

Connor, Clark & Lunn

CAPITAL MARKETS INC.

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**Connor, Clark & Lunn**  
**Conservative Income Fund**  
Semi-Annual Report  
April 30, 2006

**Connor, Clark & Lunn Conservative Income Fund Message to Unitholders**

**April 30, 2006**

**Dear Investor,**

These semi-annual financial statements are in respect of the period from October 31, 2005 until April 30, 2006. We welcome the opportunity to provide you with an update.

The Connor, Clark & Lunn Conservative Income Fund (the "Trust") has performed well over the period, which commenced close to the bottom of the largest broad correction in the income trust indexes this decade, precipitated by the Liberal Government's review of income trusts. With solid positioning in large capitalization, S&P/TSX Composite Index eligible income trusts, the Fund was well positioned for the ensuing rally that continued through the end of 2005 and into 2006. The Trust's net asset value was \$9.43 on October 31, 2005 and had increased to \$10.37 as at April 30, 2006. The Trust has made all its scheduled distributions to date. In total, the Trust declared distributions totalling \$0.9628 per unit from inception to the end of April 30, 2006 for an annualized yield on the \$10.00 original issue price of 7.00%.

Ten-year bond yields generally trended lower through to mid-January further fuelling the rally in income trusts. However, since mid January the bond market has witnessed a fairly substantial back up in interest rates driven by strengthening economic data and an increased probability that the US Fed continues to hike rates towards 5.0%. Despite weakness in the bond market thus far in 2006, the income trust market reached all-time highs in April driven by commodity-related sectors. The Trust's Investment Manager, Connor, Clark & Lunn Investment Management (the "Investment Manager") believes this has been a reaction to continued strong fund flows driven by the growth of equity fund participation in income trusts following the completion of S&P/TSX Composite index inclusion in two stages: December 16<sup>th</sup> and March 17<sup>th</sup> as well as the continued ascent of energy prices which have a significant impact on Oil & Gas Royalty trusts.

Early in 2006 the Investment Manager took action to protect the portfolio from rising interest rates by shortening the duration of the bond portion of the Fund and employing interest rate hedges at the portfolio level. Income trusts reached all-time highs in the period despite the back up in interest rates which, combined with potential for slower fund flows following the completion of RRSP season and equity index inclusion, could present some near-term weakness in the income trust market. The Investment Manager have been focused on taking selective profits in the more interest-sensitive REIT and utility sectors while building some cash to react to opportunities as they present themselves.

While there has been considerable volatility in the income trust market for the period, the conclusion of the government consultation process has removed the uncertainty that persisted in the market throughout most of October and November and the market has strengthened considerably. In addition, income trust inclusion in the S&P/TSX Composite Index has added additional stability to the market as equity fund investment now represents a substantial constituency of the income trust market.

We look forward to the coming months and believe the Trust's portfolio is well positioned for the current environment.

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 contains financial highlights but does not contain the complete annual financial statements of the investment fund. **The annual financial statements and accompanying notes are attached to this report.**

## Investment Objectives and Strategy

The Connor, Clark & Lunn Conservative Income Fund (the “Trust”) is a closed-end investment trust that is listed on the Toronto Stock Exchange under the symbol CCQ.UN.

The Trust’s investment objectives are to:

- (i) provide a stable stream of monthly cash distributions targeted to be 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 Trust’s investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”), the Trust’s investment manager, invests the net proceeds of the Offering, together with any borrowings under the Trust’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 Trust occurred in the following areas:

### *Use of leverage:*

The Trust is entitled to employ leverage of up to 15% of its total assets. The Trust employed leverage in the range of 0-10% following the positive resolution of the government consultation process on income trusts based on a positive view of the sector driven by income trust inclusion in the S&P/TSX Composite Index.

More recently, leverage has been reduced given the Investment Manager’s concerns regarding near-term weakness in the income trust market and to provide the Investment Manager with flexibility to meet new investment opportunities as they arise.

### *Use of Derivatives:*

The Trust has employed the use of 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 Trust has also actively hedged foreign currency exposure, in particular the market value exposure associated with the position in Citigroup Financial Inc. corporate bonds.

### ***Fluctuations in Net Asset Value:***

The drop in market capitalization of Canadian income trusts in response to the government consultation process served to highlight the exposure of investment value to tax policy. While the process appears to have resolved favourably for trusts, there is no assurance that this issue will not be revisited in the future.

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

## **Results of Operations**

During the period, US and Canadian equity markets were robust, fuelled by strong commodity related securities and solid economic data. Long-term bond yields in both Canada and the US fell from October to mid-January, but have since seen a substantial back-up as economic data has strengthened and the Fed has been viewed to be more hawkish than anticipated. Short-term interest rates were considerably higher in the US, where the Federal Reserve continued to remove stimulus from the economy and hiked interest rates in four quarter-point increments to stand at 4.75%, while in Canada there were also four quarter-point interest rate hike during the period to stand at 4.00%.

On November 23<sup>rd</sup> the Liberal Government pre-empted the conclusion of their consultation process on income trusts and declared that the solution to the inequity between income trusts and corporation was the reduction of double taxation of dividends. The Government further declared that the consultation process has concluded and that advance tax rulings will resume. This sparked a significant rally in the income trust market that continued through the end of 2005 and into 2006.

In addition, income trusts benefited from strong fund flows driven by the growth of equity fund participation in income trusts following the completion of the S&P/TSX Composite index inclusion in two stages: December 16<sup>th</sup> and March 17<sup>th</sup> as well as the continued ascent of energy prices which have a significant impact on Oil & Gas Royalty trusts. Despite weakness in the bond market in 2006, the income trust market continued to reach all-time highs in April driven by commodity-related sectors.

