

2009

**Connor, Clark & Lunn
Real Return Income Fund**
Annual Report
December 31, 2009

Connor, Clark & Lunn Real Return Income Fund Message to Unitholders

March 12, 2010

Dear Investor,

We are pleased to provide you with the annual report of the Connor, Clark & Lunn Real Return Income Fund (the "Fund") for the year ended December 31, 2009.

The Fund's investment objective is to provide current income and to preserve and enhance net asset value. To achieve that objective, the Fund invests to obtain exposure of at least 80% of its managed assets to inflation-linked securities issued by governments with AAA ratings, with at least 70% comprised of U.S. Treasury Inflation Protected Securities ("U.S. TIPS"). U.S. TIPS provide income-oriented investors the potential for attractive current income that is protected from the adverse effects of inflation. The Fund may also invest up to 20% of its total managed assets in other income producing securities and may utilize hedging strategies to help limit risk and to preserve capital. There can be no assurance, however, that the Fund will achieve its investment objectives.

Western Asset Management Company ("Western Asset") is the Fund's Investment Adviser and is responsible for actively managing and making investment decisions with respect to the Fund's portfolio. Western Asset is one of the world's premier fixed income managers with offices in Pasadena, New York, London, Tokyo, Singapore, Hong Kong, Melbourne and Sao Paulo.

The Fund generated a total return of 6.16% in 2009 and its net asset value was \$7.88 at year end. Since inception, the fund has paid \$1.83 in total distributions. During the year ended December 31, 2009, the Fund paid monthly distributions of \$0.03125 per unit for the first two months then the distributions was lowered to \$0.2083 per month to reflect lower inflation levels. The total distributions for the year were \$0.2708 per unit. These distributions are characterized as return of capital distributions. At its closing price of \$7.38 on December 31st, 2009 this represented a yield of 3.4 % and a pre-tax interest equivalent of 4.9%.

Western Asset believes that the United States' economy will show solid economic growth during the first half of 2010. While the financial market is focused on consumer spending, they believe more sustained gains in capital expenditures and exports will be key to the U.S. recovery. They also believe that there are certain challenges that remain.

They do not believe that inflation is a near-term concern and the Federal Reserve Board ("Fed") and Treasury will continue to be supportive of the capital markets and the economy. As a result, Western Asset's view is that the Fed is not likely to raise the federal Funds rates in the near future and that interest rates, while trading in a wide range, are likely to stay low.

The Fund's Management Report of Fund Performance section of the report provides more information on what impacted the performance of the Fund during the fiscal period and Western Asset Management's views on the overall market environment. For the most up-to-date information on your investment, please visit our website at www.cclcapitalmarkets.com. We appreciate your investment and look forward to serving your investment needs in the future

Sincerely,



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

Management Report of Fund Performance

This annual management report of fund performance for Connor, Clark & Lunn Real Return 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 Connor, Clark & Lunn Capital Markets Inc. (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 or by visiting www.sedar.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 Accepted 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

Connor, Clark & Lunn Real Return Income Fund (the “Fund”) was established under the laws of Ontario as of June 29, 2005 by a Trust Agreement (the “Trust Agreement”) made by the Manager and RBC Dexia Investor Services Trust (“RBC Dexia”) as trustee of Fund. The Fund is a mutual fund trust whose investment portfolio (the “Common Share Portfolio”) consists of common shares of Canadian public companies that are Canadian securities for the purpose of the Income Tax Act (Canada) (the “Tax Act”). The Fund commenced operations on July 18, 2005 and will be terminated on or about July 18, 2015 (the “Termination Date”) if not terminated earlier in accordance with its terms.

The Fund was created to obtain exposure to an actively managed portfolio (the “Portfolio”) of which at least 80% will consist of AAA-rated real return bonds. The majority of the real return bonds held in the Portfolio are U.S. Treasury Inflation Protected Securities (“U.S. TIPS”). In order to diversify the Portfolio and improve expected returns, up to 20% of the assets are invested in a mix of other fixed income assets to bring the overall dollar weighted average credit rating of the Portfolio to AA+.

The Fund has the following investment objectives:

- (i) to provide holders of Units with tax efficient monthly distributions of cash that will be linked to the rate of inflation; and
- (ii) to preserve and enhance the net asset value (“Transactional NAV”) of the Fund.

In order to meet its investment objectives, the Fund has obtained exposure to the performance of a portfolio held by Real Return Trust (the “Real Return Trust”), an investment trust, by entering into a forward purchase and sale agreement (“Forward Agreement”) with the Bank of Montreal (“BMO”). Western Asset Management Company acts as the Real Return Trust’s investment advisor (the “Investment Advisor”) and is actively managing and making investment decisions with respect to Real Return Trust’s assets. The Fund holds a portfolio of Canadian common shares (the “Common Share Portfolio”) and, under the Forward Agreement, is entitled to deliver the Common Share Portfolio or the cash value of that portfolio to BMO in exchange for the value of the Real Return Trust. The Fund is also entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions, repurchases of Units and its operating expenses.

In order to enhance returns, the Real Return Trust may employ leverage in the portfolio, with a debt-to-equity ratio of up to 2:1. It is also intended that at least 90% of foreign currency exposure be hedged back to Canadian dollars at all times.

Risk

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

Use of leverage:

The Real Return Trust is entitled to employ leverage at a debt-to-equity ratio of up to 2:1. The Real Return Trust's borrowing is short-term and is effected by way of repurchase agreements. Leverage was increased to 0.51:1 during the period and was decreased to zero during November 2009.

Use of Derivatives:

The Real Return Trust has employed derivatives for the purpose of hedging interest rate exposure. Such exposure has involved the use of short futures contracts and long put options with exposure up to 100% of the Fund's net asset value. The Real Return Trust has also hedged foreign currency exposure, with 91% of Transactional NAV having been hedged to the Canadian dollar on December 31, 2009. There is no guarantee that such hedging will be successful.

Fluctuations in Net Asset Value:

Because of the Fund's exposure to U.S. TIPS, net asset value is sensitive to fluctuations in the month-over-month U.S. Consumer Price Index for All Urban Consumers ("CPI-U"), which accrue to the principal value of U.S. TIPS in the second month following their release. The month-over-month CPI-U can be much more volatile than annual inflation and is affected by seasonal factors and to changes in U.S. real interest rates.

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 January 1, 2009. 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 January 1, 2009. This abstract impacted the Fund's disclosure provided but did not affect the Fund's results or financial position.

Results of Operations

The Investment Advisor's Commentary

Fund Performance

For the 12-month period ended December 31, 2009, the Fund generated a total return of 10.57% based on the TSX share price, and 6.16% based on the Transactional NAV.

