

2009

**Connor, Clark & Lunn
Conservative Income Fund**
Annual Report
October 31, 2009

Connor, Clark & Lunn Conservative Income Fund Message to Unitholders

January 12, 2010

Dear Investor,

These annual financial statements are in respect of the twelve-month period ended October 31, 2009. We welcome the opportunity to provide you with an update.

The Fund's net assets per unit was \$8.28 on October 31, 2009, up from \$7.45 as at October 31, 2008. In total, the Trust has declared distributions totalling \$3.41 per unit from inception to the end of October 31, 2009 for an annualized yield of 7.0% on the \$10.00 original issue price. The Fund delivered strong performance during the year, with a total return of 21.94%. Its benchmark, S&P/TSX Income Trust Index, was up 8.40%.

Connor, Clark & Lunn Investment Management Ltd's (the "Investment Manager") prime objective is to deliver a yield to investors that is both attractive and sustainable. Therefore the prime focus of their team is to find solid companies that have demonstrated the ability and commitment to return a predictable level of capital to shareholders and bondholders in all market conditions, whether it is a business trust, REIT or corporate bond.

The themes of the last several months continue to hold, namely economic stabilization and improvement with ample liquidity in the system being deployed aggressively into capital markets. The quest for yield has been revived and the Investment Manager expects that income-oriented securities, such as those held by the Fund, will continue to benefit.

The Investment Manager has lowered the weighting in REITs and used the proceeds to buy business trusts. REITs have been aggressively raising equity over the past several months in order to bring leverage down. The notion of making accretive deals with the capital raised continues to persist, but the gap in price between buyers/sellers is wide and there are no signs of distressed asset sales in the Canadian market.

The Fund continues to have a significant weighting in fixed income. The bond market has experienced an incredible sea change, with one member of the Investment Manager's fixed income team noting that "it has gone from 'no bid' to 'no offer'" leading to a significant compression in credit spreads (prices higher). While the Fund has had a considerable weighting in financial issuers, as spreads have improved in that sector, there has been a concerted effort by the Investment Manager's fixed income team to pursue greater sector diversity.

In anticipation of the changes to the tax laws affecting income trusts that come into force in 2011, we are actively exploring possible changes to the investment mandate of the Fund. We will keep you informed of any possible changes.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Conservative Income Fund

Management Report of Fund Performance

This annual management report of fund performance for Connor, Clark & Lunn Conservative Income Fund (the “Fund”) contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

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

Securityholders may also contact us using one of these methods to request a copy of the Fund’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” or “GAAP Net Assets” means that the value was determined in accordance with the Canadian Generally Accounting Principles “GAAP” for financial statements purposes. Also any reference to “Net Asset Value” or “Net Asset Value per Unit” or “Transactional NAV” 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 Fund is a closed-end investment Fund that is listed on the Toronto Stock Exchange under the symbol CCQ.UN.

The Fund’s investment objectives are to:

- (i) provide a stable stream of monthly cash distributions targeted to yield approximately 7.0% per annum on the issue price of \$10.00 per Unit; preserve the net asset value per Unit in order to return at least \$10.00 per Unit on or about December 15, 2014; and
- (ii) provide an opportunity for capital appreciation above the original issue price.

In order to achieve the Fund’s investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”), the Fund’s investment manager, invests the net proceeds of the Offering, together with any borrowings under the Fund’s loan facility or other leverage transactions, in a portfolio (the “Portfolio”) consisting of income producing securities including Canadian business income trusts, real estate investment trusts, utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents.

Risk

Changes in the risk exposure of the Fund occurred in the following areas:

Use of Derivatives

The Fund has employed derivatives for the purpose of hedging interest rate exposure. Such exposure has involved the use of short U.S. and Canadian 10-year Bond Futures and has been limited to less than 10% of the portfolio.

The Fund has also actively hedged foreign currency exposure, in particular the market value exposure associated with the positions in US dollar-denominated bonds.

For full disclosure of risks associated with an investment in the Fund’s units, please refer to the Prospectus dated November 29, 2004 and to the Fund’s most recent Annual Information Form.

Recent Developments

Future accounting changes

In February 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards (“IFRS”) will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on January 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Adoption of New Accounting Standards

CICA Section 3862, “Financial Instruments – Disclosures”: In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, “Financial Instruments: Disclosures”, into Section 3862, “Financial Instruments – Disclosures”. The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Fund adopted the amendments to Section 3862 as of November 1, 2008. This standard impacted the Fund’s disclosure provided but did not affect the Fund’s results or financial position.

EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”: On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. The abstract requires the entity’s own credit risk and the risk of the counterparty should be taken into consideration in assessing the fair value of financial assets and financial liabilities. The Fund adopted the abstract as of November 1, 2008.

Results of Operations

The themes of the last several months continue to hold, namely economic stabilization and improvement with ample liquidity in the system being deployed aggressively into in capital markets. The quest for yield has been revived and the Investment Manager expects that income-oriented securities, such as those held by the Fund, will continue to benefit.

Income Trusts

The Investment Manager continues to see the income trust space evolve, with three different avenues being pursued:

1. *Conversion to a corporation*: We are just over a year away from the deadline for most income trusts to convert to corporations. Income trusts, other than real estate income trusts, that do not convert will be subject to tax of approximately 31.51% on income flowed out to investors.
2. *Acquisition targets*: With solid free cash flow yields and credit markets improving dramatically, we are starting to see takeover activity re-commence with Livingston International acquired by CPP Investment Board and Sterling Partners and Harvest Energy Trust acquired by Korean National Oil Corporation .
3. *Other*: Recently we’ve seen tax-driven takeovers of biotech and other loss-heavy companies by the likes of Premium Brands, Colabor and Superior Plus. It remains unclear whether such structures will survive government scrutiny.

Recent New Additions

Cineplex Galaxy Income Fund: Cineplex has a dominant position in the theatre business in Canada which has proven to be remarkably resilient during this recession. It also has some interesting ancillary businesses including their pre-show

advertising business and an emerging loyalty card business. The trust was strong in 2008 but has lagged in 2009 as other less defensive businesses outperform giving us a chance to buy it at a reasonable level. One strong differentiator is tax shelter that will preserve the distribution for ten years, so investors will enjoy an approximate 8% yield that will be re-characterized as more tax-efficient dividend upon corporate conversion.