The Trust has continued to focus on high quality business trusts, REITs and utility trusts, in particular those that benefited from S&P/TSX Composite index inclusion. Early in 2006 the Investment Manger took action to protect the portfolio from rising interest rates by shortening the duration of the bond portion of the Fund and employing interest rate hedges at the portfolio level. Given the Investment Manager's view that many income trusts could react negatively to rising interest rates, it has been focused on taking selective profits in the more interest-sensitive REIT and utility sectors while building some cash to react to opportunities as they present themselves.

The Trust is entitled to employ leverage of up to 15% of its total assets. The Trust employed leverage in the range of 0-10% following the positive resolution of the government consultation process on income trusts based on a positive view of the sector driven by income trust inclusion in the S&P/TSX Composite Index. Leverage has been reduced towards the end of the period given the Investment Manager concerns regarding near-term weakness in the income trust market and to provide them with flexibility to meet new investment opportunities as they arise.

### ***Investment Income and Capital Gains***

During the six months period ended April 30, 2006, the Trust earned net investment income of \$3.8 million and realized \$1.4 million in gains on investments sold. In addition, the portfolio had a \$12.7 million increase in unrealized gains on its investments. Income, realized gains and unrealized gains combined for a total increase in net assets from operations of \$17.9 million, or \$1.36 per Unit. Distributions to unitholders during same period totalled \$4.6 million, or \$0.35 per Unit.

### ***Liquidity and Capital Resources***

As at April 30, 2006, the Trust held cash and short-term investments of \$660,506. Short-term liabilities, including distributions accrued but not yet paid, totalled \$1,804,454.

## ***Leverage***

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

As at April 30, 2006, the Fund had a total Bank Indebtedness balance of \$3,700,000. The value of the net assets on April 30, 2006 was \$122,684,408. As such, the Trust’s debt was approximately 3.02% of its net assets value.

## ***Capital transactions***

On December 15, 2004, the Trust 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.

During January 2006 the fund had its annual redemption date. \$22,462,225 was paid to redeem 2,171,487 units at January 31, 2006 NAV per unit price minus the costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the Portfolio.

## ***Market repurchases***

As set out in the Prospectus, the Trust 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 Trust must purchase any units offered in the market the following day at 95% of net asset value per unit or less. Pursuant to this obligation, the Trust purchased 292,900 Units during the period for a total cost of \$2,859,244.

## **Distributions**

The Trust has made all its scheduled distributions during the six months period ended April 30, 2006 paying regular monthly distributions of \$0.0583 on the last business day of each month totalling \$0.3498 per unit.

## **Recent Developments**

On November 23<sup>rd</sup> the Liberal Government, pre-empted the conclusion of their consultation process and declared that the solution to the inequity between income trusts and corporation was the reduction of double taxation of dividends. The Government further declared that the consultation process has concluded and that advance tax ruling will resume.

72 income trusts were added to the S&P/TSX Composite Index in two stages, with half of the ultimate weight added after the close on December 16, 2005 and the remaining weight added on March 17, 2006.

## **Related Party Transactions**

### ***Management Fees***

Pursuant to a trust agreement (“the Trust Agreement”) the Trust 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 Trust, 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 Trust to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Trust during the six months period ended April 30, 2006 were \$752,458.

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

## Financial Highlights:

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

The Trust's Net Asset Value per share:

	April 30, 2006 <sup>(1)</sup>	October 31, 2005 <sup>(2)</sup>
<b>Net Asset Value, beginning of period</b>	<b>9.43</b>	<b>10.00</b>
<b>Increase (decrease) from operations:</b>		
Total revenues	0.38	0.64
Total expenses	(0.09)	(0.15)
Share issue expense <sup>(3)</sup>	–	(0.57)
Realized gains (losses) for the period	0.11	0.63
Unrealized gains (losses) for the period	0.96	(0.51)
<b>Total increase (decrease) from operations <sup>(4)</sup></b>	<b>1.36</b>	<b>0.04</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.17)	(0.30)
From dividends	(0.03)	(0.05)
From capital gains	(0.14)	(0.24)
Return of capital	(0.01)	(0.02)
<b>Total Distributions <sup>(5)</sup></b>	<b>(0.35)</b>	<b>(0.61)</b>
<b>Net Asset Value, end of period <sup>(6)</sup></b>	<b>10.37</b>	<b>9.43</b>

<sup>(1)</sup> Results for the six month period ended April 30, 2006.

<sup>(2)</sup> Results for the period December 15, 2004 (Inception date) to October 31, 2005.

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

<sup>(4)</sup> 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.

<sup>(5)</sup> Distributions were paid in cash. The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

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

Ratios and Supplemental Data:

	April 30, 2006 <sup>(1)</sup>	October 31, 2005 <sup>(2)</sup>
Net assets (000's)	122,684	134,697
Number of units outstanding	11,825,913	14,290,300
Base Management expense ratio <sup>(3) (4)</sup>	1.61%	1.71%
Issue expenses ratio <sup>(3) (4)</sup>	–	5.69%
Interest expense ratio (annualized) <sup>(3) (4)</sup>	0.20%	–
Management expense ratio (annualized) <sup>(4)</sup>	1.81%	7.40%
Management expense ratio before waivers or absorptions (annualized) <sup>(4)</sup>	1.81%	7.40%
Portfolio turnover rate <sup>(5)</sup>	40.81%	67.31%
Trading expense ratio <sup>(6)</sup>	0.28%	0.16%
Closing market price (TSX)	9.65	9.01

<sup>(1)</sup> Results for the six month period ended April 30, 2006.

<sup>(2)</sup> Results for the period December 15, 2004 (Inception date) to October 31, 2005.

<sup>(3)</sup> 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; and (ii) Interest expense ratio: representing interest expense on bank indebtedness.

<sup>(4)</sup> 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.

<sup>(5)</sup> The trust's turnover rate indicates how actively the Trust's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the trust'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.