The largest contributor to the Fund's relative performance was its out-of-index allocation to bank loans and investment grade bonds, as their spreads narrowed during the reporting period. In particular, bank loans contributed significantly to performance as the bank loan index returned 52.47% in 2009. Exposure to mortgage backed securities also contributed slightly to returns.

The next largest contributor to performance was the Fund's holdings of U.S. Treasury Inflation-Protected Securities ("TIPS"). At times during the reporting period we boosted our TIPS exposure through the use of leverage.

Somewhat detracting from results was the Fund's holding of a Citigroup Depository Receipt, as it performed poorly.

There were a number of adjustments made to the portfolio during the reporting period. For example, we tactically adjusted our TIPS exposure during the fiscal year. At the beginning of the period, we were underweight TIPS, favoring mortgage-backed security pass-throughs as we thought they would be the first sector to recover as the Federal Reserve Board began its purchase program. We then moved to an overweight stance, taking full advantage of our ability to use leverage, in the spring of 2009, as economic conditions started to become less negative and monthly changes in inflation (as measured by the consumer price index--CPI) turned positive. We maintained this posture through July, when we gradually began decreasing leverage and moved back to a neutral position as we found more compelling opportunities elsewhere. By the end of November the Fund had no leverage at all. We also sold the Fund's agency mortgages and investment grade industrial bonds during 2009.

During the fiscal year, we employed the use of Treasury futures and options, Eurodollar futures and interest rate swaps to manage the Portfolio's yield curve strategy and duration. The use of these instruments was, overall, positive for performance.

Financial Market Overview

Whereas 2008 was characterized by upheaval in the financial markets, periods of extreme volatility, illiquidity and heightened risk aversion, 2009 was largely a return to more normal conditions and increased investor risk appetites.

Looking back at the tail end of 2008, investors fled fixed-income securities that were seen as being risky and flocked to the safety of short-term Treasuries, driving the latter's yields to historically low levels and their prices higher. In contrast, non-Treasury spreads widened to historically wide levels in some cases, as the market priced in worst-case scenarios. This caused nearly every spread sector to lag equal-duration Treasuries during the year. While this trend continued in early 2009, some encouraging economic data and a thawing of the once frozen credit markets helped bolster investor confidence.

In a stunning turnaround, by the end of the first quarter of 2009, risk aversion had been replaced by robust demand for riskier--and higher yielding--fixed income securities. Despite some temporary setbacks, riskier assets continued to perform well during the remainder of the year. Looking at 2009 as a whole, every spread sector outperform equal-duration Treasuries.

While economic news often surprised on the upside during 2009, incoming economic data did not suggest a dramatic rebound in growth in 2010. As such, the Federal Reserve Board (the "Fed") continued its accommodative monetary policy during the year. The Fed met eight times during 2009 and, on each occasion, kept the federal funds rate in a range of zero to 0.25%. In conjunction with its December 2009 meeting the Fed said that it "...will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period."

Economic Review

While the U.S. economy was weak during the first half of 2009, the lengthiest recession since the Great Depression finally appeared to have ended during the second half of the year.

Looking back, the U.S. Department of Commerce reported that first quarter 2009 U.S. gross domestic product (“GDP”)ⁱ contracted 6.4%. The economic environment then started to get relatively better during the second quarter, as GDP fell 0.7%. The economy’s more modest contraction was due, in part, to smaller declines in both exports and business spending. After contracting four consecutive quarters, the Commerce Department reported that third quarter 2009 GDP growth was 2.2%. A variety of factors helped the economy to expand, including the government’s \$787 billion stimulus program, its “Cash for Clunkers” car rebate program, which helped spur an increase in car sales, and tax credits for first-time home buyers. Economic growth then accelerated during the fourth quarter of 2009, as the advance estimate for GDP growth was 5.7%.

Even before GDP advanced in the third quarter, there were signs that the economy was starting to regain its footing. The manufacturing sector, as measured by the Institute for Supply Management’s PMIⁱⁱ, rose to 52.9 in August 2009, the first time it surpassed 50 since January 2008 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). PMI data subsequently showed that manufacturing expanded from September through December as well. In addition, December’s PMI reading of 55.9 was the highest since April 2006.

There was some mixed signal from the housing market toward the end of the reporting period. According to its most recent data, the S&P/Case-Shiller Home Price Index indicated that month-over-month home prices rose for the sixth straight month in November. However, while the National Association of Realtors reported that existing home sales rose 7.4% in November, it then said that these sales fell by nearly 17% in December.

One area that remained weak – and could hamper the magnitude of economic recovery – was the labor market. While monthly job losses have moderated compared to earlier in the year, the unemployment rate remained elevated during the reporting period. After reaching a twenty-six-year high of 10.2% in October 2009, the unemployment rate fell to 10.0% in November and remained unchanged the following month. Since December 2007, the unemployment rate has more than doubled and the number of unemployed workers has risen by more than eight million.

Market Review

Both short- and long-term Treasury yields fluctuated during the reporting period. When the period began, Treasury yields were extremely low, given numerous “flights to quality” that were triggered by the fallout from the financial crisis in 2008. After starting the period at 0.76% and 2.25%, respectively, two- and ten-year Treasury yields then generally moved higher (and their prices lower) until early June. Two- and ten-year yields peaked at 1.42% and 3.98%, respectively, before falling and ending the reporting period at 1.14% and 3.85%, respectively. Over the twelve months ended December 31, 2009, longer-term yields moved higher than their shorter-term counterpart as economic data improved and due to fears of future inflation given the government’s massive stimulus program. In a reversal from 2008, investor risk aversion faded during the twelve-month reporting period, driving spread sector (non-Treasury) prices higher. For the twelve months ended December 31, 2009, the Barclays Capital U.S. Aggregate Indexⁱⁱⁱ returned 5.93%.

During the fiscal year, there was a shift in terms of expectations for inflation. Fears of inflation had increased in mid-2008 (before the reporting period began). This was, in part, due to sharply rising oil prices, which peaked at \$145 a barrel in July 2008. Fears of inflation were then replaced with fears of deflation, as global economic conditions weakened and the financial crisis took hold in the fall of 2008. By the end of 2008, oil prices had fallen to \$45 a barrel as demand waned and oil reserves moved higher. While inflation, as measured by the Consumer Price Index for All Urban Consumers (“CPI-U”), was 2.72% during the twelve-month period ended December 31, 2009, there were fears of higher inflation in the future. This was due to central banks’ accommodative monetary policies, signs that the global economy was recovering and rising oil prices, which hit \$79 a barrel in December 2009. Inflation expectations led to increased demand for TIPS, and the Barclays Capital Global Real Index: U.S. TIPS gained 11.41% during the twelve months ended December 31, 2009.