Fort Chicago Energy Partners LP: Fort Chicago is a stable utility trust that owns a 50% interest in the Alliance Pipeline in the US and Canada, with take-or-pay contracts extending to December 2015. The Investment Manager believes it ultimately makes sense for Enbridge to buy both Fort Chicago and Enbridge Income Fund to consolidate the Alliance Pipeline, making Fort Chicago a potential takeover target. This investment receives a solid 11.5% yield in the meantime.

REITs

REITs have been aggressively raising equity over the past several months, with nearly every single Canadian REIT issuing equity in the past few months to bring leverage down. The option of making accretive deals with the capital raised continues to persist, but the gap in price between buyers and sellers is wide and there are no signs of distressed asset sales in the Canadian market.

The Investment Manager has lowered the weight in REITs given significant year-to-date returns. As real estate tends to lag the general economy, the Investment Manager expects that fundamentals continue to worsen and that the excess capital raised in the sector is unlikely to be deployed accretively in the short term.

Bonds

The bond market has experienced an incredible sea change, with one member of the Investment Manager's fixed income team noting that "it is has gone from 'no bid' to 'no offer'" leading to a significant compression in credit spreads and higher prices. While the Fund has had a considerable weighting in financial issuers, as spreads have improved in that sector, there has been a concerted effort by the team to pursue greater sector diversity by adding to names such as Loblaw and Canadian Tire.

Liquidity and Capital Resources

As at October 31, 2009, the Fund had current assets of \$2,373,308. Current liabilities, including distributions accrued but not yet paid, totalled \$2,794,101.

Leverage

The Investment Manager employs leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The Fund has entered into a Revolving Term Credit Facility Agreement with Bank of Montreal ("BMO"). The aggregate amount of borrowings under the loan facility and other leverage transactions may not exceed 15% of the gross asset value of the Fund.

Leverage has not been used since early October 2006.

Capital transactions

On December 15, 2004, the Fund completed an initial public offering pursuant to the prospectus dated November 29, 2004. \$140,000,000 was raised through the issue of 14 million Units at \$10.00 per Unit. On December 23, 2004, the Agents exercised an over-allotment option in respect of 0.375 million Units, raising a further \$3,750,000. Total proceeds from these two transactions after Agents' fees and issue expense were \$135,573,135.

In January 2009, on the Fund's annual Redemption Date, unitholders exercised their right to redeem 1,183,995 units at January 31, 2009 NAV per unit price totalling \$8,336,484 less the costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the portfolio (the amount \$19,168,910 was paid to redeem 1,989,219 units at January 31, 2008).

Market repurchases

As set out in the Prospectus, the Fund is obligated, under certain conditions, to purchase Units in the market for

cancellation. If, on any day, the Units closing price is less than 95% of the net asset value per unit determined on the most recent valuation date, the Fund must purchase any Units offered in the market the following day at 95% of net asset value per unit or less.

During the year ended October 31 2009 the Fund purchased 114,200 Units for cancellation at a total cost of \$759,683 (39,000 units at a cost of \$324,541 during the year ended October 31, 2008). All units purchased by the Fund were subsequently cancelled.

Distributions

The Fund has made all its scheduled distributions during the year ended October 31, 2009 paying regular monthly distributions of \$0.0583 to holders of record on the last business day of each month totalling \$0.6996 per unit (\$0.6996 per unit during the year ended October 31, 2008).

Related Party Transactions

Management Fees

Pursuant to a trust agreement (“the Trust Agreement”) the Fund retained Connor, Clark & Lunn Capital Markets Inc. (“the Manager”) to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 1.10% per annum of the net asset value of the Fund to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Fund during the year ended October 31, 2009 were \$472,641 (2008 - \$807,991).

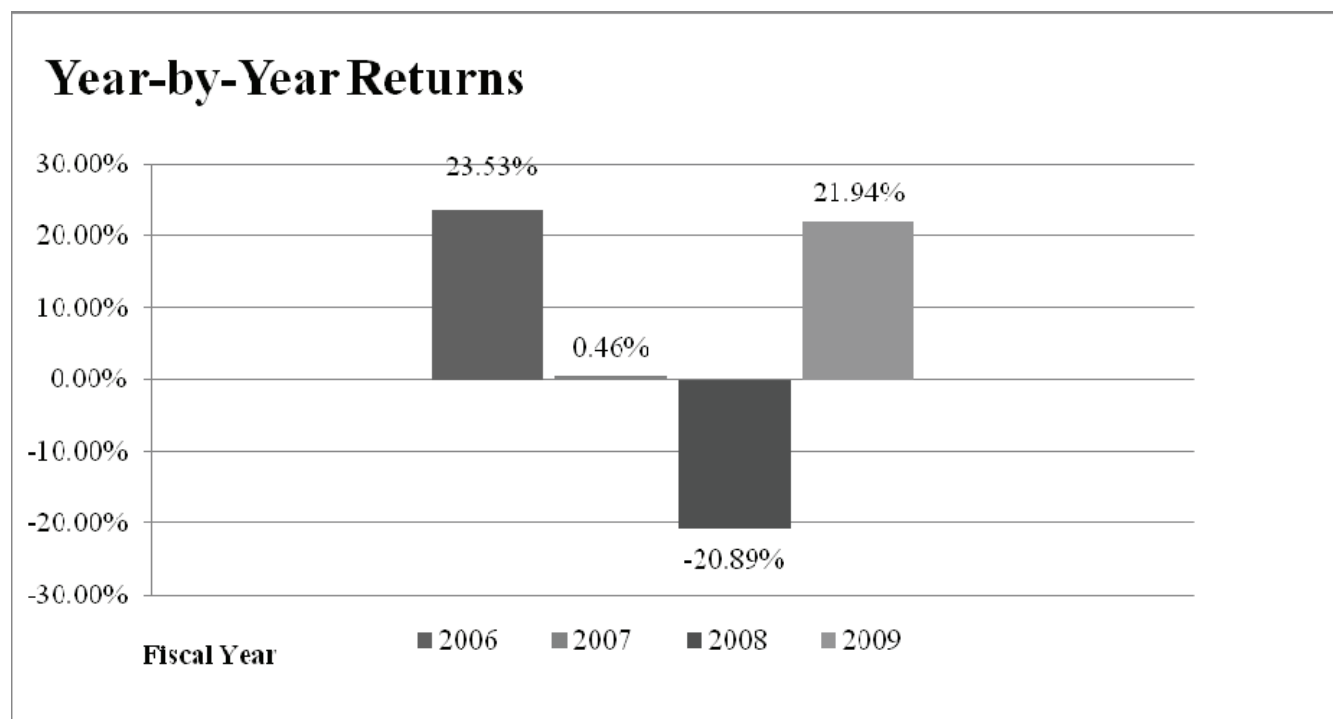
The Manager pays the Investment Manager out of the above management fees.