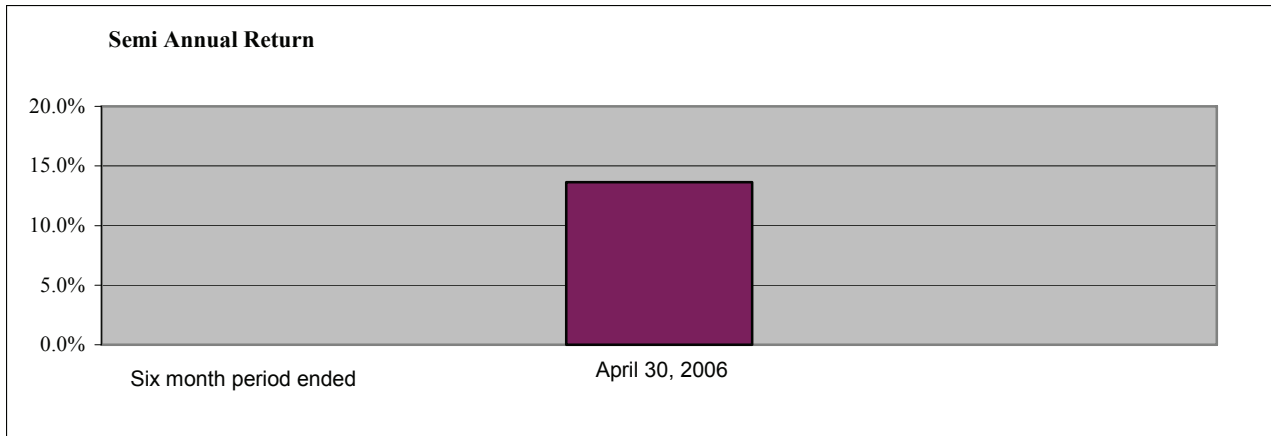
<sup>(6)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Past Performance

The following bar chart indicates the performance of the units by showing the semi annual returns assuming all the distributions made by the Trust during the period shown were reinvested. Past performance is not necessarily indicative of future performance.

### *Semi Annual Return*

The following bar chart shows the Trust's semi annual performance for the period shown. This bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decrease by the last day of the period.



## Summary of Investment Portfolio as of April 30, 2006

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at [www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com) and at [www.sedar.com](http://www.sedar.com).

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Market Value \$	% of NAV
<b>Short-term investments</b>						
<b>Bankers acceptance</b>						
Bank of Nova Scotia		6/5/2006	150,000	148,985	148,985	0.1%
Royal Bank		6/26/2006	250,000	248,262	248,262	0.2%
<b>Canadian government notes</b>						
Canada Treasury Bills		11/2/2006	100,000	97,699	97,699	0.1%
<b>Total Short Term Paper</b>				<u>494,946</u>	<u>494,946</u>	<u>0.4%</u>
<b>Investments</b>						
<b>Corporate bonds</b>						
Altalink Investments LP, Series 5-1	5.02%	11/21/2012	945,000	936,353	927,133	0.8%
Bell Canada Subordinated Debentures	8.88%	4/17/2026	1,380,000	1,852,677	1,711,125	1.4%
Bell Canada Subordinated Debentures	7.65%	12/30/2031	3,142,000	3,729,083	3,519,414	2.9%
Brascan Corporation Debentures	5.95%	6/14/2035	1,370,000	1,446,020	1,356,358	1.1%
Canadian Tire Corporation Ltd.	6.32%	2/24/2034	1,733,000	1,881,500	1,782,584	1.5%
Citigroup Financial Inc.	5.37%	3/6/2036	1,530,000	1,462,123	1,461,907	1.2%
General Motors Acceptance Corp. Canada Ltd.	5.35%	10/1/2009	133,000	121,695	121,322	0.1%
General Motors Acceptance Corp. Canada Ltd.	5.25%	9/30/2009	156,000	142,584	141,867	0.1%
General Motors Acceptance Corp. Canada Ltd.	5.70%	6/29/2009	190,000	173,499	177,808	0.1%
General Motors Acceptance Corp. Canada Ltd.	5.30%	9/1/2009	300,000	269,076	273,333	0.2%
General Motors Acceptance Corp. Canada Ltd.	5.55%	11/30/2009	343,000	313,323	315,819	0.3%
General Motors Acceptance Corp. Canada Ltd.	5.10%	4/30/2009	370,000	332,649	340,690	0.3%
General Motors Acceptance Corp. Canada Ltd.	5.60%	6/18/2009	440,000	400,739	409,674	0.3%
General Motors Acceptance Corp. Canada Ltd.	5.10%	9/22/2008	918,000	815,643	860,147	0.7%
General Motors Acceptance Corp. Canada Ltd.	5.40%	9/24/2009	1,132,000	979,180	1,045,247	0.9%
General Motors Acceptance Corp. Canada Ltd.	5.20%	5/21/2009	2,465,000	2,195,058	2,279,056	1.9%
Greater Toronto Airport Authority	6.47%	2/2/2034	4,904,000	5,265,055	5,360,116	4.4%
HSBC Holdings Plc (US\$)	6.50%	5/2/2036	584,000	657,659	660,113	0.5%
Rogers Wireless Inc	7.63%	12/15/2011	3,585,000	3,777,413	3,826,988	3.1%
Shaw Communications Inc. Callable Debentures	6.15%	5/9/2016	2,360,000	2,578,450	2,548,324	2.1%
Toronto Dominion Bank	4.97%	10/30/2014	595,000	595,080	583,987	0.5%
<b>Total corporate bonds</b>				<u>29,924,859</u>	<u>29,703,012</u>	<u>24.4%</u>
<b>Canadian common stock</b>						
<b>Energy</b>						
Duke Energy Income Fund			118,000	1,205,218	1,531,640	1.2%
Keyera Facilities Inc T/U			56,900	995,131	1,211,970	1.0%
				<u>2,200,349</u>	<u>2,743,610</u>	<u>2.2%</u>
<b>Materials</b>						
Labrador Iron Ore Royalty Inc.			29,900	765,917	889,525	0.7%
Noranda Income Fund			186,500	2,318,077	2,251,055	1.8%
				<u>3,083,994</u>	<u>3,140,580</u>	<u>2.5%</u>

