



CONNOR, CLARK & LUNN

CAPITAL MARKETS

6

0

0

2

**ROC Pref Corp.**

Annual Report

September 30, 2006

## ROC Pref Corp. Message to Shareholders

December 7, 2006

### Dear Investor,

We thank you for your investment in the preferred shares of ROC Pref Corp. (the "Company") and are pleased to present the Company's annual report.

Almost half way through its mandate, the Company's performance continues to be sound. All scheduled distributions on the preferred shares have been paid. With the benefit of subordination against default losses of 3.75% and the trading reserve account sufficiently funded to purchase a further 0.78% of subordination, the Company could withstand approximately 10 further defaults before the coupon or par value of the Preferred shares begins to be impacted (assuming the trading reserve account is used to purchase subordination). Ten defaults represents approximately 5.3 times the historical average rate of default on a portfolio with the same ratings distribution as the Company's reference portfolio. The trading reserve account has increased from \$516,219, at inception to \$1,668,639 on September 30, 2006.

In March 2006 the portfolio experienced its first default of a reference company, Dana Corp. Dana Corp's bonds traded relatively well following the default, such that the reference portfolio recovered 75% of its potential exposure. The default did not impact the P-1 (low) rating of the preferred shares. Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") is confident in the credit quality of the remaining companies in the portfolio and is also confident the Company can fulfill its investment objectives.

The Company was launched on June 2, 2004. The Company was created to invest, in a tax-efficient manner, in an A- rated Credit-Linked note ("CLN") structured to provide an enhanced return relative to comparably rated debt securities. The return on the CLN is linked to the credit performance of a globally diversified, equally weighted portfolio of 140 investment grade companies (the "Reference Companies") with a current average credit rating of BBB. The portfolio of Reference Companies is broadly diversified by industry and geographic region and its composition is actively managed by the Investment Manager. The Investment Manager employs a disciplined, risk-averse style of fixed income management, appropriate to the principal goal of avoiding Reference Companies that are likely to default on their senior debt during the term of the note.

The Investment Manager believes that global credit markets continue to benefit from healthy corporate balance sheets and a strong global economic environment. The result is that defaults remain at historically low levels. In this positive overall environment, the Investment Manager is monitoring the increase in M&A and leveraged buyout (LBO) activity. While an increase in such activity reflects good credit conditions, it may become a concern where transactions are heavily debt financed, which in some cases may lead to downgrades of the companies involved. Other factors the Investment Manager is monitoring include the continued flat yield curve, the impact of commodity price volatility and the possible vulnerability of the economy to a correction in the housing market. The Investment Manager would not be surprised to see some modest widening in credit spreads as a result of these factors but are managing the portfolio with this in mind. The Investment Manager continues to actively make substitutions in the portfolio in order to take advantage of opportunities in the market, to avoid future LBOs and to avoid potential defaults. We continue to remain confident that the investment objectives of the Company's shareholders will continue to be met.

Yours truly,



W. Neil Murdoch  
Chief Executive Officer  
ROC Pref Corp.

## Management Report of Fund Performance

This annual management report of fund performance for ROC Pref Corp. (“the Company”) contains financial highlights, but does not contain the complete annual financial statements of the Company. **The annual financial statements and accompanying notes are attached to this report.**

### Investment Objectives and Strategy

The Company was incorporated under the laws of the Province of Ontario on April 13, 2004. The Company is a mutual fund corporation 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 Company commenced operations on June 2, 2004. The manager of the Company is Connor, Clark & Lunn Capital Markets Inc. (the “Manager”)

The Company’s investment objectives are to pay holders of preferred shares an amount per preferred share equal to the original subscription price of \$25.00 on or about September 30, 2009 and to pay quarterly, fixed cumulative distributions of \$0.26875 per preferred share to yield 4.30% per annum on the original issue price.

