insurance	2,647,524	12.9%
Energy	2,329,464	11.3%
Cash & Cash Equivalents	107,383	0.5%
Top 25 Holdings		
Toronto-Dominion Bank	2,865,872	14.0%
Royal Bank of Canada	2,658,915	12.9%
Bank of Nova Scotia	2,653,792	12.9%
Canadian Imperial Bank of Commerce	2,563,488	12.5%
Bank of Montreal	2,411,500	11.7%
National Bank of Canada	2,217,072	10.8%
Canadian Utilities Class A	1,304,650	6.4%
Transalta Corp.	1,264,520	6.2%
Atco Ltd., Class I	1,231,084	6.0%
Fortis Inc.	1,218,140	5.9%
Enbridge Inc.	1,177,012	5.7%
Emera Inc.	1,160,640	5.7%
TransCanada Pipelines Corp.	1,152,452	5.6%
Great West Lifeco Inc.	933,888	4.5%
Manulife Financial Corp.	909,756	4.4%
CI Financial Income Fund	834,432	4.1%
Boardwalk Real Estate Investment Trust	844,880	4.1%
Artis Real Estate Investment Trust	829,550	4.0%
Sun Life Financial Inc.	803,880	3.9%
IGM Financial Inc.	777,888	3.8%
Canadian Apartment Properties Real Estate Investment Trust	777,240	3.8%
Riocan Real Estate Investment Trust	770,036	3.7%
Morguard Real Estate Investment Trust	743,367	3.6%
Primaris Retail Real Estate Investment Trust	725,472	3.5%
Cominar Real Estate Investment Trust	697,640	3.4%
Net Asset Value (NAV)	20,540,929	

CANADIAN Financials & Utilities Split Corp.

**Financial Statements (Unaudited)
September 30, 2007**

Notice to Reader:

These interim financial statements and related notes for the six-month period ending September 30, 2007 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Fund have not audited or reviewed these interim financial statements.

CANADIAN Financials & Utilities Split Corp.

Statement of Net Assets

As at September 30 and March 31, 2007

	September 30, 2007 (Unaudited) \$	March 31, 2007 (Audited) \$
Assets		
Cash	7,869	61,648
Short-term investments	99,514	643,318
Investments at market value (cost - \$36,816,638; March 2007 - \$37,605,813)	36,366,988	37,414,168
Interest and dividends receivable	143,695	140,243
Receivable from investment sales	48,680	-
Prepaid expenses	2,909	-
Total Assets	36,669,655	38,259,377
Liabilities		
Distributions payable to Preferred Shares	166,621	112,700
Distributions payable to Class A Shares	34,500	35,420
Redemptions payable	47,487	-
Accounts payable and accrued liabilities	92,459	664,470
Management fees payable	126,659	28,326
Preferred share capital (note 5)	15,661,000	16,100,000
	16,128,726	16,940,916
Shareholders' Equity		
Class A and Class J share capital (note 5)	21,697,861	22,279,737
Retained earnings (deficit)	(1,156,932)	(961,276)
	20,540,929	21,318,461
Total Liabilities and Shareholders' Equity	36,669,655	38,259,377
Number of units ⁽¹⁾ outstanding (note 5)	1,566,100	1,610,000
Net asset value per unit ⁽¹⁾	23.12	23.24
Net Asset Value per Class A Share outstanding	13.12	13.24
Net Asset Value per Preferred Share outstanding	10.00	10.00
Number of Class J Shares outstanding (note 5)	100	100
Net Asset Value 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.

Statement of Operations (Unaudited)

For the six-month period ended September 30, 2007

	\$
Income	
Dividends	721,835
Interest	4,416
	<u>726,251</u>
Expenses	
Management fees (note 7)	98,333
Service fees	44,737
Leverage Agent fee	29,499
Custodial and other unitholders' fees	16,669
Audit fees	15,943
Rating agency fees	13,998
Board of Directors fees	10,633
Administration fees	8,032
Listing fees	7,276
Transfer agent fees	6,125
Legal fees	6,059
Filing fees	4,251
Printing fees	2,314
Broker commission charges	426
Other	411
Interest expense	156
	<u>264,862</u>
Net investment income before distributions on Preferred Shares	461,389
Distributions on Preferred Shares	<u>(337,684)</u>
Net investment income	123,705
Net realized gain (loss) on investments	97,099
Change in unrealized gain (loss) on investments	<u>(231,918)</u>
Increase (decrease) in net assets from operations	<u>(11,114)</u>
Increase (decrease) in net assets from operations per unit *	<u>(0.01)</u>
Distributions per unit	<u>0.11</u>

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

CANADIAN Financials & Utilities Split Corp.

Statement of Changes in Shareholders' Equity and Deficit (Unaudited)

For the six-month period ended September 30, 2007

	\$
Class A and Class J share capital - beginning of period	22,279,737
Redemptions	(533,179)
Expenses of issue of Class A and Class J shares	(22,650)
Distributions to Class A shareholders from return of capital	<u>(26,047)</u>
Class A and Class J share capital - end of period	<u>21,697,861</u>
Changes in Retained earnings (deficit)	
Retained earnings (deficit) - beginning of period	(961,276)
Increase (decrease) in net assets from operations	(11,114)
Distributions to Class A shareholders from dividends	<u>(184,542)</u>
Retained earnings (deficit) - end of period	<u>(1,156,932)</u>

CANADIAN Financials & Utilities Split Corp.