**Summary of Investment Portfolio as of April 30, 2006 .... Continued**

	<b>Rate %</b>	<b>Maturity Date</b>	<b>Par Value / Quantity</b>	<b>Average Cost \$</b>	<b>Market Value \$</b>	<b>% of NAV</b>
<b>Commercial Services &amp; Supplies</b>						
Newalta Income Fund			142,600	3,312,583	4,570,330	3.7%
The Data Group Income Fund			74,800	748,000	729,300	0.6%
				<u>4,060,583</u>	<u>5,299,630</u>	<u>4.2%</u>
<b>Transportation</b>						
BFI Canada Income Fund			127,800	3,100,718	3,559,230	2.9%
Canadian Helicopters Income Fund			260,300	2,603,000	2,407,775	2.0%
Oceanex Income Fund			149,700	2,326,855	2,236,518	1.8%
Student Transportation of America IPS			180,900	1,832,670	2,234,115	1.8%
				<u>9,863,243</u>	<u>10,437,638</u>	<u>8.5%</u>
<b>Consumer Durables &amp; Apparel</b>						
Davis & Henderson Income Fund			161,000	3,392,614	3,268,300	2.7%
<b>Hotels Restaurants &amp; Leisure</b>						
Consumers' Waterheater			102,300	1,600,313	1,462,890	1.2%
Gateway Casinos Income Fund			224,400	4,390,202	4,050,420	3.3%
				<u>5,990,515</u>	<u>5,513,310</u>	<u>4.5%</u>
<b>Media</b>						
Aeroplan Units			544,750	6,889,685	6,836,612	5.5%
Canwest MediaWorks Income Fund			263,000	2,504,372	2,353,850	1.9%
Cineplex Galaxy Income Fund			286,500	4,297,999	4,864,770	4.0%
Yellow Pages Income Fund			547,600	7,342,261	9,008,020	7.3%
				<u>21,034,317</u>	<u>23,063,252</u>	<u>18.7%</u>
<b>Household &amp; Personal Products</b>						
Arctic Glacier Income Trust Units			404,700	4,708,669	4,390,995	3.6%
<b>Health Care Equipment &amp; Services</b>						
CML Healthcare Income Fund			460,300	5,987,920	6,637,526	5.4%
Keystone North America			197,000	1,915,372	1,901,050	1.5%
Medical Facilities Corp. - IPSs			264,700	3,204,916	2,649,647	2.2%
				<u>11,108,208</u>	<u>11,188,223</u>	<u>9.1%</u>
<b>Real Estate</b>						
Calloway Real Estate Investment Trust			147,400	3,475,129	3,670,260	3.0%
Canadian Apt Pptys Real Estate Investment Trust			186,600	2,703,382	3,082,632	2.5%
Chartwell Seniors Housing Real Estate Investment Trust			214,800	2,845,074	2,981,424	2.4%
Crombie Real Estate Investment Trust			164,000	1,640,000	1,795,800	1.5%
Scott's Real Estate Investment Trust			205,200	2,052,000	1,986,336	1.6%
Summit Real Estate Investment Trust			46,900	947,561	1,172,969	1.0%
Sunrise Senior Living Real Estate Investment Trust			49,500	505,610	606,375	0.5%
				<u>14,168,756</u>	<u>15,295,796</u>	<u>12.5%</u>

**Summary of Investment Portfolio as of April 30, 2006 .... Continued**

	<b>Rate %</b>	<b>Maturity Date</b>	<b>Par Value / Quantity</b>	<b>Average Cost \$</b>	<b>Market Value \$</b>	<b>% of NAV</b>
<b>Utilities</b>						
Fort Chicago Energy Partners L.P.			45,000	458,481	531,900	0.4%
Great Lakes Hydro Inc. Fd Trust Units			148,000	2,538,200	2,661,040	2.2%
Innergex Power Income Fund			155,300	1,931,932	2,126,057	1.7%
Inter Pipeline Fund			201,600	1,710,954	1,921,248	1.6%
Pembina Pipeline Income Trust Units			93,300	1,287,719	1,572,105	1.3%
Primary Energy Recycling Corp. EIS			301,900	3,019,000	2,795,595	2.3%
				<u>10,946,286</u>	<u>11,607,945</u>	<u>9.5%</u>
<b>Total canadian common stock</b>				<u>90,557,534</u>	<u>95,949,279</u>	<u>78.0%</u>
<b>Total investments</b>				<u>120,482,393</u>	<u>125,652,291</u>	<u>102.4%</u>
	<b>Maturity date</b>	<b>Number of contracts</b>	<b>Contract price / rate \$</b>	<b>Market value \$</b>	<b>Unrealized gain (loss) \$</b>	<b>% of NAV</b>
<b>Futures contracts</b>						
10 Year Canadian Bond Futures	6/16/2006	(83)	112.07	(9,150,750)	150,950	0.1%
<b>Foreign currency forward contracts</b>						
Bought USD 583,159, sold CAD 657,803	5/3/2006	1	1.12800	657,896	(4,435)	0.0%
Bought CAD 667,494, sold USD 593,149	7/27/2006	1	1.12534	669,082	4,419	0.0%
<b>Total foreign currency forward contracts</b>					<u>(16)</u>	<u>0.0%</u>
<b>Liabilities, net of other assets</b>					<u>(3,613,763)</u>	<u>-2.9%</u>
<b>Net asst value (NAV)</b>					<u>122,684,408</u>	<u>100.0%</u>

## **Connor, Clark & Lunn Conservative Income Fund**

Financial Statements (Unaudited)

**April 30, 2006**

***Notice to Reader:***

*These interim financial statements and related notes for the six month period ended April 30, 2006 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Company have not audited or reviewed these interim financial statements.*