In order to meet its objectives, the Company’s strategy is to maintain exposure, in a tax-efficient manner, to the returns of a credit-linked note (“CLN”). The CLN was issued by HSBC Bank USA (“HSBC”) on June 7, 2004, matures on September 30, 2009, is rated A- by Standard & Poors (“S&P”) and is structured to provide an enhanced return compared to comparably rated debt securities. The return on the CLN is linked to the performance of a globally diversified, equally weighted portfolio of 140 companies (the “Reference Portfolio”), all of which were rated investment grade at the time the CLN was issued. The Reference Portfolio is actively managed by Connor, Clark & Lunn Investment Management (the “Investment Manager”). Please refer to *Supplementary Financial Information - CLN Portfolio Schedule as of September 30, 2006* - for a listing of the companies in the Reference Portfolio.

In order to provide exposure to the CLN, the Company:

- (i) Purchased a portfolio of the common shares of 25 publicly traded Canadian companies on June 2, 2004 at an aggregate cost of \$57,161,000; and
- (ii) Entered into a forward purchase and sale agreement (the “Forward Agreement”) with the Bank of Nova Scotia (the “Counterparty”), under which the company agreed to sell the portfolio of common shares on or prior to September 30, 2009 in exchange for the value of the Credit Trust (“Credit Trust”), a vehicle formed to purchase a credit linked note (“CLN”) from HSBC. Sale of the common share portfolio under the Forward Agreement is intended to ensure that preferred shareholders have economic exposure to changes in the value of, and distributions effected by, the Credit Trust. A fee of 0.55% per annum calculated with reference to the net asset value of the Credit Trust and a hedging fee of 0.15% per annum calculated with reference to the value of the portfolio of common shares are payable to Counterparty under the Forward Agreement.

### Risk

The risks associated with an investment in the Company’s preferred shares are best defined by the credit rating of the CLN and the credit rating of the Preferred Shares, which itself is largely derived from the rating of the CLN. Factors that might affect the rating of the CLN include the ratings of the companies in the Reference Portfolio and the time remaining to maturity of the CLN. Factors that influence the rating of the Preferred Shares include the rating of the CLN and the level of cash available to the Company. The CLN was issued with a rating of A- and the Preferred Shares were issued with a rating of P-1 low, both by S&P, with respect to payment of quarterly coupons and the re-payment of principal at maturity. Both the CLN and the Preferred Shares continue to hold those ratings.

A number of events could lead to the revision of the ratings on the CLN and, correspondingly, on the Preferred Shares. These events include:

- (i) Changes in the credit ratings of the companies in the Reference Portfolio;
- (ii) Occurrence of company defaults in the Reference Portfolio, which could result in the remaining first-loss amount falling

below that required to affirm the rating on the CLN, which affects the ratings on the Preferred Shares; and

(iii) Changes to the credit ratings on HSBC or HSBC Bank Canada.

For full disclosure of risks associated with an investment in the Preferred Shares, please refer to the Prospectus dated May 27, 2004.

## Results of Operations

### *Investments of the Company*

#### *The common share portfolio*

The value of the common share portfolio decreased from \$48.77 million on September 30, 2005 to \$43.04 million at September 30, 2006. This decrease resulted from the combination of a decrease in the market value of the portfolio of \$3.62 million, the delivery of shares with a cost base of \$2.88 million in order to partially settle under the Forward Agreement and a realized gain (with proceeds reinvested) on dispositions of \$0.77 million. The details of the common share portfolio at September 30, 2006 are set out in the Summary of Investment Portfolio.

#### *Partial settlement of the Forward Agreement*

Quarterly payments of the 7.05% annual coupon on the CLN and the repayment of principal at maturity on September 30, 2009 accrue to the Credit Trust. The Company partially settles the Forward Agreement from time to time, thus receiving some of the value that has built up in the Credit Trust, in order to fund distributions on the preferred shares and its own operating expenses.

During the period, the Company delivered shares with a cost base of \$2.88 million to Counterparty in exchange for \$3.42 million in cash.

#### *Other investments of the Company*

As at September 30, 2006 the Company held \$163,555 in cash and short-term investments on a non-consolidated basis. The Company has no other investments apart from cash and equivalents, which are held in order to fund near term operating expenses. In order to return the full principal amount per preferred share on September 30, 2009 the Company must have accumulated at least \$2,839,000 in cash and short-term investments by that time. On a consolidated basis, the Company had \$1,423,957 in cash, short-term notes and bond investments on September 30, 2006.