ⁱ Gross domestic product (“GDP”) is the market value of all final goods and services produced within a country in a given period of time.

ⁱⁱ The Institute for Supply Management’s PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.

ⁱⁱⁱ The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

The investment grade bond market generated solid results during the reporting period. Spreads on these securities had moved to extremely wide levels in late 2008, as the weakening economy and credit crunch triggered fears of escalating default rates. Investment grade bond spreads then significantly narrowed in 2009, as the economic environment improved and corporate provides were often better than expected. All told, the investment grade bonds, as measured by the Barclays Capital U.S. Credit Index, returned 16.04% during the 12-month period ended December 31, 2009.

In the mortgage-backed securities market, both agency and non-agency issues did well during the year. Agencies were supported by the government's purchase programs of these securities as they sought to keep long-term interest rates low in an attempt to revive the housing market. The non-agency sector improved--in particular later in the year--as housing data stabilized and due to the launching of the Public-Private Investment Program (PPIP).

The high-yield bond market produced very strong results during the twelve months ended December 31, 2009. In sharp contrast to its poor results in 2008, the asset class posted positive returns during eleven of the twelve months of the reporting period. This strong rally was due to a variety of factors, including the unfreezing of the credit markets, improving economic data and strong investor demand. All told, the Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Index returned 58.76% for the twelve months ended December 31, 2009.

Outlook

The notion of a double-dip economic recession is gaining attention because of the expiration of various fiscal and monetary stimulus programs. However this economic phenomenon seems unlikely. As long as the Fed maintains the current low rate environment, which we believe it will, access to credit should remain sufficient. Given the elevated levels of unemployment, the recent dip in jobless claims is a positive sign that the labor market is stabilizing. The financial market is focused on consumer spending but we believe more sustained gains in capital expenditures and exports will be key to the U.S. recovery.

We believe that the Fed is likely to keep the Federal Funds rate anchored at 0-0.25% in the near future. A large concern the Fed now faces is excess bank reserves. Government support from the Troubled Asset Relief Program (TARP) program and the Fed's various special liquidity programs helped banks restore their balance sheets, but banks then held on to reserves in excess of their capital requirements. As the recovery accelerates, banks may quickly reduce these excess reserves by extending credit. Increased lending should stimulate economic activity but, in doing so, might also contribute to inflationary pressures. Therefore, as the Fed manages the level of bank reserves, it must be careful not to inhibit economic growth and increase inflation. As long as the economic recovery is still in its infancy, the Fed should continue its current policies.

Although the labor market is stabilizing, the declining trend in jobless claims reflects a drop-off in layoffs rather than an increase in hires. For unemployment to truly decline, we will need to see specific types of job growth. The source of new job growth will probably have to come from the service sector, as the housing market remains weak and is unlikely to contribute significant new jobs any time soon. The recent increase in industrial production and capacity utilization indicates that factory-related jobs could increase in the coming year.

Despite an uptick in consumer spending in November, most likely due to the holidays, consumers will likely continue to demonstrate a more conservative mindset with increased savings and less consumption. Businesses, especially those that are export oriented, should benefit from a lower U.S. dollar and increased future spending. Corporate profits in the fourth quarter of 2009 showed improvement, leading to a better outlook for the business sector compared to a year ago. Therefore, we think that businesses, rather than consumers, are likely to be the primary contributors to future economic growth. Considering current Fed policies, the likelihood of moderate inflation in the months ahead, a stabilizing labor market and an improved business climate, we find fears of a double dip recession to be exaggerated.

Leverage

As at December 31, 2008, the Fund had a liability of \$2,469,014 under a master repurchase agreement with the Bank of Montreal, pursuant to which the Fund had agreed to repurchase certain U.S. TIPS from the Bank of Montreal with a market value on December 31, 2008 of \$2,597,666. The value of the Fund's net assets value was \$39,925,638. As such, the Fund's debt-to-equity ratio (on a consolidation basis) was approximately 0.06: 1.

The Fund removed leverage in early November 2009.

Currency Hedging

As at December 31, 2009, the Real Return Trust was approximately 91% hedged against moves in Canadian/U.S. exchange rates by way of a currency forward entitling the Fund to sell US \$26,814,992 in exchange for CA \$31,680,000 on July 17, 2015. The degree of currency hedging employed is partly determined by the par value of the bonds in the portfolio, which mature at a minimum of par value and is also influenced by the term to maturity of the hedge.

Market repurchases

Subject to certain conditions described in the Annual Information Form, the Fund is obligated to purchase Units offered in the market if, at any, time, the price at which Units are offered for sale and the most recent closing price of the Units on the TSX are each less than 95% of the latest determined Transactional NAV per Unit. Pursuant to this obligation, during the year ended on December 31, 2009 the Fund purchased 500 units for cancellation at a cost of \$3,687 (10,900 units at a cost of \$85,055 during the year ended on December 31, 2008).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee tabled no special reports and made no reportable material recommendations to management of the Company during the year ended December 31, 2009.

Related Party Transactions

Management Fees

As compensation for management services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.30% per annum of the Transactional NAV of the Fund, to be calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to Real Return Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.90% of the net asset value of Real Return Trust calculated and payable monthly in arrears, plus applicable taxes.

The Manager, in its capacity as manager of Fund and the Real Return Trust pays the Investment Advisor out of the above management fees.

Distributions

The Fund has made all its scheduled distributions to date. The following schedule shows all the historical distributions per unit up to December 31, 2009:

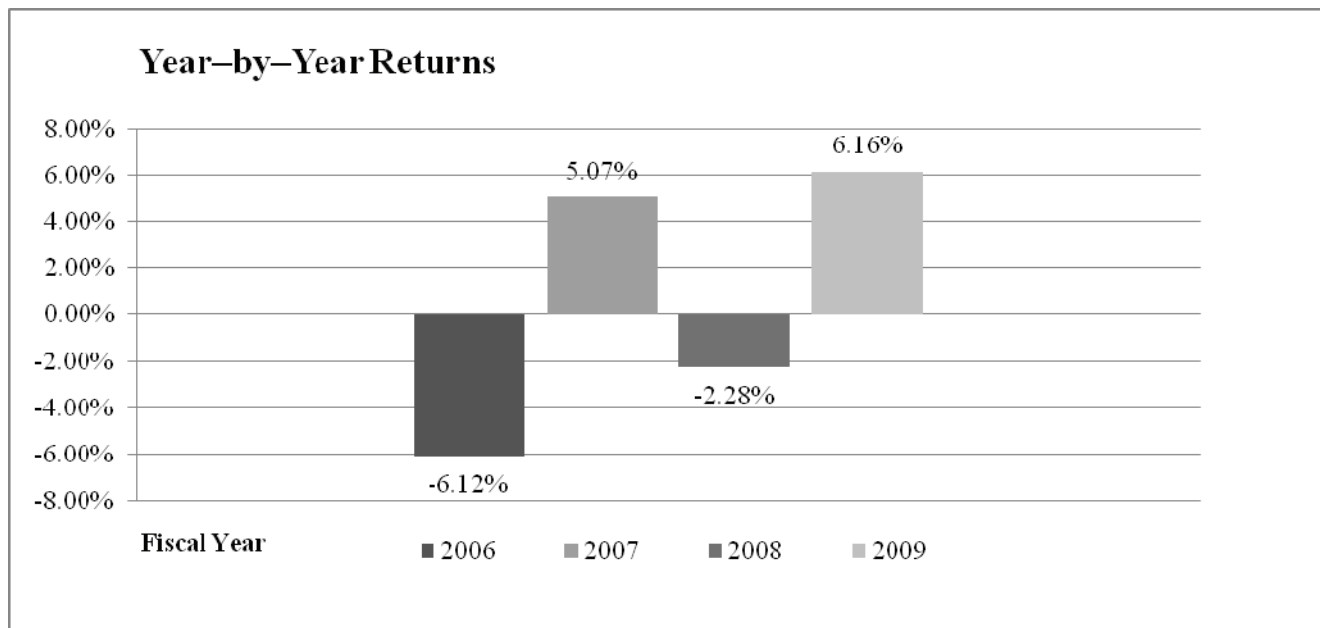
Historical Distributions:									
2005		2006		2007		2008		2009	
January	\$0.00000	January	\$0.04790	January	\$0.03333	January	\$0.03125	January	\$0.03125
February	\$0.00000	February	\$0.04790	February	\$0.03333	February	\$0.03125	February	\$0.03125
March	\$0.00000	March	\$0.04790	March	\$0.03333	March	\$0.03125	March	\$0.02083
April	\$0.00000	April	\$0.04580	April	\$0.03333	April	\$0.03125	April	\$0.02083
May	\$0.00000	May	\$0.04580	May	\$0.03333	May	\$0.03125	May	\$0.02083
June	\$0.00000	June	\$0.04580	June	\$0.03333	June	\$0.03125	June	\$0.02083
July	\$0.00000	July	\$0.04375	July	\$0.03333	July	\$0.03125	July	\$0.02083
August	\$0.06540	August	\$0.04375	August	\$0.03333	August	\$0.03125	August	\$0.02083
September	\$0.04580	September	\$0.04375	September	\$0.03333	September	\$0.03125	September	\$0.02083
October	\$0.04580	October	\$0.04167	October	\$0.03125	October	\$0.03125	October	\$0.02083
November	\$0.04580	November	\$0.04167	November	\$0.03125	November	\$0.03125	November	\$0.02083
December	\$0.04580	December	\$0.04167	December	\$0.03125	December	\$0.03125	December	\$0.02083
Total	\$0.24860	Total	\$0.53736	Total	\$0.39372	Total	\$0.37500	Total	\$0.27080
Total Distributions Since Inception:				\$1.82548					

Past Performance

The following bar chart and table indicate the performance of the Fund's 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 year 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 year 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 assuming all distributions were re-invested.



Annual Compound Returns

	Past Year	Three Years	Since Inception ⁽¹⁾
Based on Transactional NAV	6.16%	2.91%	0.84%
Based on share price	10.57%	1.86%	-1.65%
Barclays Capital U.S. Government Inflation-Linked All Maturities Index	10.48%	6.66%	5.22%

⁽¹⁾ Annualized for the period July 18, 2005 (Commencement of operations) to December 31, 2009.

Financial Highlights

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

The Fund's Net Assets per unit:

	2009	2008	2007	2006	2005 ⁽¹⁾
Net Assets, beginning of period	7.69	8.23	8.23	9.33	10.00
Increase (decrease) from operations:					
Total revenues	—	—	—	—	—
Total expenses	(0.11)	(0.11)	(0.11)	(0.11)	(0.05)
Unit issue expense ⁽²⁾	—	—	—	(0.01)	(0.56)
Realized gains (losses) for the period	—	0.56	(0.09)	(0.01)	0.01
Unrealized gains (losses) for the period	0.56	(0.45)	0.48	(0.43)	0.17
Total increase (decrease) from operations⁽³⁾	0.45	0.00	0.28	(0.56)	(0.43)
Distributions:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	(0.27)	(0.38)	(0.39)	(0.54)	(0.25)
Total Annual Distributions⁽³⁾	(0.27)	(0.38)	(0.39)	(0.54)	(0.25)
Net Assets, end of period⁽³⁾⁽⁴⁾	7.88	7.69	8.23	8.23	9.33

⁽¹⁾ Results for the period July 18, 2005 (commencement of operations) to December 31, 2005.

⁽²⁾ Issue expense incurred in connection with the unit issuance, which has been treated as a reduction of capital.

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

⁽⁴⁾ This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

Fund	2009	2008	2007	2006	2005 ⁽¹⁾
Net asset value (000's)	34,442	39,926	56,316	92,636	114,791
Number of units outstanding	4,370,571	5,193,552	6,839,067	11,260,603	12,307,408
Base management expense ratio ⁽²⁾	1.49%	1.34%	1.30%	1.25%	1.25%
Issue expenses ratio ⁽²⁾	0.00%	0.00%	0.00%	0.08%	5.98%
Management expense ratio ⁽²⁾	1.49%	1.34%	1.30%	1.33%	7.23%
Management expense ratio before waivers or absorptions ⁽²⁾	1.49%	1.34%	1.30%	1.33%	7.23%
Portfolio turnover rate ⁽⁴⁾	26.25%	118.09%	0.00%	4.74%	10.91%
Trading expense ratio ⁽⁵⁾	0.00%	0.00%	0.00%	0.00%	0.00%
Closing market price (TSX)	7.38	6.93	7.67	8.05	8.87
Net asset value per unit	7.88	7.69	8.23	8.23	9.33

Consolidated for the Fund and Real Return Trust

Base Management expense ratio ⁽²⁾⁽³⁾	2.47%	2.49%	2.32%	2.24%	2.26%
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⁽¹⁾ Results for the period July 18, 2005 (commencement of operations) to December 31, 2005.

⁽²⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses which are one-time expenses are not annualized.

⁽³⁾ A separate management expense ratio has been presented above to include expenses of both the Fund and the Real Return Trust excluding interest expense on the reverse repurchase agreement.