Past Performance

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

Year – by –Year Returns

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



Annual Compound Returns

	Past Year	Three Years ⁽²⁾	Since Inception ⁽¹⁾
Based on NAV	21.94%	-1.04%	5.04%
Based on share price	26.83%	-0.69%	3.58%
Index ⁽³⁾	8.40%	-1.78%	7.49%

⁽¹⁾ Annualized for the period December 15, 2004 (Commencement of operations) to October 31, 2009.

⁽²⁾ Annualized for the three year period November 1, 2006 to October 31, 2009.

⁽³⁾ Index of Benchmark is S&P/TSX Income Trust Index.

Financial Highlights:

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual and unaudited semi annual financial statements:

The Fund's Net Assets per unit ⁽¹⁾:

	October 31, 2009	October 31, 2008	October 31, 2007	October 31, 2006	October 31, 2005 ⁽²⁾
Net Assets, beginning of period	7.45	10.17	10.89	9.43	10.00
Increase (decrease) from operations:					
Total revenues	0.61	0.61	0.57	0.69	0.64
Total expenses	(0.16)	(0.19)	(0.22)	(0.20)	(0.15)
Share issue expense ⁽³⁾	—	—	—	—	(0.57)
Realized gains (losses) for the period	(1.69)	(0.17)	0.28	0.52	0.63
Unrealized gains (losses) for the period	2.62	(2.24)	(0.81)	1.23	(0.51)
Total increase (decrease) from operations ⁽⁴⁾	1.38	(1.99)	(0.18)	2.24	0.04
Distributions:					
From income (excluding dividends)	(0.15)	(0.32)	(0.41)	(0.34)	(0.29)
From dividends	(0.01)	(0.01)	(0.04)	(0.06)	(0.05)
From capital gains	—	(0.11)	(0.25)	(0.28)	(0.27)
Return of capital	(0.54)	(0.26)	—	(0.02)	—
Total Distributions ⁽⁵⁾	(0.70)	(0.70)	(0.70)	(0.70)	(0.61)
Net Assets, end of period ⁽⁶⁾	8.28	7.45	10.17	10.89	9.43

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for fund pricing purposes. The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed in note 3 to the financial statements.

⁽²⁾ Results for the period December 15, 2004 (commencement of operations) to October 31, 2005.

⁽³⁾ Issue expense of \$8,176,865 incurred in connection with the share issuance, which has been treated as a reduction of capital.

⁽⁴⁾ 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.

⁽⁵⁾ Distributions were paid in cash.

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

Ratios and Supplemental Data:

	October 31, 2009	October 31, 2008	October 31, 2007	October 31, 2006	October 31, 2005 ⁽¹⁾
Net asset value (\$000's)	\$45,196	\$50,514	\$89,524	\$128,239	\$134,697
Number of units outstanding	5,438,439	6,736,634	8,764,853	11,779,213	14,290,300
Base Management expense ratio ^{(2) (3)}	1.96%	1.80%	1.74%	1.75%	1.71%
Issue expenses ratio ^{(2) (3)}	—	—	—	—	5.69%
Interest expense ratio (annualized) ^{(2) (3)}	—	—	—	0.18%	—
Management expense ratio (annualized) ⁽³⁾	1.96%	1.80%	1.74%	1.93%	7.40%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	1.96%	1.80%	1.74%	1.93%	7.40%
Portfolio turnover rate ⁽⁴⁾	50.42%	68.14%	117.87%	80.30%	67.31%
Trading expense ratio ⁽⁵⁾	0.26%	0.20%	0.44%	0.30%	0.16%
Net asset value per unit	\$8.31	\$7.50	\$10.21	\$10.89	\$9.43
Closing market price (TSX)	\$8.07	\$7.05	\$9.95	\$10.61	\$9.01

⁽¹⁾ Results for the period December 15, 2004 (commencement of operations) to October 31, 2005.

⁽²⁾ A separate base management expense ratio has been presented to include the normal operating expenses and exclude (i) Issue expense ratio: representing all agents fees and unit issue expenses; (ii) Interest expense ratio: representing interest expense on bank indebtedness.

⁽³⁾ 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 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 Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund'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 Fund.

⁽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 October 31, 2009

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

	Rate %	Maturity Date	Fair Value \$	% of NAV
Portfolio by Category				
Corporate Bonds			14,160,812	31.3%
Industrials			9,210,073	20.2%
Financials			8,075,591	18.1%
Consumer Discretionary			6,193,310	13.7%
Energy			5,704,625	12.6%
Materials			1,626,810	3.6%
Cash & Cash Equivalents			1,453,955	3.2%
Utilities			676,910	1.5%
Foreign currency forward contracts			(12,186)	0.0%
Fixed income derivatives			(18,730)	-0.1%
Top 25 Holdings				
CML Healthcare Income Fund			2,198,334	4.9%
Brookfield Infrastructure Partners LP			1,873,760	4.1%
Chartwell Seniors Housing Real Estate Investment Trust			1,871,875	4.1%
Genivar Income Fund			1,816,100	4.0%
Cineplex Galaxy Income Fund			1,711,950	3.8%
IBI Income Fund			1,693,081	3.7%
Labrador Iron Ore Royalty Inc.			1,626,810	3.6%
Altus Group Income Fund			1,459,715	3.3%
Cash & Cash Equivalents			1,453,955	3.2%
New Flyer Limited Income Deposit Securities			1,453,644	3.2%
Keyera Facilities Inc.			1,427,012	3.2%
Allied Properties Real Estate Investment Trust			1,399,402	3.2%
Yellow Pages Income Fund			1,378,324	3.0%
Westshore Terminals Income Fund			1,365,728	3.0%
Fort Chicago Energy Partners LP			1,347,288	3.0%
Canadian Apartment Properties Real Estate Investment Trust			1,341,260	3.0%
CIBC Capital Trust	9.98%	6/30/2018	1,307,340	2.9%
Extendicare Real Estate Investment Trust			1,111,880	2.5%
BMO Capital Trust (BOATS VI)	10.22%	12/31/2017	1,082,772	2.4%
Armtec Infrastructure Income Fund			1,007,760	2.2%
Mullen Group Ltd.			949,955	2.1%
Altagas Income Trust			914,400	2.0%
Groupe Aeroplan Inc.			904,702	2.0%
Boardwalk Real Estate Investment Trust			891,459	2.0%
Athabasca Oil Sands Corp.	13.00%	7/30/2011	810,900	1.8%
Net asset value			45,196,422	