### *Investments of the Credit Trust*

#### *The CLN*

The Credit Trust purchased the CLN on June 7, 2004 at par for \$57,161,000. The CLN matures on September 30, 2009, pays a coupon of 7.05% and is currently rated A- by S&P. The value of the CLN at September 30, 2006 was \$59,564,144.

The return on the CLN is linked to the number of defaults experienced over the term of the note among the 140 reference companies in the CLN's Reference Portfolio. Based on the Reference Portfolio's credit quality, S&P assigns a minimum level of subordination, which reflects the degree of net losses that a portfolio must be able to absorb without impacting cash flows to shareholders. In order to retain an A- credit rating, the CLN's required level of subordination is currently 3.42%. The initial subordination of the CLN was 3.90% and, as a result of Dana Corp.'s default in March 2006 (see "Credit quality of the Reference Portfolio"), the current level of subordination structured into the CLN is 3.75%. If losses due to cumulative defaults, net of recoveries, over the full term of the CLN do not exceed a total of 3.75% of the initial value of the Reference Portfolio, the Credit Trust will receive its full coupon payments and par value on maturity. **To the extent that cumulative defaults exceeded this amount, subsequent coupon payments and the amount that would be paid to the Credit Trust on maturity would decline. To the extent that cumulative losses due to defaults, net of recoveries, exceeded 4.75% there would be no amount paid to the Credit Trust and the value of the Preferred Shares would decline to the level of net current assets per share, possibly zero.** Losses of 3.75% due to defaults net of recoveries (using an estimated historical recovery rate of 37.3%) would represent approximately 4.3 times the average and 2.0 times the worst level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any three-year period since 1981.

The CLN features an embedded trading reserve account, initially in an amount of \$516,219, which stood at \$1,668,639 on

September 30, 2006. The trading reserve account is available to absorb net losses that might be incurred when the investment manager makes substitutions in the Reference Portfolio. The trading reserve account can also be used to purchase additional subordination from HSBC. At September 30, 2006, the trading reserve account would have purchased an additional 0.78% of subordination, bringing total percentage loss that could have been absorbed in the Reference Portfolio without affecting payments of interest or principal to 4.53%. The amount of additional subordination that can be purchased using the trading reserve account will vary in response to changing market conditions. The ability to absorb 4.53% losses in the portfolio currently translates into a coverage ratio of 5.3x the average level of defaults for a portfolio with the same ratings characteristics and term as the Reference Portfolio.

### *Credit quality of the Reference Portfolio*

Risk in the CLN is a function of Reference Portfolio credit quality and time to maturity. As the CLN ages, the risk of default for companies with a given rating decreases. Balanced against that time benefit is the fact that credit ratings have historically moved lower over time. The composition of the Reference Portfolio is designed with the objective that the CLN will maintain its initial rating as these two effects act on the portfolio. Changes in credit quality as it is measured by the market can be seen through changes in the average credit spread of the Reference Portfolio. A good indication of the performance of the Reference Portfolio is the movement in credit spread of the Reference Portfolio versus that of a corresponding index. Lower credit spread indicates less risk. The index that best corresponds to the Reference Portfolio is the Dow Jones CDX North America Investment Grade 2 Index:

	2004		2005		2006	
	June 30 <sup>th</sup>	September 30 <sup>th</sup>	March 31 <sup>st</sup>	September 30 <sup>th</sup>	March 31 <sup>st</sup>	September 30 <sup>th</sup>
Dow Jones IG 2 Index	66.34	54.10	56.28	66.11	73.74	65.37
Reference Portfolio	61.53	49.07	48.83	61.29	83.96 <sup>(1)</sup>	80.61 <sup>(1)(2)</sup>

<sup>(1)</sup> Includes Dana Corp. at default-spread level of 10,000. Dana Corp. is not included in the index.