⁽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 December 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.

Investment portfolio of the Connor Clark & Lunn Real Return Income Fund

	Fair Value \$	% of NAV
Portfolio by Category		
Materials	20,066,295	58.3%
Information Technology	6,086,187	17.6%
Equity Derivatives	3,705,147	10.8%
Consumer Staples	3,084,977	9.0%
Consumer Discretionary	1,682,553	4.9%
Cash and Cash Equivalents	30,642	0.1%
 Top 25 Holdings		
Sino-Forest Corporation - Class A	8,573,790	24.9%
FNX Mining Company Inc.	6,846,306	19.9%
Pan American Silver Corp.	4,646,199	13.5%
Equity Derivatives	3,705,147	10.8%
Celestica Inc.	3,618,717	10.5%
Viterra Inc	3,084,977	9.0%
Gildan Activewear Class A	1,682,553	4.9%
CGI Group Class A	1,630,452	4.7%
Research In Motion	837,018	2.4%
Cash and Cash Equivalents	30,642	0.1%
 Net asset value (NAV)	 34,441,919	

Investment portfolio of the Real Return Trust

	% Rate	Maturity date	Fair Value \$	% of NAV
Portfolio by Category				
Foreign bonds			28,873,437	83.4%
Foreign currency forward contracts			3,049,362	8.8%
Domestic bonds			1,200,640	3.5%
Foreign funds			784,696	2.3%
Cash & Cash Equivalents			411,028	1.2%
Foreign preferred shares			44,990	0.1%
Futures contracts			(9,160)	0.0%
Top 25 Holdings				
US Treasury Inflation-Protected Securities (USD)	1.875%	Jul-15	26,553,522	76.7%
Foreign currency forward contracts			3,049,362	8.8%
Government of Canada Real Return Bond	4.250%	Dec-21	1,200,640	3.5%
Commonwealth of Australia Treasury Indexed Bond (AUD)	4.000%	Aug-20	936,464	2.7%
Western Asset Floating Rate High Income Fund LLC (USD)			784,696	2.3%
SLM Corp. (USD)	4.035%	Feb-10	524,626	1.5%
Cash & Cash Equivalents			411,028	1.2%
JP Morgan Chase & Co. (USD)	7.900%	Apr-49	270,333	0.8%
US Treasury Inflation-Protected Securities (USD)	2.000%	Jan-14	259,402	0.7%
Bank of America (USD)	8.000%	Jan-49	222,043	0.6%
Citigroup Inc. (USD)	6.010%	Jan-15	107,047	0.3%
Federal Home Loan Mortgage Corporation (USD)			23,887	0.1%
Federal National Mortgage Association (USD)			21,103	0.1%
Futures contracts			(9,160)	0.0%
Net asset value (NAV)			34,625,157	

Management's Responsibility for Financial Reporting

The accompanying financial statements of **Connor, Clark & Lunn Real Return 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 has 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
Director
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada
March 12, 2010

March 31, 2010

Auditors' Report

To the Unitholders of
Connor, Clark & Lunn Real Return Income Fund

We have audited the statement of investments of **Connor, Clark & Lunn Real Return Income Fund** (the Fund) as at December 31, 2009, the statements of net assets as at December 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 Fund's Manager. 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 the Fund's Manager, 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 December 31, 2009 and 2008 and the results of its operations, the changes in its net assets 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 Real Return Income Fund

Statements of Net Assets

As at December 31, 2009 and 2008

	2009	2008
	\$	\$
Assets		
Cash	30,642	19,850
Investments at fair value (cost - \$33,101,389 ; 2008 - \$41,432,723)	30,808,402	16,423,658
Unrealized gain on forward agreement	3,816,755	23,770,290
	<u>34,655,799</u>	<u>40,213,798</u>
Liabilities		
Accounts payable and accrued liabilities	94,939	98,622
Distributions payable	91,039	162,330
Management fees payable	27,902	20,252
Market repurchases payable (note 6)	-	6,956
	<u>213,880</u>	<u>288,160</u>
Net Assets and Unitholders' Equity	<u>34,441,919</u>	<u>39,925,638</u>
Units outstanding (note 5)	<u>4,370,571</u>	<u>5,193,552</u>
Net assets per unit	<u>7.88</u>	<u>7.69</u>
Unitholders' Equity		
Unit capital (note 5)	31,844,139	39,430,056
Contributed surplus	2,613,054	2,708,413
Surplus (Deficit)	<u>(15,274)</u>	<u>(2,212,831)</u>
Unitholders' equity - End of period	<u>34,441,919</u>	<u>39,925,638</u>

Approved on behalf of the Manager,
Connor, Clark & Lunn Capital Markets Inc.



Director



Director

Connor, Clark & Lunn Real Return Income Fund

Statements of Operations

For the years ended December 31, 2009 and 2008

	2009	2008
	\$	\$
Income		
Interest income	114	479
Other income	-	25,881
	<u>114</u>	<u>26,360</u>
Expenses		
Forward fees (note 7)	189,567	265,649
Management fees (note 10)	119,004	164,055
Service fees	109,237	144,205
Audit fees	29,601	32,131
Custodial and other unitholder fees	22,241	20,123
Administration fees	21,512	20,492
Filing fees	16,669	9,020
Transfer agent fees	14,737	13,939
TSX Sustaining fees	11,324	10,094
Advisory Board fees	10,860	10,019
Legal fees	10,471	-
Other	5,847	4,147
Printing and mailing fees	3,146	3,155
IRC fees	2,508	2,404
Interest expense	54	126
	<u>566,778</u>	<u>699,559</u>
Investment income (loss)	<u>(566,664)</u>	<u>(673,199)</u>
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	22,716,078	240,556
Change in unrealized gain (loss) on forward agreement (note 7)	(19,953,535)	(3,099,698)
	2,762,543	(2,859,142)
Realized gain (loss) on investments		
Net realized gain (loss) on investments	<u>1,678</u>	<u>3,544,170</u>
Net gain (loss) on investments	<u>2,764,221</u>	<u>685,028</u>
Increase (decrease) in net assets from operations	<u>2,197,557</u>	<u>11,829</u>
Increase (decrease) in net assets from operations per unit ^(*)	<u>0.45</u>	<u>-</u>
Distributions per unit	<u>0.27</u>	<u>0.38</u>

^(*) based on average number of units outstanding during the period.
(See accompanying notes to financial statements)