Management's Responsibility for Financial Reporting

The accompanying financial statements of **Connor, Clark & Lunn Conservative Income Fund** (the "Fund") and all of the information have been prepared by Connor, Clark & Lunn Capital Markets in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. The Fund's Manager is responsible for all of the information and representations contained in these financial statements and other sections of the Annual Report

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the unitholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements.



W. Neil Murdoch
President and Chief Executive Officer
Connor, Clark & Lunn Capital Markets Inc.



Michael W. Freund
Chief Financial Officer
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

January 8, 2010

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January 8, 2010

Auditors' Report

To the Unitholders of Connor, Clark & Lunn Conservative Income Fund

We have audited the statement of investment portfolio of **Connor, Clark & Lunn Conservative Income Fund** (the Fund) as at October 31, 2009, the statements of net assets as at October 31, 2009 and 2008 and the statements of operations, changes in net assets, surplus (deficit) and contributed surplus and cash flow for the years then ended. These financial statements are the responsibility of the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at October 31, 2009 and 2008 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Connor, Clark & Lunn Conservative Income Fund

Statements of Net Assets

As at October 31, 2009 and 2008

	2009	2008
	\$	\$
Assets		
Cash	54,914	72,899
Short-term investments	1,399,041	1,193,301
Investments at fair value (cost - \$46,468,431; 2008 - \$65,324,012)	45,503,366	49,675,339
Interest and dividends receivable	539,428	668,697
Receivable from investment sales	369,644	817,202
Unrealized gain on future contracts	-	22,798
Prepaid expenses	2,840	3,981
Variation margin receivable	7,441	5,189
	<u>47,876,674</u>	<u>52,459,406</u>
Liabilities		
Payable for investment purchases	2,334,160	1,120,646
Distributions payable	317,061	392,827
Accounts payable and accrued liabilities	100,003	95,013
Management fees payable	42,877	62,419
Unrealized loss on forward currency contracts	12,186	618,950
Unrealized loss on future contracts	18,730	-
	<u>2,825,017</u>	<u>2,289,855</u>
Net Assets and Unitholders' Equity	<u>45,051,657</u>	<u>50,169,551</u>
Units issued and outstanding (note 5)	<u>5,438,439</u>	<u>6,736,634</u>
Net assets per unit	<u>8.28</u>	<u>7.45</u>
Unitholders' Equity		
Unit capital	46,218,409	61,114,467
Contributed surplus	2,681,005	-
Surplus (deficit)	<u>(3,847,757)</u>	<u>(10,944,916)</u>
Total Unitholders' Equity	<u>45,051,657</u>	<u>50,169,551</u>

Approved by the Manager



Director



Director

Connor, Clark & Lunn Conservative Income Fund

Statements of Operations

For the years ended October 31, 2009 and 2008

	2009	2008
	\$	\$
Income		
Distributions received from income trusts	2,503,164	2,968,969
Interest	1,031,164	1,461,745
	<u>3,534,328</u>	<u>4,430,714</u>
Expenses		
Management fees	472,641	807,991
Service fees	161,972	260,223
Transaction costs	111,373	136,834
Custodial and other unitholders' fees	47,232	44,256
Audit Fees	27,508	17,290
Filing fees	24,107	10,413
Advisory board fees	21,149	22,365
Administration fees	18,410	16,642
Transfer agent fees	16,660	13,138
Listing fees	11,764	16,013
Printing fees	8,908	6,426
Interest expenses	8,470	13,887
Other	5,534	1,477
Legal fees	1,830	2,053
IRC fees	1,152	1,927
	<u>938,710</u>	<u>1,370,935</u>
Investment income (loss) for the period	<u>2,595,618</u>	<u>3,059,779</u>
Net realized gain (loss) on investments		
Net realized gain (loss) on investments	(9,474,029)	(888,519)
Net realized gain (loss) on foreign exchange	(9,205)	(104,433)
Net realized gain (loss) on future contracts	(82,749)	(225,704)
Net realized gain (loss) on foreign exchange contracts	(249,078)	10,774
	<u>(9,815,061)</u>	<u>(1,207,882)</u>
Net unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	14,683,608	(15,150,711)
Change in unrealized gain (loss) on future contracts	(41,528)	56,936
Change in unrealized gain (loss) on foreign exchange	(651)	436
Change in unrealized gain (loss) on foreign exchange contracts	606,764	(1,173,461)
	<u>15,248,193</u>	<u>(16,266,800)</u>
Net gain (loss) on investments	<u>5,433,132</u>	<u>(17,474,682)</u>
Increase (decrease) in net assets from operations	<u>8,028,750</u>	<u>(14,414,903)</u>
Increase (decrease) in net assets from operations per unit *	<u>1.38</u>	<u>(1.99)</u>
Distributions per unit	<u>0.70</u>	<u>0.70</u>

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

Connor, Clark & Lunn Conservative Income Fund

Statements of Changes in Net Assets, Surplus (deficit) and Contributed Surplus
For the years ended October 31, 2009 and 2008