<sup>(2)</sup> The Reference Portfolio's spread is 54.07 excluding Dana Corp.

Changes in the overall credit quality of the Reference Portfolio as measured by the credit ratings of its constituents may affect the rating of the CLN and of the Preferred Shares, which in turn may affect the trading price. The following table describes the Reference Portfolio's ratings characteristics on September 30, 2004, 2005 and 2006:

Rating <sup>(1)</sup>	Number of Issuers			Rating <sup>(1)</sup>	Number of Issuers		
	2004	2005	2006		2004	2005	2006
AAA	2	1	2	BBB-	14	8	6
AA+	0	0	0	BB+	0	5	2.5
AA	2	3	3	BB	0	2	4
AA-	4	5	8	BB-	0	1	2
A+	10	9	10	B+	0	0	2
A	15	17	14	B	0	0	2
A-	28	30	30.5	D	0	0	0
BBB+	25	28	28	N/R	0	0	1
BBB	40	31	25				
				<b>Total</b>	<b>140</b>	<b>140</b>	<b>140</b>

<sup>(1)</sup> S&P's rating scale runs from AAA, indicating an extremely strong capacity to meet financial obligations, to D, indicating default. Ratings from AA to CCC may be modified by the addition of a plus or minus sign.

In March 2006 the portfolio experienced its first default of a reference company, Dana Corp. Dana Corp's bonds traded relatively well following the default, such that the reference portfolio recovered 75% of its potential exposure. As described above, S&P's rating anticipates deterioration in the average credit rating of the companies in the Reference Portfolio over time, reflecting the fact that credit ratings tend to migrate lower over time. The maintenance of the A- rating and the increase in the CLN's cushion over the required subordination level indicate that the Reference Portfolio has performed better than required to maintain the CLN's credit rating. Since inception, as a result of ratings changes and trading activity, the Reference Portfolio experienced 37 reference company upgrades averaging 1.8 rating categories, or notches, per upgrade for a total 59 notch

increase and 62 reference company downgrades averaging 1.3 notches per downgrade for a total 78 notch decrease, leaving the portfolio's average rating approximately constant. The companies in the Reference Portfolio are listed in the Supplementary Financial Information as at September 30, 2006.

### *Substitutions in the Reference Portfolio*

The Reference Portfolio is actively managed by the Investment Manager. The Investment Manager's goal is to reduce the likelihood of having exposure to companies that default on their senior obligations. To that end, the Investment Manager can add or remove companies through a substitution process executed in accordance with the terms of the CLN. If the Investment Manager decides to remove a company that, in its judgment, has increased in risk, and to replace it with a lower risk company, there may be a net cost to the trading reserve account depending on the credit spread comparison between the companies being substituted. The trading reserve account described above is available to absorb net losses that may be incurred through these substitutions.

The Investment Manager made five substitutions year to date and has made a total of twenty-one substitutions in the Reference Portfolio from June 2, 2004 (inception date) to September 30, 2006.

### *Value of the CLN*

The CLN is valued on the 10<sup>th</sup> and last business day of each month by HSBC. The CLN value reflects the amount that HSBC is willing to pay in order to discharge its obligations under the CLN and is based on HSBC's proprietary assumptions concerning current and future market conditions and events. Factors affecting the value of the CLN include the market's assessment of overall credit quality of the Reference Portfolio as measured by the trading price of the debt (and derivatives thereof) of companies in the Reference Portfolio, interest rates as measured by the Canadian dollar swap rate to the date of maturity of the note, the value of the trading reserve account and other factors, such as correlation, that are proprietary to HSBC. At September 30, 2006, the CLN value was \$59,564,144, up from \$57,437,755 on September 30, 2005.

### *Other investments of the Credit Trust*

The Credit Trust held \$1,260,401 in cash and other investments on September 30, 2006 compared to \$723,534 on September 30, 2005.

### *Net Asset Value of the Preferred Shares*

The net asset value of the preferred shares is calculated as: the value of the common share portfolio and any other investments held by the Company, plus the value of any gain or loss on the equity Forward Agreement, less any net liabilities of the Company, divided by the number of preferred shares outstanding.