Connor, Clark & Lunn Real Return Income Fund

Statements of Changes in Net Assets, Surplus (Deficit) and Contributed Surplus

For the years ended December 31, 2009 and 2008

	2009	2008
	\$	\$
Increase (decrease) in net assets from operations	2,197,557	11,829
Distributions to unitholders from return on capital	(1,337,749)	(2,357,820)
Unitholders' transactions		
Payments on redemption (note 5)	(6,339,840)	(13,959,285)
Payments on cancellation of units (note 6)	(3,687)	(85,055)
	<u>(6,343,527)</u>	<u>(14,044,340)</u>
Change in net assets during the year	(5,483,719)	(16,390,331)
Net assets - Beginning of year	<u>39,925,638</u>	<u>56,315,969</u>
Net assets - End of year	<u>34,441,919</u>	<u>39,925,638</u>
Surplus (Deficit), beginning of year	(2,212,831)	(2,224,660)
Increase (decrease) in net assets from operations	<u>2,197,557</u>	<u>11,829</u>
Surplus (Deficit), end of year	<u>(15,274)</u>	<u>(2,212,831)</u>
Contributed surplus, beginning of year	2,708,413	3,512,763
Cost of shares repurchased at less than stated value	<u>(95,359)</u>	<u>(804,350)</u>
Contributed surplus, end of year	<u>2,613,054</u>	<u>2,708,413</u>

Connor, Clark & Lunn Real Return Income Fund

Statements of Cash Flow

For the years ended December 31, 2009 and 2008

	2009	2008
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	2,197,557	11,829
Items not effecting cash:		
Change in unrealized (gain) loss on investments	(22,716,078)	(240,556)
Change in unrealized (gain) loss on forward agreement (note 7)	19,953,535	3,099,698
Net realized (gain) loss on investments	(1,678)	(3,544,170)
Changes in non-cash working capital		
Increase (decrease) in accounts payable and accrued liabilities	(3,683)	(129,252)
Increase (decrease) in management fees payable	7,650	(10,491)
Purchase of investments	(6,937,863)	(33,927,563)
Proceeds on disposition of investments	<u>15,270,875</u>	<u>51,133,732</u>
Net cash flow provided by operating activities	<u>7,770,315</u>	<u>16,393,227</u>
Financing Activities		
Payments on redemption (note 5)	(6,339,840)	(13,959,285)
Payments on cancellation of units (note 6)	(3,687)	(85,055)
Distributions to unitholders	(1,409,040)	(2,409,336)
Increase (decrease) in market repurchases payable (note 6)	(6,956)	(799)
Proceeds from bank indebtedness	-	22,500
Principal payments on bank indebtedness	<u>-</u>	<u>(22,500)</u>
Net cash flow provided by financing activities	<u>(7,759,523)</u>	<u>(16,454,475)</u>
Net increase (decrease) in cash	10,792	(61,248)
Cash (bank overdraft) - beginning of year	<u>19,850</u>	<u>81,098</u>
Cash - end of year	<u>30,642</u>	<u>19,850</u>
Interest paid	54	126

(See accompanying notes to financial statements)

Connor, Clark & Lunn Real Return Income Fund
Statement of Investments
As at December 31, 2009

			Number of shares	Average cost	Fair value	% of net assets of the Fund
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)						
Materials						
FNX Mining Company Inc.			592,241	5,999,191	6,816,694	19.8%
Pan American Silver Corp.			185,403	6,118,299	4,633,221	13.5%
Sino-Forest Corporation - Class A			442,404	8,560,517	8,547,245	24.8%
				<u>20,678,007</u>	<u>19,997,160</u>	<u>58.1%</u>
Consumer Discretionary						
Gildan Activewear Class A			65,469	565,652	1,674,042	4.9%
Consumer Staples						
Viterra Inc			312,561	4,157,061	3,081,851	8.9%
Information Technology						
CGI Group Class A			114,498	1,016,502	1,625,872	4.7%
Celestica Inc.			363,325	6,118,535	3,593,284	10.4%
Research In Motion			11,784	565,632	836,193	2.4%
				<u>7,700,669</u>	<u>6,055,349</u>	<u>17.5%</u>
Total Canadian common stocks (pledged to the Counterparty under the Forward Agreement)				<u>33,101,389</u>	<u>30,808,402</u>	<u>89.4%</u>
Unrealized gain on forward agreement:						
Investments held in Real Return Trust under the Forward Agreement						
	% Rate	Maturity date	Number of shares / par value	Average cost	Fair value	% of net assets
Domestic bonds						
Government of Canada Real Return Bond	4.250%	Dec-21	660,000	1,126,679	1,200,640	3.5%
Total domestic bonds				<u>1,126,679</u>	<u>1,200,640</u>	<u>3.5%</u>
Foreign bonds						
Commonwealth of Australia Treasury Indexed Bond (AUD)	4.000%	Aug-20	640,000	959,232	936,464	2.7%
US Treasury Inflation-Protected Securities (USD)	1.875%	Jul-15	21,630,000	26,283,689	26,553,522	77.1%
US Treasury Inflation-Protected Securities (USD)	2.000%	Jan-14	200,000	286,775	259,402	0.8%
Citigroup Inc. (USD)	6.010%	Jan-15	100,000	109,186	107,047	0.3%
SLM Corp. (USD)	4.035%	Feb-10	500,000	471,882	524,626	1.5%
JP Morgan Chase & Co. (USD)	7.900%	Apr-49	250,000	255,267	270,333	0.8%
Bank of America (USD)	8.000%	Jan-49	220,000	222,771	222,043	0.6%
Total foreign bonds				<u>28,588,802</u>	<u>28,873,437</u>	<u>83.8%</u>
Foreign preferred shares						
Federal Home Loan Mortgage Corporation (USD)			21,700	561,791	23,887	0.1%
Federal National Mortgage Association (USD)			18,300	462,396	21,103	0.1%
Total foreign preferred shares				<u>1,024,187</u>	<u>44,990</u>	<u>0.2%</u>
Foreign funds						
Western Asset Floating Rate High Income Fund LLC (USD)			55,009	735,842	784,696	2.3%
Total foreign mutual funds				<u>735,842</u>	<u>784,696</u>	<u>2.3%</u>
Transaction costs - Section 3855 adjustment (note 3)				-	-	0.0%
Total investments				<u>31,475,510</u>	<u>30,903,763</u>	<u>89.8%</u>