# Connor, Clark & Lunn Conservative Income Fund

Statement of Net Assets

As at April 30 2006 and October 31, 2005

	2006 (Unaudited)	2005 (Audited)
	\$	\$
<b>Assets</b>		
Cash	165,560	49,095
Short-term investments	494,946	4,780,545
Investments at market value (cost - 120,482,393; 2005 - \$136,414,472)	125,652,291	129,060,880
Interest and dividends receivable	1,107,868	1,302,916
Receivable from investment sales	581,572	561,744
Unrealized gain on future contracts	150,950	-
Prepaid expenses	28,857	2,713
Interest paid in advance (note 4)	7,616	-
Unrealized gain on forward currency contracts	4,419	36,915
	<u>128,194,079</u>	<u>135,794,808</u>
<b>Liabilities</b>		
Bank indebtedness (note 4)	3,700,000	-
Distributions payable	692,284	833,579
Payable for investment purchases	653,458	-
Market repurchases payable (note 5)	304,489	-
Accounts payable and accrued liabilities	56,683	108,617
Management fees payable	97,540	143,826
Unrealized loss on forward currency contracts	4,435	12,055
Variation margin payable (note 10)	782	-
	<u>5,509,671</u>	<u>1,098,077</u>
<b>Net Assets and Unitholders' Equity</b>	<u>122,684,408</u>	<u>134,696,731</u>
<b>Units issued and outstanding</b> (note 6)	<u>11,825,913</u>	<u>14,290,300</u>
<b>Net asset value per unit</b>	<u>10.37</u>	<u>9.43</u>
<b>Unitholders' Equity</b>		
Unit capital	118,259,130	142,903,000
Contributed surplus (deficit)	(639,378)	38,221
Surplus (deficit)	5,064,656	(8,244,490)
<b>Total Unitholders' Equity</b>	<u>122,684,408</u>	<u>134,696,731</u>

Approved by the Manager



Director



Director

## Connor, Clark & Lunn Conservative Income Fund

Statement of Operations (Unaudited)

For the six month period ended April 30, 2006 and for the period from December 15, 2004 (commencement of operations) to April 30, 2005

	2006	2005
	\$	\$
<b>Income</b>		
Dividends received from income trusts	4,111,118	3,392,327
Interest	903,020	612,779
	<u>5,014,138</u>	<u>4,005,106</u>
<b>Expenses</b>		
Management fees	752,458	625,515
Service fees	260,369	205,572
Interest expenses	135,957	56
Custodial and other unitholders' fees	18,869	19,799
Advisory fees	10,875	8,024
Audit Fees	9,341	7,384
Listing fees	6,876	8,583
Transfer agent fees	6,394	-
Printing fees	6,341	4,770
Legal fees	5,284	3,975
Other	4,307	2,917
	<u>1,217,071</u>	<u>886,595</u>
<b>Investment income (loss) for the period</b>	<u>3,797,067</u>	<u>3,118,511</u>
<b>Net realized gain (loss) on investments</b>		
Net realized gain (loss) on investments	1,269,922	1,535,258
Net realized gain (loss) on foreign exchange	8,198	(4,859)
Net realized gain (loss) on future contracts	90,877	-
Net realized gain (loss) on foreign exchange contracts	78,191	(2,637)
	<u>1,447,188</u>	<u>1,527,762</u>
<b>Net unrealized gain (loss) on investments</b>		
Change in unrealized gain (loss) on investments	12,523,491	5,194,132
Unrealized gain (loss) on future contracts	150,950	-
Change in unrealized gain (loss) on foreign exchange contracts	(24,877)	-
	<u>12,649,564</u>	<u>5,194,132</u>
<b>Net gain (loss) on investments</b>	<u>14,096,752</u>	<u>6,721,894</u>
<b>Increase (decrease) in net assets from operations</b>	<u>17,893,819</u>	<u>9,840,405</u>
<b>Increase (decrease) in net assets from operations per unit *</b>	<u>1.36</u>	<u>0.69</u>
<b>Distributions paid per unit</b>	<u>0.35</u>	<u>0.26</u>

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

## Connor, Clark & Lunn Conservative Income Fund

Statement of Changes in Net Assets, Surplus and Contributed Surplus (Unaudited)

For the six month period ended April 30, 2006 and for the period from December 15, 2004 (commencement of operations) to April 30, 2005

	2006	2005
	\$	\$
<b>Increase (decrease) in net assets from operations</b>	<u>17,893,819</u>	<u>9,840,405</u>
<b>Distributions to unitholders</b>	<u>(4,584,673)</u>	<u>(3,782,678)</u>
<b>Unitholders' transactions:</b>		
Proceeds from issue of units	-	143,750,000
Agents' fees and issue expenses	-	(8,176,865)
Payments on redemption of units (note 5 & 6)	<u>(25,321,469)</u>	<u>(136,867)</u>
	<u>(25,321,469)</u>	<u>135,436,268</u>
<b>Change in net assets during the period</b>	<u>(12,012,323)</u>	<u>141,493,995</u>
<b>Net assets - Beginning of period</b>	<u>134,696,731</u>	<u>-</u>
<b>Net assets - End of period</b>	<u>122,684,408</u>	<u>141,493,995</u>
<b>Surplus (deficit), beginning of period</b>	(8,244,490)	-
Increase in net assets from operations	17,893,819	9,840,405
Distributions to unitholders	(4,584,673)	(3,782,678)
Agents' fees and issue expenses	<u>-</u>	<u>(8,176,865)</u>
<b>Surplus (deficit), end of period</b>	<u>5,064,656</u>	<u>(2,119,138)</u>
<b>Contributed surplus (deficit), beginning of period</b>	38,221	-
Cost of shares repurchased at less than (in excess of) original issue price	<u>(677,599)</u>	<u>8,133</u>
<b>Contributed surplus (deficit), end of period</b>	<u>(639,378)</u>	<u>8,133</u>