Statement of Cash Flow (Unaudited)

For the six-month period ended September 30, 2007

	\$
Operating Activities	
Increase (decrease) in net assets from operations	(11,114)
Items not affecting cash:	
Net realized (gain) loss on investments	(97,099)
Change in unrealized (gain) loss on investments	231,918
Changes in non-cash working capital	
(Increase) decrease in interest and dividends receivable	(3,452)
(Increase) decrease in prepaid expenses	(2,909)
Increase (decrease) in distributions payable to Preferred Shares	53,921
Increase (decrease) in accounts payable and accrued liabilities	(572,011)
Increase (decrease) in redemptions payable	47,487
Increase (decrease) in management fees payable	98,333
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Net cash flow provided by (used in) operating activities	(254,926)
Investing Activities	
Cost of investments purchased	-
Proceeds from investments sold	863,681
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Net cash provided by (used in) investing activities	863,681
Financing Activities	
Payments on redemptions of Preferred Shares	(439,000)
Payments on redemptions of Class A Shares	(533,179)
Unit issue costs	(22,650)
Distributions paid to Class A shareholders	(211,509)
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Net cash flow provided by (used in) financing activities	(1,206,338)
Net increase (decrease) in cash and short-term investments	(597,583)
Cash and short-term investments - beginning of period	704,966
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Cash and short-term investments - end of period	107,383
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CANADIAN Financials & Utilities Split Corp.

Statement of Investment Portfolio (Unaudited)

As at September 30, 2007

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Market Value \$	% of portfolio
Short-term investments						
Bankers acceptance						
Bank of Nova Scotia		10/16/2007	100,000	99,514	99,514	100.0%
Investments						
Canadian equity						
Energy						
Enbridge Inc.			32,300	1,229,115	1,177,012	3.2%
TransCanada Pipelines Corp.			31,600	1,229,761	1,152,452	3.2%
				<u>2,458,876</u>	<u>2,329,464</u>	<u>6.4%</u>
Financials						
Bank of Montreal			37,100	2,631,921	2,411,500	6.6%
Bank of Nova Scotia			50,800	2,632,760	2,653,792	7.3%
Canadian Imperial Bank of Commerce			25,800	2,633,214	2,563,488	7.0%
National Bank of Canada			40,800	2,642,850	2,217,072	6.1%
Royal Bank of Canada			48,300	2,643,270	2,658,915	7.3%
Toronto-Dominion Bank			37,600	2,637,721	2,865,872	7.9%
CI Financial Income Fund			31,800	837,160	834,432	2.3%
IGM Financial Inc.			14,800	756,157	777,888	2.1%
				<u>17,415,053</u>	<u>16,982,959</u>	<u>46.6%</u>
Insurance						
Great West Lifeco			25,600	903,259	933,888	2.6%
Manulife Financial Corp.			22,200	905,549	909,756	2.5%
Sun Life Financial Inc.			15,400	798,688	803,880	2.2%
				<u>2,607,496</u>	<u>2,647,524</u>	<u>7.3%</u>
Real Estate						
Artis Real Estate Investment Trust			47,000	773,376	829,550	2.4%
Boardwalk Real Estate Investment Trust			17,900	788,065	844,880	2.4%
Calloway Real Estate Investment Trust			26,600	787,985	656,488	1.8%
Canadian Apartment Properties REIT			40,800	792,774	777,240	2.1%
Canadian Real Estate Investment Trust			24,200	794,331	722,370	2.0%
Cominar Real Estate Investment Trust			32,600	790,501	697,640	1.9%
Dundee Real Estate Investment Trust			18,800	768,885	728,124	2.0%
H&R REIT Units			31,000	789,520	732,840	2.0%
Morguard Real Estate Investment Trust			54,300	790,769	743,367	2.0%
Primaris Retail REIT			39,600	787,170	725,472	2.0%
Riocan REIT Units			31,100	795,606	770,036	2.1%
				<u>8,658,982</u>	<u>8,228,007</u>	<u>22.7%</u>

CANADIAN Financials & Utilities Split Corp.

Statement of Investment Portfolio (Unaudited)... Continued

As at September 30, 2007

	Par Value / Quantity	Average Cost \$	Market Value \$	% of portfolio
Utilities				
Atco Ltd. Class I	21,200	1,029,954	1,231,084	3.4%
Canadian Utilities Class A	26,900	1,182,905	1,304,650	3.6%
Emera Inc.	57,600	1,227,316	1,160,640	3.2%
Fortis Inc.	45,200	1,232,293	1,218,140	3.3%
Transalta Corp.	40,400	1,003,763	1,264,520	3.5%
		<u>5,676,231</u>	<u>6,179,034</u>	<u>17.0%</u>
Total investments		<u>36,816,638</u>	<u>36,366,988</u>	<u>100.0%</u>

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements (Unaudited)

September 30, 2007

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.

Valuation of investments

Short-term investments are carried at cost, which together with interest receivable approximates market value, being the bid price recorded by the securities exchanges on which such investments are principally traded. Investments in common shares or other securities are valued at their quoted market value, being the bid price recorded by the securities exchanges on which such investments are principally traded. Brokerage fees and other transaction costs are charged to net income.

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. 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.

The redemptions during the six month period ended September 30, 2007 were \$533,179 for 43,900 of Class A shares and \$439,000 for 43,900 of Preferred shares.

CANADIAN Financials & Utilities Split Corp.

Notes to Financial Statements (Unaudited)

September 30, 2007

Changes in outstanding units are summarized as follows:

	September 30, 2007	
	Class A shares	Preferred shares
Balance – Beginning of period	1,610,000	1,610,000
Shares issued	–	–
Shares redeemed / retracted	<u>(43,900)</u>	<u>(43,900)</u>
Balance – End of period	<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 ended September 30, 2007, paying regular monthly distributions of \$0.022, totalling \$0.132 per share.

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, 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.

The total management fees charged to the Company for the six month period ended September 30, 2007 were \$98,333 including GST (all paid in Units).

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 NAV 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, 2007 were \$29,499 including GST (all paid in Units).

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 \$426 broker commissions paid during 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.