	2009	2008
	\$	\$
Increase (decrease) in net assets from operations	<u>8,028,750</u>	<u>(14,414,903)</u>
Distributions to unitholders from:		
Net investment income	(931,591)	(2,425,769)
Net realized gain on investments	-	(797,063)
Return on capital	<u>(3,118,886)</u>	<u>(1,853,097)</u>
	<u>(4,050,477)</u>	<u>(5,075,929)</u>
Unitholders' transactions:		
Payments on redemption/cancellation of units (note 4 and 5)	<u>(9,096,167)</u>	<u>(19,493,451)</u>
Change in net assets during the year	(5,117,894)	(38,984,283)
Net assets - Beginning of year	<u>50,169,551</u>	<u>89,153,834</u>
Net assets - End of year	<u>45,051,657</u>	<u>50,169,551</u>
Surplus (deficit), beginning of year	(10,944,916)	7,228,433
Increase (decrease) in net assets from operations	8,028,750	(14,414,903)
Distributions to unitholders	(931,591)	(3,222,832)
Cost of shares repurchased in excess of original issue price (note 4)	<u>-</u>	<u>(535,614)</u>
Surplus (deficit), end of year	<u>(3,847,757)</u>	<u>(10,944,916)</u>
Contributed surplus , beginning of year	-	-
Cost of shares repurchased at less than original issue price	<u>2,681,005</u>	<u>-</u>
Contributed surplus , end of year	<u>2,681,005</u>	<u>-</u>

Connor, Clark & Lunn Conservative Income Fund

Statements of Cash Flow

For the years ended October 31, 2009 and 2008

	2009	2008
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	8,028,750	(14,414,903)
Items not affecting cash:		
Net realized (gain) loss on investments	9,474,029	888,519
Change in unrealized (gain) loss on investments	(14,683,608)	15,150,711
Change in unrealized (gain) loss on future contracts	41,528	(56,936)
Change in unrealized (gain) loss on foreign exchange contracts	(606,764)	1,173,461
Changes in non-cash working capital		
(Increase) decrease in interest and dividends receivable	129,269	174,320
(Increase) decrease in variation margin receivable	(2,252)	(5,189)
(Increase) decrease in prepaid expenses	1,141	848
Increase (decrease) in accounts payable and accrued liabilities	4,990	(19,604)
Increase (decrease) in management fees payable	(19,542)	(23,461)
Increase (decrease) in variation margin payable	-	(66,902)
Cost of investments purchased	(19,735,232)	(45,177,678)
Proceeds from investments sold	<u>30,777,856</u>	<u>66,733,016</u>
Net cash flow provided by (used in) operating activities	<u>13,410,165</u>	<u>24,356,202</u>
Financing Activities		
Payments on redemption/cancellation of units	(9,096,167)	(19,493,451)
Distributions to unitholders	<u>(4,126,243)</u>	<u>(5,194,093)</u>
Net cash flow provided by (used in) financing activities	<u>(13,222,410)</u>	<u>(24,687,544)</u>
Net increase (decrease) in cash and short-term investments	187,755	(331,342)
Cash and short-term investments - beginning of year	<u>1,266,200</u>	<u>1,597,542</u>
Cash and short-term investments - end of year	<u>1,453,955</u>	<u>1,266,200</u>
Supplementary Information		
Interest paid	8,470	16,013

Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio

As at October 31, 2009

			Par Value / Quantity	Average Cost \$	Fair Value \$	% of Net Assets
Short Term Paper						
Bankers acceptances						
Canadian Imperial Bank of Commerce		12/2/2009	250,000	249,885	249,885	0.6%
Canadian Imperial Bank of Commerce		12/4/2009	100,000	99,933	99,933	0.2%
Canadian Imperial Bank of Commerce		1/27/2010	150,000	149,894	149,894	0.3%
Treasury bills						
Canada Treasury Bills (*)		12/10/2009	100,000	99,897	99,897	0.2%
Bearer deposit notes						
Bank of Nova Scotia		1/11/2010	800,000	799,432	799,432	1.8%
				<u>1,399,041</u>	<u>1,399,041</u>	<u>3.1%</u>
Investments						
Corporate Bonds						
General Motors Acceptance Corp.	5.55%	11/30/2009	343,000	313,323	337,440	0.7%
Athabasca Oil Sands Corp.	13.00%	7/30/2011	765,000	765,000	810,900	1.8%
Reliance LP	7.30%	4/3/2013	801,000	801,000	805,430	1.8%
GE Capital Canada Funding	5.15%	6/6/2013	370,000	335,923	390,872	0.9%
Rona Inc.	5.40%	10/20/2016	314,000	248,688	299,688	0.7%
TD Bank (CGR III)	5.76%	12/18/2017	701,000	689,884	737,725	1.6%
Brookfield Renewable Power Inc.	5.25%	11/5/2018	500,000	445,950	440,375	1.0%
BMO Capital Trust (BOATS VI)	10.22%	12/31/2018	800,000	984,000	1,080,272	2.4%
CIBC Capital Trust	9.98%	6/30/2019	1,000,000	1,206,600	1,303,590	2.9%
Bell Canada	7.00%	9/24/2027	211,000	197,532	216,942	0.5%
Loblaw Co. Ltd	6.54%	2/17/2033	91,000	69,033	87,855	0.2%
Canadian Tire Corporation	6.32%	2/24/2034	427,000	410,022	412,486	0.9%
Brascan Corporation	5.95%	6/14/2035	286,000	301,255	217,849	0.5%
Loblaw Co. Ltd	5.90%	1/18/2036	473,000	353,028	425,771	0.9%
Morgan Stanley	4.90%	2/23/2017	772,000	730,791	743,158	1.6%
Merrill Lynch Financial Co.	5.29%	5/30/2022	671,000	575,262	618,353	1.4%
Royal Bank of Scotland	6.67%	10/5/2017	537,000	522,862	269,574	0.6%
Citigroup Financial Inc.	5.37%	3/6/2036	639,000	485,754	406,513	0.9%
Odyssey Re Holdings (U.S. Dollars)	7.65%	11/1/2013	503,000	634,336	572,561	1.3%
Russel Metals Inc. (U.S. Dollars)	6.38%	3/1/2014	200,000	197,256	204,399	0.5%
Sally Holdings LLC (U.S. Dollars)	9.25%	11/15/2014	455,000	440,272	509,733	1.1%
Countrywide Financial Corp. (U.S. Dollars)	6.25%	5/15/2016	454,000	448,496	495,604	1.1%
Great West Life Co. (U.S. Dollars)	7.15%	5/16/2046	700,000	624,015	625,855	1.4%
Freeport McMoran Copper & Gold (U.S. Dollars)	8.38%	4/1/2017	500,000	571,816	578,997	1.3%
Tesoro Corp. (U.S. Dollars)	6.50%	6/1/2017	705,000	638,580	679,688	1.5%
TD Northgroup (U.S. Dollars)	6.38%	12/29/2049	200,000	177,094	186,817	0.4%
General Electric Capital Corporation (U.S. Dollars)	6.38%	11/15/2017	200,000	166,762	186,895	0.4%
US Steel Corp. (U.S. Dollars)	7.00%	2/1/2018	450,000	467,170	467,412	1.0%
				<u>13,801,704</u>	<u>14,112,754</u>	<u>31.3%</u>
Canadian common stock						
Energy						
Altagas Income Trust			50,800	1,192,368	913,892	2.0%
Enbridge Income Fund			45,600	487,426	604,656	1.3%
Fort Chicago Energy Partners LP			153,800	1,272,737	1,347,288	3.0%
Keyera Facilities Inc.			71,926	1,221,371	1,427,012	3.2%
Mullen Group Ltd.			60,700	1,142,843	945,706	2.1%
Pembina Pipeline Income Trust Units			29,300	377,774	456,787	1.0%
				<u>5,694,519</u>	<u>5,695,341</u>	<u>12.6%</u>

Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio Continued

As at October 31, 2009

	Par Value / Quantity	Average Cost \$	Fair Value \$	% of Net Assets
Materials				
Labrador Iron Ore Royalty Inc.	42,200	1,254,790	1,624,700	3.6%
Industrials				
Armtec Infrastructure Income Fund	45,600	816,742	1,001,376	2.2%
Brookfield Infrastructure Partners LP	119,500	1,858,225	1,866,590	4.1%
Genivar Income Fund	71,500	1,603,380	1,816,100	4.0%
New Flyer Limited Income Deposit Securities	162,600	1,770,796	1,442,262	3.2%
IBI Income Fund	105,950	1,367,145	1,681,427	3.7%
Westshore Terminals Income Fund	107,200	1,853,740	1,360,368	3.0%
		9,270,028	9,168,123	20.2%
Consumer Discretionary				
Cineplex Galaxy Income Fund	101,000	1,562,612	1,702,860	3.8%
Groupe Aeroplan Inc.	97,700	2,004,318	904,702	2.0%
Yellow Pages Income Fund	257,150	2,432,220	1,365,467	3.0%
CML Healthcare Income Fund	164,300	2,558,832	2,196,691	4.9%
		8,557,982	6,169,720	13.7%
Financials				
Allied Properties Real Estate Investment Trust	83,100	1,388,928	1,387,767	3.1%
Altus Group Income Fund	118,100	918,434	1,459,716	3.3%
Boardwalk Real Estate Investment Trust	24,100	921,307	889,290	2.0%
Canadian Apartment Properties Real Estate Investment Trust	99,500	1,238,658	1,335,290	3.0%
Chartwell Seniors Housing Real Estate Investment Trust	312,500	1,852,123	1,871,875	4.2%
Extendicare Real Estate Investment Trust	146,300	959,687	1,111,880	2.5%
		7,279,137	8,055,818	18.1%
Utilities				
Northland Power Inc. Fund	63,500	688,673	676,910	1.5%
Total Canadian common stock		32,745,129	31,390,612	69.7%
Total Investments (Transactional net asset value)		46,546,833	45,503,366	101.0%
Transaction costs - Section 3855 adjustment (note 3)		(78,402)	-	0.0%
Total Investments (GAAP net asset value)		46,468,431	45,503,366	101.0%

	Maturity date	Number of contracts	Contract price / rate \$	Fair value \$	Unrealized gain (loss) \$	% of NAV
Foreign currency forward contracts						
Bought CAD 3,935,748 , sold USD 3,663,700	12/18/2009	1	1.0743	3,924,955	(10,793)	0.0%
Bought USD 446,300 , sold CAD 462,021	12/18/2009	1	1.0352	480,744	18,723	0.0%
Bought CAD 570,071 , sold USD 547,900	12/18/2009	1	1.0405	549,955	(20,116)	0.0%
					(12,186)	0.0%

Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio Continued

As at October 31, 2009

	Maturity date	Number of contracts	Average cost \$	Fair value \$	Unrealized gain (loss) \$	% of NAV
Futures contracts						
Foreign futures						
10 Year United States Treasury Note Futures	12/21/2009	(11)	(1,375,906)	(1,405,426)	(29,520)	-0.1%
Domestic futures						
10 Year Canadian Bond Futures	12/21/2009	13	1,556,360	1,567,150	<u>10,790</u>	<u>0.0%</u>
					<u>(18,730)</u>	<u>-0.1%</u>
Other liabilities net of other assets					<u>(1,819,834)</u>	<u>-4.0%</u>
Net assets					<u>45,051,657</u>	<u>100.0%</u>

(*) Brokers held this security as collateral against the open future contracts

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements

October 31, 2009

1 Formation of Fund

Connor, Clark & Lunn Conservative Income Fund (the "Fund") is an investment fund established under the laws of the Province of Ontario pursuant to a trust agreement dated as of November 29, 2004 (the "Trust Agreement") between Connor, Clark & Lunn Capital Markets Inc. (the "Manager") in its capacity as manager and RBC Dexia Investor Services Trust ("RBC Dexia") (formerly "The Royal Trust Company") (the "Trustee") as trustee.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated November 29, 2004 are (i) to pay to holders of Units ("Unitholders") a monthly cash distributions of approximately \$0.0583 per Unit (\$0.70 per annum to yield 7.0% per annum on the issue price of \$10.00 per Unit) and (ii) preserve net asset value in order to return at least the issue price of the Units (\$10.00 per Unit) on or about December 15, 2014.

3 Summary of significant accounting policies

Terms and definitions

Any reference to "Net Assets" or "Net Assets per Unit" or "GAAP Net Assets" means that the value was determined in accordance with Canadian Generally Accounting Principles "GAAP" for financial statements purposes. Also any reference to "Net Asset Value" or "Net Asset Value per Unit" or "Transactional NAV" means that the value was determined for valuation and transactional purposes. An explanation of the difference between both values can be found below.

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Future accounting changes

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on January 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Fund. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Adoption of New Accounting Standards

CICA Section 3862, "Financial Instruments – Disclosures": In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Fund adopted the amendments to Section 3862 as of November 1, 2008. This standard impacted the Fund's disclosure provided but did not affect the Fund's results or financial position.

EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities": On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The abstract requires the entity's own credit risk and the risk of the counterparty should be taken into consideration in assessing the fair value of financial assets and financial liabilities. The Fund adopted the abstract as of November 1, 2008.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The fund calculates its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day). The Fund did not change its methodology in this respect.

As at October 31, 2009, the Fund's net asset value per unit was \$8.31. The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed above. The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Section 3855 is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Per Unit			
Opening Value – November 1, 2008	7.50	(0.05)	7.45
Closing Value – October 31, 2009	8.31	(0.03)	8.28

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements

October 31, 2009

Cash and short-term investments

Cash and short-term investments are deemed to be held for trading and therefore are carried at fair value.

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. 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. Due to the nature of these investments, actual allocations could vary from this information. Distributions from income trusts that are treated as return of capital for income tax purposes reduce the average cost of the underlying trust. Realized gains and losses on investments and unrealized appreciation and depreciation in value calculated using average cost. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash and cash equivalents) are attributable to investments and derivatives which are deemed held for trading.

Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date, and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

Future contracts

The futures contracts are Exchange-traded futures contracts. Futures contracts are valued at their settlement price at the close of business on each Valuation Date. Any difference between the settlement value at the close of business on the current Valuation Date and that of the previous Valuation Date is recorded in the Statements of Operations and in the Statements of Net Assets as Unrealized gain (loss). Amounts receivable (payable) from futures contracts are reflected in the Statements of Net Assets as unrealized gain or loss on future contracts and variation margin receivable (payable).

Unit valuation

The net asset value per unit is determined by dividing the aggregate market value of net assets of the Fund by the total number of units of the Fund outstanding before giving effect to redemptions or subscriptions for units on that day.

4 Market Purchase Program

In accordance with the Fund's prospectus, and to enhance liquidity and to provide support to the units, the Fund has a mandatory market purchase program under which the Fund, subject to exceptions contained in the Trust Agreement and in compliance with any regulatory requirements, is obligated to purchase its own units for cancellation. If, on any business day, the closing price of the units is less than 95% of the net asset value per unit determined by the trustee as at the most recent valuation date, the Fund will offer to purchase for cancellation any units offered in the market at or below 95% of the net asset value per unit on the following business day. The maximum number of units to be purchased in any quarterly period will not be over 1.25% of the number of units outstanding at the beginning of such period.

During the year ended October 31, 2009, the Fund purchased 114,200 Units for cancellation at a total cost of \$759,683 (39,000 units at a cost of \$324,541 during the year ended October 31, 2008). All units purchased by the Fund either were or will be cancelled.

5 Units of the Fund

Units of the Fund were offered to the public by way of prospectus. The Fund is authorized to issue 14,375,000 (representing the maximum amount stated in the prospectus plus a 15% over allotment) transferable, redeemable Fund units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

Units may be surrendered at any time for redemption by the Fund. Where Units are surrendered for redemption prior to the 10th business day of the month, Units will be redeemed on the last business day of that month (a "Redemption Date"); where Units are surrendered after the 10th day of the month, Units will be redeemed on the Redemption date of the following month. For redemptions occurring on a Redemption Date other than the January Redemption Date of each year, the redemption price per Unit is equal to the lesser of:

- (a) 95% of the weighted average trading price of the Units on the Toronto Stock Exchange for the ten trading days immediately preceding the applicable Redemption Date, and
- (b) 100% of the closing price of the Units on the Toronto Stock Exchange on the applicable Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with the redemption including costs incurred in liquidating securities held in the portfolio.

For redemptions on the January Redemption Date in each year the redemption price will be equal to the net asset value per Unit determined as of the relevant Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with the redemption including costs incurred in liquidating securities held in the portfolio. In January 2009, the Fund's annual Redemption Date, unitholders exercised their right to redeem 1,183,995 units at January 31, 2009 NAV per unit price totalling \$8,336,484 less the costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the portfolio (the amount \$19,168,910 was paid to redeem 1,989,219 units at January 31, 2008).

If the redemption price is lower than the original price, the difference is included in Contributed Surplus on the statements of net assets. If the price is greater than the original issue price, the difference is first charged to Contributed Surplus until the entire account is eliminated, and the remaining amount is charged to retained earnings (deficit).

The Fund considers capital to include all units issued and outstanding. The Fund manages their capital in accordance with the objectives outlined in Note 2.

Changes in outstanding units during year ended October 31, 2009 and 2008 are summarized as follows:

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements

October 31, 2009

	2009	2008
Balance – beginning of year	6,736,634	8,764,853
Units redeemed under the Market Purchase Program (note 4)	(114,200)	(39,000)
Units redeemed	<u>(1,183,995)</u>	<u>(1,989,219)</u>
Balance – end of year	<u>5,438,439</u>	<u>6,736,634</u>

6 Custodian

Pursuant to a custodian agreement (“the Custodian Agreement”), the Fund has retained RBC Dexia to act as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund’s day-to-day operations. In consideration for these services, the Fund pays a fee to the Custodian.

7 Distributions

The targeted monthly distribution rate is \$0.0583 per Unit. During the year ended October 31, 2009, the Fund met its targeted monthly distribution and paid total distributions of \$4,050,477, or \$0.70 per Unit (\$5,075,929, or \$0.70 per Unit during the year ended October 31, 2008).

8 Management fees and other expenses

Pursuant to a management agreement (“the Management Agreement”) the Fund has retained Connor, Clark & Lunn Capital Markets Inc. (“the Manager”) to act as manager. As compensation for management services rendered to the Fund, the Manager receives an annual management fee in an amount equal to 1.1% of the net asset value of the Fund, calculated and paid monthly in arrears, plus applicable taxes. The Fund also pays a service fee to dealers whose clients hold Units in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.40% annually of the net asset value of the Units held by clients of the dealers. The Fund is also responsible for all expenses incurred in connection with its operation and administration.