Connor, Clark & Lunn Real Return Income Fund

Statement of Investments Continued

As at December 31, 2009

	Maturity date	Number of contracts	Average cost CAD \$	Fair value CAD \$	Unrealized gain (loss) CAD \$	
Futures contracts						
Euroex BOBL (Mid-Term) Futures (EURO)	Mar-10	7	9,160	-	(9,160)	0.0%
Unrealized gain (loss) on futures contracts					<u>(9,160)</u>	<u>0.0%</u>
	Rate	Maturity date	Number of contracts	Market value CAD \$	Unrealized gain (loss) CAD \$	
Foreign currency forward contracts						
Bought CAD 31,680,000 , sold USD 26,814,992	1.18143	Jul-15	1	34,714,189	3,034,189	8.7%
Bought USD 397,257 , sold AUD 437,718	1.10185	Feb-10	1	422,248	5,783	0.0%
Bought USD 512,491 , sold AUD 562,633	1.09784	Feb-10	1	546,660	9,390	0.0%
Unrealized gain on foreign exchange contracts					<u>3,049,362</u>	<u>8.7%</u>
Other assets net of other liabilities of the Real Return Trust					<u>681,192</u>	<u>2.0%</u>
Net assets of the Real Return Trust					<u>34,625,157</u>	<u>100.5%</u>
Unrealized gain (loss) on forward agreement ^(*)					<u>3,816,755</u>	<u>11.1%</u>
Other liabilities net of other assets of the Fund					<u>(183,238)</u>	<u>-0.5%</u>
Net assets of the Fund					<u>34,441,919</u>	<u>100.0%</u>

^(*) The difference between the total Net Assets of the Real Return Trust and the Total Canadian common stocks (pledged to the Counterparty under the Forward Agreement)

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

December 31, 2009

1 Corporate activities

Connor, Clark & Lunn Real Return Income Fund (the "Fund") was established under the laws of Ontario as of June 29, 2005 by a Trust Agreement (the "Trust Agreement") made by Connor, Clark & Lunn Capital Markets Inc. (the "Manager") and RBC Dexia Investor Services Trust ("RBC Dexia") as trustee of Fund. The Fund is a mutual fund trust whose investment portfolio (the "Common Share Portfolio") consists of common shares of Canadian public companies that are Canadian securities for the purpose of the Income Tax Act (Canada) (the "Tax Act"). The Fund commenced operations on July 18, 2005 and will be terminated on or about July 18, 2015 (the "Termination Date") if not terminated earlier in accordance with its terms.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated June 29, 2005 are (i) to provide its holders of units ("Unitholders") with tax efficient monthly cash distributions that will be linked to the rate of inflation; and (ii) to preserve and enhance the net asset value of the Fund.

In order to meet its investment objectives, the Fund obtained exposure to the performance of the Portfolio held by Real Return Trust by entering into a forward purchase and sale agreements (collectively, the "Forward Agreement") with Bank of Montreal (the "Counterparty").

The Real Return Trust invests, on a leveraged basis, in a Portfolio with (i) at least 80% of the Portfolio invested in real return bonds issued by governments with AAA credit ratings including the United States, the United Kingdom, Canada, France, Sweden and Australia. At least 70% of the portfolio is invested in U.S. Treasury Inflation Protected Securities ("TIPS"). In addition, up to 20% of the Portfolio may be invested in AAA-rated real return bonds issued by governments other than the United States; and (ii) in order to diversify the Portfolio, improve net asset value stability and increase expected returns, up to 20% of the Portfolio can be invested in a mix of assets which may include mortgage-backed and other asset-backed securities, corporate debt securities, bank loans, emerging markets debt securities, commodity index investments directly or indirectly throughout investments in underlying investment funds. No more than 10% of the Portfolio may be invested in any one of these asset classes with the exception of mortgage-backed securities, in respect of which up to 20% of the Portfolio may be invested. Western Asset Management Company acts as the Real Return Trust's investment advisor (the "Investment Advisor") and is actively managing and making investment decisions with respect to Real Return Trust's assets.

The combination of these investments is targeted to create a portfolio that has a dollar weighted average credit rating of AA+ on the Portfolio assets. In order to enhance returns the Manager may employ leverage in the Portfolio with a debt to equity ratio of up to 2:1.

3 Summary of significant accounting policies

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 January 1, 2009. 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 January 1, 2009. This abstract impacted the Fund's disclosure provided but did not affect the Fund's results or financial position.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("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.

There were no differences between the Transactional NAV and the GAAP Net assets as a result of the adoption of Section 3855.

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

December 31, 2009

Cash

Cash includes cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized on an ex-dividend date basis. Interest income is based on the number of days the investment is held during the period. 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.

Unit valuation

Units of the Fund are valued at the net asset value per unit of the Fund. The net asset value per unit is determined by dividing the aggregate fair value of net assets of the Fund by the total number of units of the Fund.

Forward contracts

Forward contracts entered into by the Fund are valued at an amount that is equal to the gain or loss that would be realized if the position were to be closed out, which is equivalent to the difference between the deliverable asset and the value of the asset to be received. Changes in the value of a forward contract or the assets deliverable under such a contract are included as unrealized gains or losses on investments.

4 Custodian

In the Trust Agreement RBC Dexia ("the Custodian") acts 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.

5 Unitholders' equity

The Fund is authorized to issue an unlimited number of redeemable, transferable units of one class, each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On July 18, 2005 and August 2, 2005, the Fund issued 12,000,000 and 384,408 units respectively, for net proceeds of \$113,270,000 and \$3,651,876 respectively.

The Redemption price on the August Redemption Date in each year is equal to the Transactional NAV 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. An amount of \$6,339,840 was paid to redeem 822,481 units at August 31, 2009, (\$13,959,285 was paid to redeem 1,634,615 units at August 31, 2008).

The Unit Capital dollar amount represents the face value of the fund units minus any return on capital distributions and issue cost paid since July 18, 2005 (commencement of operations) to December 31, 2009. 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 balance in Contributed Surplus 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 its capital in accordance with the objectives outlined in Note 2.

Changes in outstanding units are summarized as follows:

	Number of units	
	December 31, 2009	December 31, 2008
Opening balance	5,193,552	6,839,067
Units issued	—	—
Units redeemed	(822,481)	(1,634,615)
Units cancelled (note 6)	<u>(500)</u>	<u>(10,900)</u>
Ending balance	<u>4,370,571</u>	<u>5,193,552</u>

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

December 31, 2009

6 Market Purchase Program

Subject to certain conditions described in the prospectus dated June 29, 2005, the Fund is obligated to purchase any Units offered in the market if, at any, time, the price at which Units are offered for sale and the most recent closing price of the Units on the TSX are each less than 95% of the latest determined Transactional NAV per Unit.

Pursuant to this obligation, during the year ended on December 31, 2009 the Fund purchased 500 units for cancellation at a cost of \$3,687 (10,900 units at a cost of \$85,055 during the year ended on December 31, 2008).