(See accompanying notes to financial statements)

## Connor, Clark & Lunn Conservative Income Fund

Statement of changes in investments (Unaudited)

For the six month period ended April 30, 2006 and for the period from December 15, 2004 (commencement of operations) to April 30, 2005

	2006	2005
	\$	\$
<b>Investments at average cost – Beginning of period</b>	136,414,472	-
Cost of investments purchased	56,703,653	149,293,634
Cost of investments sold	<u>72,635,732</u>	<u>17,187,072</u>
<b>Investments at average cost – End of period</b>	120,482,393	132,106,562
Unrealized gain (loss) on investments	<u>5,169,898</u>	<u>5,194,132</u>
<b>Market value of investments</b>	<u>125,652,291</u>	<u>137,300,694</u>
Proceeds from investments sold	73,905,654	18,722,330
Cost of investments sold	<u>(72,635,732)</u>	<u>(17,187,072)</u>
<b>Net realized gain (loss) on investments</b>	<u>1,269,922</u>	<u>1,535,258</u>

(See accompanying notes to financial statements)

# Connor, Clark & Lunn Conservative Income Fund

Statement of Cash Flow (Unaudited)

For the six month period ended April 30, 2006 and for the period from December 15, 2004 (commencement of operations) to April 30, 2005

	2006	2005
	\$	\$
<b>Operating Activities</b>		
Increase (decrease) in net assets from operations	17,893,819	9,840,405
Distributions to unitholders	(4,584,673)	(3,782,678)
Items not affecting cash:		
Net realized (gain) loss on investments	(1,269,922)	(1,535,258)
Change in unrealized (gain) loss on investments	(12,523,491)	(5,194,132)
Unrealized (gain) loss on future contracts	(150,950)	-
Change in unrealized (gain) loss on foreign exchange contracts	24,877	-
Changes in non-cash working capital		
(Increase) decrease in interest and dividends receivable	195,048	(1,212,846)
(Increase) decrease in receivable from investment sales	(19,828)	-
(Increase) decrease in prepaid expenses	(26,144)	(12,792)
(Increase) decrease in interest paid in advance	(7,616)	-
Increase (decrease) in distributions payable	(141,295)	837,240
Increase (decrease) in payable on investment purchases	653,458	3,708
Increase (decrease) in market repurchases payable	304,489	-
Increase (decrease) in accounts payable and accrued liabilities	(51,934)	234,822
Increase (decrease) in management fees payable	(46,286)	-
Increase (decrease) in variation margin payable	782	-
<b>Net cash flow provided by (used in) operating activities</b>	<u>250,334</u>	<u>(821,531)</u>
<b>Investing Activities</b>		
Cost of investments purchased	(56,703,653)	(149,293,634)
Proceeds from investments sold	73,905,654	18,722,330
<b>Net cash provided by (used in) investing activities</b>	<u>17,202,001</u>	<u>(130,571,304)</u>
<b>Financing Activities</b>		
Proceeds from issuance of units	-	143,750,000
Payments on redemption of units	(25,321,469)	(136,867)
Unit issue costs	-	(8,176,865)
Proceeds from bank indebtedness	10,530,000	-
Repayment of bank indebtedness	(6,830,000)	-
<b>Net cash flow provided by (used in) financing activities</b>	<u>(21,621,469)</u>	<u>135,436,268</u>
<b>Net increase (decrease) in cash and short-term investments</b>	(4,169,134)	4,043,433
<b>Cash and short-term investments - beginning of period</b>	<u>4,829,640</u>	<u>-</u>
<b>Cash and short-term investments - end of period</b>	<u>660,506</u>	<u>4,043,433</u>

(See accompanying notes to financial statements)

## Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio (Unaudited)

As at April 30 2006

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Market Value \$	% of NAV
<b>Short-term investments</b>						
<b>Bankers acceptance</b>						
Bank of Nova Scotia		6/5/2006	150,000	148,985	148,985	0.1%
Royal Bank		6/26/2006	250,000	248,262	248,262	0.2%
<b>Canadian government notes</b>						
Canada Treasury Bills (note 10)		11/2/2006	100,000	97,699	97,699	0.1%
<b>Total Short Term Paper</b>				<u>494,946</u>	<u>494,946</u>	<u>0.4%</u>
<b>Investments</b>						
<b>Corporate bonds</b>						
Altalink Investments LP, Series 5-1	5.02%	11/21/2012	945,000	936,353	927,133	0.8%
Bell Canada Subordinated Debentures	8.88%	4/17/2026	1,380,000	1,852,677	1,711,125	1.4%
Bell Canada Subordinated Debentures	7.65%	12/30/2031	3,142,000	3,729,083	3,519,414	2.9%
Brascan Corporation Debentures	5.95%	6/14/2035	1,370,000	1,446,020	1,356,358	1.1%
Canadian Tire Corporation Ltd.	6.32%	2/24/2034	1,733,000	1,881,500	1,782,584	1.5%
Citigroup Financial Inc.	5.37%	3/6/2036	1,530,000	1,462,123	1,461,907	1.2%
General Motors Acceptance Corp. Canada Ltd.	5.35%	10/1/2009	133,000	121,695	121,322	0.1%
General Motors Acceptance Corp. Canada Ltd.	5.25%	9/30/2009	156,000	142,584	141,867	0.1%
General Motors Acceptance Corp. Canada Ltd.	5.70%	6/29/2009	190,000	173,499	177,808	0.1%
General Motors Acceptance Corp. Canada Ltd.	5.30%	9/1/2009	300,000	269,076	273,333	0.2%
General Motors Acceptance Corp. Canada Ltd.	5.55%	11/30/2009	343,000	313,323	315,819	0.3%
General Motors Acceptance Corp. Canada Ltd.	5.10%	4/30/2009	370,000	332,649	340,690	0.3%
General Motors Acceptance Corp. Canada Ltd.	5.60%	6/18/2009	440,000	400,739	409,674	0.3%
General Motors Acceptance Corp. Canada Ltd.	5.10%	9/22/2008	918,000	815,643	860,147	0.7%
General Motors Acceptance Corp. Canada Ltd.	5.40%	9/24/2009	1,132,000	979,180	1,045,247	0.9%
General Motors Acceptance Corp. Canada Ltd.	5.20%	5/21/2009	2,465,000	2,195,058	2,279,056	1.9%
Greater Toronto Airport Authority	6.47%	2/2/2034	4,904,000	5,265,055	5,360,116	4.4%
HSBC Holdings Plc (US\$)	6.50%	5/2/2036	584,000	657,659	660,113	0.5%
Rogers Wireless Inc	7.63%	12/15/2011	3,585,000	3,777,413	3,826,988	3.1%
Shaw Communications Inc. Callable Debentures	6.15%	5/9/2016	2,360,000	2,578,450	2,548,324	2.1%
Toronto Dominion Bank	4.97%	10/30/2014	595,000	595,080	583,987	0.5%
<b>Total corporate bonds</b>				<u>29,924,859</u>	<u>29,703,012</u>	<u>24.4%</u>
<b>Canadian common stock</b>						
<b>Energy</b>						
Duke Energy Income Fund			118,000	1,205,218	1,531,640	1.2%
Keyera Facilities Inc T/U			56,900	995,131	1,211,970	1.0%
				<u>2,200,349</u>	<u>2,743,610</u>	<u>2.2%</u>
<b>Materials</b>						
Labrador Iron Ore Royalty Inc.			29,900	765,917	889,525	0.7%
Noranda Income Fund			186,500	2,318,077	2,251,055	1.8%
				<u>3,083,994</u>	<u>3,140,580</u>	<u>2.5%</u>