9 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized. 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 \$111,373 broker commissions paid during the year ended October 31, 2009 (\$136,834 during the year ended October 31, 2008) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

11 Financial instruments

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Held for trading	46,957,321	50,964,337
Loans and receivables	916,513	1,491,088
Total assets	47,873,834	52,455,425
<u>Liabilities</u>		
Held for trading	30,916	618,950
Financial liabilities at amortized cost	2,794,101	1,670,905
Total liabilities	2,825,017	2,289,855

For the purposes of categorization in accordance with section 3862, interest and dividends receivable, receivable from investment sales and variation margin receivable are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, payable for investment purchases, distributions payable, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

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

Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements

October 31, 2009

Assets at fair value as at October 31, 2009	Level 1	Level 2	Level 3	Total
Equities	31,390,612	–	–	31,390,612
Bonds	–	14,112,754	–	14,112,754
Total	31,390,612	14,112,754	–	45,503,366

Liabilities at fair value as at October 31, 2009	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	12,186	–	12,186
Future contracts	18,730	–	–	18,730
Total	18,730	12,186	–	30,916

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

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

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

Foreign currency forward contracts: Foreign currency forward contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable, or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

Future contracts: The Fund holds future contracts which relate to the United States Treasury Note and Canada Bonds. These contracts are Exchange-traded and, therefore, are classified as Level 1 as the fair value is based on a quote in an active market.

There were no transfers among the three levels during the year ended October 31, 2009.

12 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The following is a description of these risks.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and fixed income derivatives. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

2009:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	337,440	810,900	1,973,262	10,991,152	31,359,696	45,472,450
Cash and cash equivalents	1,399,041	–	–	–	54,914	1,453,955
Other assets	–	–	–	–	919,353	919,353
Liabilities	–	–	–	–	(2,794,101)	(2,794,101)
Net assets	1,736,481	810,900	1,973,262	10,991,152	(29,539,862)	45,051,657

2008:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	1,466,552	1,311,395	2,185,630	8,974,289	35,737,473	49,675,339
Cash and cash equivalents	1,193,301	–	–	–	72,899	1,266,200
Other assets	22,798	–	–	–	1,495,069	1,517,867
Liabilities	–	–	–	–	(2,289,855)	(2,289,855)
Net assets	2,682,651	1,311,395	2,185,630	8,974,289	35,015,586	50,169,551

As at October 31, 2009, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$895,000 (2008 - \$652,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Statement of Investments identifies all bonds denominated in foreign currencies. Bonds from other countries are presumed to be denominated in that country's currency unless otherwise noted.

The table below summarizes the Fund's exposure to foreign currencies as at October 31, 2009. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as futures and forward contracts. Other financial assets such as interest and variation margin receivable and liabilities such as accounts payable and accrued liabilities denominated in foreign currencies do not expose the Fund to significant currency risk. The table below summarizes the Fund's exposure to foreign currencies and the approximate impact on net assets had the Canadian Dollar ("CAD") weakened by 5% in relation to these currencies. If the CAD were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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2009:

	Monetary instruments \$	Non- monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	4,507,961	–	(4,023,686)	484,275	1.1%	24,000

2008:

	Monetary instruments \$	Non- monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	5,314,413		(6,889,182)	(1,574,769)	(3.1%)	(79,000)
European Union Euro	395,473	-	(494,758)	(99,285)	(0.2%)	(5,000)

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. Except for futures contracts, the maximum risk resulting from financial instruments is equivalent to their fair value. Possible losses from futures contracts can be unlimited. The Fund's equity instruments 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 October 31, 2009, with all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$3,139,000. In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

Credit risk is the risk that the Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at October 31, 2009. This also applies to other assets, as they have a short-term to settlement.

The table below summarizes the Fund's exposure to credit risk as of October 31, 2009. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

2009:

Rating ⁽¹⁾	(% of Net Assets)	Rating ⁽¹⁾	(% of Net Assets)
AAA	-0.10%	BB+	1.50%
AA+	0.90%	BB	1.50%
A+	0.40%	B	1.10%
A	3.60%	B-	0.60%
A-	10.60%	CCC	0.70%
BBB+	1.40%	N/R	1.80%
BBB	2.10%	A-1+	2.00%
BBB-	5.10%	A-1	1.10%
		Total	34.30%

2008:

Rating ⁽¹⁾	(% of Net Assets)	Rating ⁽¹⁾	(% of Net Assets)
AAA	0.90%	BB+	2.50%
AA-	0.30%	BB-	2.40%
A+	3.00%	B+	0.80%
A	2.60%	B-	2.70%
A-	2.40%	N/R	1.40%
BBB+	4.00%	A-1+	0.70%
BBB	0.60%	A-1	1.70%
BBB-	4.30%		
		Total	30.3%

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As at October 31, 2009 and 2008, no debt securities were contractually past due and no longer meeting interest payment obligations.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Liquidity risk

The Fund is exposed to daily cash redemptions due to its market purchase program which are limited to certain conditions. The Fund is also exposed to unlimited annual anniversary redemptions on January 31 of every year (see notes 4 and 5). Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. In addition, the Fund retains sufficient cash and cash equivalent positions to meet its daily cash requirements.

13 Loan agreement

As part of its strategy, the Investment Manager may employ leverage in the Portfolio to enhance returns when market conditions are considered appropriate. The Investment Manager may reduce or eliminate leverage and may increase the allocation to cash when the Investment Manager believes the outlook for market performance is unfavourable. The aggregate amount of borrowings and other leverage under the Leverage Transactions may not exceed 15% of the assets of the Fund. Such leverage may be used to purchase additional securities for the Portfolio.

On November 29, 2005, the Fund entered into a Revolving Term Credit Facility Agreement (the "Credit Facility") with the Bank of Montreal ("BMO") with a revolving period maturity date on November 28, 2006. Under the terms of this agreement, the maximum allowable borrowing limit is the lesser of (i) the amount \$16,000,000 or (ii) 15% of the gross asset value of the Fund.

Leverage has not been used since early October 2006.

14 Future contracts

As of October 31, 2009, brokers held the following security as collateral against the open future contracts:

<u>Security</u>	<u>Maturity</u>	<u>Par value</u>	<u>Market value</u>
Canada Treasury Bills	12/10/2009	100,000	99,897

As of October 31, 2008, brokers held the following security as collateral against the open future contracts:

<u>Security</u>	<u>Maturity</u>	<u>Par value</u>	<u>Market value</u>
Ontario Treasury Bills	12/05/2008	100,000	99,361

15 Reclassification

Certain of the 2008 comparative figures have been reclassified from the statements previously presented to conform to the presentation of the 2009 annual financial statements.