7 Forward Agreement and Common Share Portfolio

The Fund entered into a Forward Agreement with the Counterparty to obtain exposure to the performance of the Portfolio held by Real Return Trust. Under the Forward Agreement, the Fund is entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged by physical delivery of the Common Share Portfolio securities by the Fund to the Counterparty against cash payment or, at the election of the Fund, by the making of cash payments between the parties. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio may be more or less than the original aggregate subscription price of the Units. Unless the Fund elects cash settlement of the Forward Agreement, the Counterparty will pay to the Fund on or about the Termination Date, as the purchase price for the Common Share Portfolio, an amount equal to the Canadian dollar equivalent of the redemption proceeds of a corresponding number of units of the Real Return Trust. The Common Share Portfolio securities are pledged to, and held by, the Counterparty as security for the obligations of the Fund under the Forward Agreement.

The Fund pays to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of Real Return Trust calculated and payable quarterly in arrears.

8 Bank indebtedness

The Fund has an overdraft agreement with the Bank of Montreal ("BMO") dated March 2, 2006. Under the terms of this agreement, the maximum allowable borrowing limit is \$500,000.

During the year ended December 31, 2009, the Credit Facility was not utilized (a minimum outstanding balance of \$nil and a maximum outstanding balance of \$22,500 during the year ended December 31, 2008). The related total interest expense was \$nil for the year ended on December 31, 2009 (2008 - \$126).

As of December 31, 2009, the Credit Facility had \$nil outstanding balance (December 31, 2008 - \$nil).

9 Distributions

The Fund pays monthly cash distributions plus any additional amounts as directed by the Manager. Such distributions may consist of net income, net realized capital gains and return of capital and shall be paid no later than 10 days after the record date for Distribution.

The amount of distributions in any particular month shall be determined by the Manager, having regard to the investment objectives of the Fund, the net realized capital gains and net income of the Fund, if any, during the month and the year to date, the net realized capital gains and net income of the Fund anticipated in the balance of the year, and distributions made in previous months; provided, however, that the aggregate distributions of net income and net realized capital gains made in each year shall be such amount as is sufficient to ensure that the Fund is not liable for income tax thereon under the Act, except to the extent that any tax payable on net realized capital gains of the Fund for a year that are retained by the Fund would be recoverable by it in such year.

10 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 is entitled to receive an annual management fee in an amount equal to 0.30% per annum of the Transactional NAV of the Fund, to be calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to the Real Return Trust, the Manager will receive an annual management fee in an amount equal to 0.90% of the Real Return Trust's Transactional NAV, to be calculated and payable monthly in arrears, plus applicable taxes.

The Manager is responsible for payment of the investment management fees of the Investment Advisor.

11 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.

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12 Broker commission charges and soft dollar services

There were \$nil broker commissions paid during the year ended on December 31, 2009 (\$nil during the year ended on December 31, 2008) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

13 Financial instruments

<u>Assets</u>	<u>2009</u>	<u>2008</u>
	\$	\$
Held for trading	34,655,799	40,213,798
Loans and receivables	–	–
Total assets	34,655,799	40,213,798
<u>Liabilities</u>		
Held for trading	–	–
Financial liabilities at amortized cost	213,880	288,160
Total liabilities	213,880	288,160

For the purposes of categorization in accordance with section 3862, management fees payable, distributions 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. As mentioned in note 7 above, the Fund is exposed to the performance of the portfolio held by Real Return Trust through the Forward Agreement, and therefore, the following table illustrates the classification of the Real Return Trust's financial instruments within the fair value hierarchy as at December 31, 2009:

<u>Assets at fair value as at December 31, 2009 (\$)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	44,990	–	–	44,990
Foreign funds	–	784,696	–	784,696
Bonds	–	30,074,077	–	30,074,077
Foreign currency forward contracts	–	3,049,362	–	3,049,362
Total	44,990	30,858,773	–	30,903,763

<u>Liabilities at fair value as at December 31, 2009 (\$)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Future contracts	9,160	–	–	9,160
Total	9,160	–	–	9,160

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.

Foreign funds: Foreign funds are classified as Level 2 as they are valued using observable inputs. These funds have audited financial statement and values that can be confirmed by the trustee who is responsible for their valuations.

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 December 31, 2009.

14 Financial instrument risk

As mentioned in note 7 above, the Fund obtained exposure to the performance of the portfolio held by Real Return Trust through the Forward Agreement and therefore the risks associated with an investment in the Fund's units are best defined by describing the financial risks associated with an investment in the Real Return Trust's portfolio. The following is a description of these risks based on the financial statements of the Real Return Trust.

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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	515,466	–	259,402	29,290,049	3,879,048	33,943,965
Cash and cash equivalents	–	–	–	–	441,670	441,670
Other assets	–	–	–	–	372,851	372,851
Liabilities	–	–	–	–	(316,567)	(316,567)
Net assets value						34,441,919

2008:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	(205,641)	483,488	–	36,310,574	5,590,022	42,178,443
Cash and cash equivalents	–	–	–	–	37,250	37,250
Other assets	–	–	–	–	646,535	646,535
Liabilities	–	–	–	–	(2,936,590)	(2,936,590)
Net assets value						39,925,638

As at December 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 \$1,489,000 (2008 - \$2,112,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material. This Fund is also exposed to indirect interest rate risk to the extent the underlying mutual funds invest in interest-sensitive financial instruments.

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 December 31, 2009 and 2008. 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 Canadian dollar 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.

2009:

	Monetary instruments \$	Non-monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
Australian Dollar	936,464	–	(943,167)	(6,703)	(0.0%)	–
US Dollar	28,329,164	829,686	(27,758,679)	1,400,171	4.0%	70,000

2008:

	Monetary instruments \$	Non-monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	36,598,504	397,699	(63,174,338)	(26,178,135)	(65.1%)	(1,309,000)

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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 Advisor 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 December 31, 2009, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$5,000 (2008 - \$40,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

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 December 31, 2009 and 2008. 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 December 31, 2008 and 2009. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

2009:

Rating	December 31, 2009 (% of net assets)
AAA	83.60%
A+	8.80%
A	0.30%
BBB+	0.80%
BBB-	1.50%
BB	0.60%
B	2.30%
Total	97.90%

2008:

Rating	December 31, 2008 (% of net assets)
AAA	95.40%
A+	1.60%
A-	0.60%
BBB	1.20%
BBB-	1.20%
B+	4.00%
Total	104.0%

As at December 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 (see note 6). The Fund is also exposed to unlimited annual anniversary redemptions on August 31 of every year (see note 5). Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed. In addition, the Fund retains sufficient cash and cash equivalent positions to maintain liquidity. All liabilities are due within three months.