(See accompanying notes to financial statements)

## Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio (Unaudited) .... Continued

As at April 30 2006

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Market Value \$	% of NAV
<b>Commercial Services &amp; Supplies</b>						
Newalta Income Fund			142,600	3,312,583	4,570,330	3.7%
The Data Group Income Fund			74,800	748,000	729,300	0.6%
				<u>4,060,583</u>	<u>5,299,630</u>	<u>4.2%</u>
<b>Transportation</b>						
BFI Canada Income Fund			127,800	3,100,718	3,559,230	2.9%
Canadian Helicopters Income Fund			260,300	2,603,000	2,407,775	2.0%
Oceanex Income Fund			149,700	2,326,855	2,236,518	1.8%
Student Transportation of America IPS			180,900	1,832,670	2,234,115	1.8%
				<u>9,863,243</u>	<u>10,437,638</u>	<u>8.5%</u>
<b>Consumer Durables &amp; Apparel</b>						
Davis & Henderson Income Fund			161,000	3,392,614	3,268,300	2.7%
<b>Hotels Restaurants &amp; Leisure</b>						
Consumers' Waterheater			102,300	1,600,313	1,462,890	1.2%
Gateway Casinos Income Fund			224,400	4,390,202	4,050,420	3.3%
				<u>5,990,515</u>	<u>5,513,310</u>	<u>4.5%</u>
<b>Media</b>						
Aeroplan Units			544,750	6,889,685	6,836,612	5.5%
Canwest MediaWorks Income Fund			263,000	2,504,372	2,353,850	1.9%
Cineplex Galaxy Income Fund			286,500	4,297,999	4,864,770	4.0%
Yellow Pages Income Fund			547,600	7,342,261	9,008,020	7.3%
				<u>21,034,317</u>	<u>23,063,252</u>	<u>18.7%</u>
<b>Household &amp; Personal Products</b>						
Arctic Glacier Income Trust Units			404,700	4,708,669	4,390,995	3.6%
<b>Health Care Equipment &amp; Services</b>						
CML Healthcare Income Fund			460,300	5,987,920	6,637,526	5.4%
Keystone North America			197,000	1,915,372	1,901,050	1.5%
Medical Facilities Corp. - IPSs			264,700	3,204,916	2,649,647	2.2%
				<u>11,108,208</u>	<u>11,188,223</u>	<u>9.1%</u>
<b>Real Estate</b>						
Calloway Real Estate Investment Trust			147,400	3,475,129	3,670,260	3.0%
Canadian Apt Pptys Real Estate Investment Trust			186,600	2,703,382	3,082,632	2.5%
Chartwell Seniors Housing Real Estate Investment Trust			214,800	2,845,074	2,981,424	2.4%
Crombie Real Estate Investment Trust			164,000	1,640,000	1,795,800	1.5%
Scott's Real Estate Investment Trust			205,200	2,052,000	1,986,336	1.6%
Summit Real Estate Investment Trust			46,900	947,561	1,172,969	1.0%
Sunrise Senior Living Real Estate Investment Trust			49,500	505,610	606,375	0.5%
				<u>14,168,756</u>	<u>15,295,796</u>	<u>12.5%</u>

(See accompanying notes to financial statements)

## Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio (Unaudited) .... Continued

As at April 30 2006

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Market Value \$	% of NAV
<b>Utilities</b>						
Fort Chicago Energy Partners L.P.			45,000	458,481	531,900	0.4%
Great Lakes Hydro Income Trust			148,000	2,538,200	2,661,040	2.2%
Innergex Power Income Fund			155,300	1,931,932	2,126,057	1.7%
Inter Pipeline Fund			201,600	1,710,954	1,921,248	1.6%
Pembina Pipeline Income Trust Units			93,300	1,287,719	1,572,105	1.3%
Primary Energy Recycling Corp.			301,900	3,019,000	2,795,595	2.3%
				<u>10,946,286</u>	<u>11,607,945</u>	<u>9.5%</u>
<b>Total Canadian common stock</b>				<u>90,557,534</u>	<u>95,949,279</u>	<u>78.0%</u>
<b>Total investments</b>				<u>120,482,393</u>	<u>125,652,291</u>	<u>102.4%</u>
	<b>Maturity date</b>	<b>Number of contracts</b>	<b>Contract price / rate \$</b>	<b>Market value \$</b>	<b>Unrealized gain (loss) \$</b>	<b>% of NAV</b>
<b>Futures contracts</b>						
10 Year Canadian Bond Futures	6/16/2006	(83)	112.07	(9,150,750)	150,950	0.1%
<b>Foreign currency forward contracts</b>						
Bought USD 583,159 , sold CAD 657,803	5/3/2006	1	1.12800	657,896	(4,435)	0.0%
Bought CAD 667,494 , sold USD 593,149	7/27/2006	1	1.12534	669,082	4,419	0.0%
<b>Total foreign currency forward contracts</b>					<u>(16)</u>	<u>0.0%</u>
<b>Liabilities, net of other assets</b>					<u>(3,613,763)</u>	<u>-2.9%</u>
<b>Net asst value (NAV)</b>					<u>122,684,408</u>	<u>100.0%</u>

# Connor, Clark & Lunn Conservative Income Fund

## Notes to Financial Statements

April 30, 2006

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### 1 Formation of Trust

The Connor, Clark & Lunn Conservative Income Trust (the "Trust") was established under the laws of Ontario by a declaration of trust dated November 29, 2004. The Trust commenced operations on December 15, 2004.

### 2 Investment objectives

The Trust'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 distribution 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. Distributions will consist primarily of returns of capital, but will also include distribution of interest and may include capital gains.

The Trust will meet its investment objectives by investing its available assets, together with any borrowings under its loan facility or other leveraged transactions (not to exceed 15% of the assets of the Trust), in a 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.

### 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. Other investments are recorded at their quoted market value, being the last sale price recorded by the securities exchanges on which such investments are principally traded. Debt instruments are recorded at the average of available bid and ask quotations.

#### Investment transactions

Investment transactions are recorded on the trade date. Realized 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. As of the date of these financial statements, percentage allocation information among income, capital gains and/or return on capital are not available yet, as most of the income trusts have a calendar year end and won't have the relevant information available until the end of the following first calendar quarter.

#### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the period.

Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

#### Foreign currency forward contracts

The Trust 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 and listed in the Statements of Investment Portfolio. 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 Investment 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 a Variation Margin Receivable (Payable).

#### Unit valuation

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

### 4 Bank indebtedness

As part of its strategy, the Investment Manager employs leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The Investment Manager intends to 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 Trust. Such leverage may be used to purchase additional securities for the Portfolio.

# Connor, Clark & Lunn Conservative Income Fund

## Notes to Financial Statements

April 30, 2006

On November 29, 2005, the Trust 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 \$26,500,000 or (ii) 15% of the net asset value of the Fund.

During the period from November 29, 2005 (date of Credit Facility Agreement) to April 30, 2006, the Credit Facility outstanding had a minimum balance of \$0 and maximum balance of \$10.5 million. The related total interest expense was \$135,957.

As of April 30, 2006, the Credit Facility had an outstanding debt balance in the form of two banker acceptances which can be summarized as following:

	<u>Amount</u> <u>\$</u>
Debt balance "Bankers acceptance"	3,700,000
Interest paid in advance balance	7,616
Maturity date	05/17/2006
Average debt interest rate	3.97%

### 5 Market Purchase Program

In accordance with the Trust's prospectus, and to enhance liquidity and to provide support to the units, the Trust has a mandatory market purchase program under which the Trust, 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 Trust 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 six month period ended April 30 2006 the Trust purchased 292,900 Units for cancellation at a total cost of \$2,859,244. All units purchased by the Trust were subsequently cancelled.

### 6 Units of the Trust

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

Units may be surrendered at any time for redemption by the Trust. Where Units are surrendered for redemption by the prior to the 10th day 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 Trust 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 Trust in connection with the redemption including costs incurred in liquidating securities held in the portfolio. During January 2006 the fund had its annual redemption date. \$22,462,225 was paid to redeem 2,171,487 units at January 31, 2006 NAV per unit price minus the costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the Portfolio.

Changes in outstanding units are summarized as follows:

	<u>Number of</u> <u>units</u>
Balance – October 31, 2005	14,290,300
Units issued	–
Units redeemed under the Market Purchase Program (note 5)	(292,900)
Units redeemed	<u>(2,171,487)</u>
Balance – April 30, 2006	<u>11,825,913</u>

### 7 Custodian

Pursuant to a custodian agreement ("the Custodian Agreement"), the Trust has retained The Royal Trust Company ("the Custodian") to act as custodian of the assets of the Trust. The Custodian is also responsible for certain aspects of the Trust's day-to-day operations. In consideration for these services, the Trust pays a fee to the Custodian.

# Connor, Clark & Lunn Conservative Income Fund

## Notes to Financial Statements

April 30, 2006

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### 8 Distributions

Targeted monthly distributions are \$0.583 per Unit. During the six month period ended April 30, 2006, the Trust met its targeted monthly distribution and paid total distributions of \$4,584,673, or \$0.35 per Unit (\$0.0583 per month) representing a combination of interest, income, capital gains and return of capital.

### 9 Management fees and other expenses

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

### 10 Futures contracts

As of April 30, 2006, brokers held the following securities as a collateral against the open futures contracts:

<u>Security</u>	<u>Maturity date</u>	<u>Par \$</u>	<u>Market value \$</u>
Canada Treasury Bills	November 2, 2006	100,000	97,699

### 11 Income taxes

The Trust 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 Trust 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.

### 12 Broker commission charges and soft dollar services

There were \$185,252 broker commissions paid for the six month period ended April 30, 2006 in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

### 13 Reclassification

Certain of the 2005 comparative figures have been reclassified from the statements previously presented to conform to the presentation of the 2006 semi-annual financial statements.