On September 30, 2006, the value of the common share portfolio was \$43.04 million. Since the Company can deliver the value of the common share portfolio to HSBC in exchange for the value of the Credit Trust, the value of the Forward Agreement to the Company is equal to the value of the Credit Trust less the value of the common share portfolio. On September 30, 2006 value of the Forward Agreement was \$17.89 million. Other net assets in the Company prior to consolidation totalled \$(0.54) million leaving a net asset value of \$60.39 million or \$25.16 per Preferred Share. The net asset value per Preferred Share was \$24.12 on September 30, 2005. The increase in net asset value over the period is primarily attributable to the increase in the value of the CLN.

### *Liquidity and Capital Resources*

The obligations of the Company include operating expenses and declared distributions to preferred shareholders. The funding of these obligations will be satisfied primarily through partial settlements under the Forward Agreement as described above. As at September 30, 2006, the Company had current assets of \$686,045 and current liabilities of \$116,669 on a consolidated basis.

### **Expense Ratio**

The management expense ratio (MER) represents the ratio of annual expenses that are required to operate the company to the value of issued Preferred Share capital. The MER excluding all distributions paid to preferred shareholders and deferred management fees, which are only payable after full repayment of the original preferred share issue price, for the year ended

September 30, 2006 was approximately 1.47%. The MER for the same period including all distributions paid to preferred shareholders and deferred management fees was approximately 6.40%. Please refer to the Financial Highlights section of this document for more information.

## **Distributions**

During the year ended September 30, 2006, the Preferred Shares paid regular quarterly distributions of \$0.26875 per share for a total of \$1.075 per share, representing a yield of 4.30% on the \$25.00 par value.

## **Related Party Transactions**

### ***Management Fees***

As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Company and the Credit Trust, the Manager receives an annual management fee in an amount equal to 0.25% per annum of the net asset value of the Company to be calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to the Credit Trust, the Manager also receives an annual management fee in an amount equal to 0.10% per annum of the net asset value of the Credit Trust, calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Company for the year ended September 30, 2006 were \$214,757 (\$210,694 for the year ended September 30, 2005) on a consolidated basis.

To the extent that any assets remain after the original issue price of the preferred shares of the Company, together with any accrued and unpaid distributions, have been paid to shareholders, the Manager will be paid an amount equal to any fees and expenses funded by the Manager on behalf of the Company and an additional one-time deferred management fee payable on redemption of the preferred shares of up to 0.65% per annum, calculated based on quarterly NAV of the Company. The deferred management fees accrued for the year ended September 30, 2006 were \$265,837 (\$290,928 for the year ended September 30, 2005).

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

## **Recommendations or Reports by the Independent Committee**

The Independent Committee of the Board of Directors tabled no reports and made no material recommendations to management of the Company during the year ended September 30, 2006.

## Financial Highlights

The following tables show selected key financial information about the Company and are intended to help explain the Company's financial performance since inception. This information is derived from the Company's audited annual financial statements:

The Company's Net Asset Value per Preferred share:

	September 30, 2006	September 30, 2005	September 30, 2004 <sup>(1)</sup>
<b>Net Asset Value, beginning of period</b>	<b>24.12</b>	<b>23.81</b>	<b>25.00</b>
<b>Increase (decrease) from operations:</b>			
Total revenues	1.70	1.68	0.53
Total expenses	(0.47)	(0.46)	(0.15)
Share issue expense <sup>(2)</sup>	—	—	(1.17)
Realized gains (losses) for the period	0.54	(1.15)	(0.03)
Unrealized gains (losses) for the period	0.34	1.31	(0.02)
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>2.11</b>	<b>1.38</b>	<b>(0.84)</b>
<b>Distributions:</b>			
From income (excluding dividends)	—	—	—
From dividends	—	—	—
From capital gains	—	—	—
Return of capital	(1.07)	(1.07)	(0.35)
<b>Total Annual Distributions <sup>(4)</sup></b>	<b>(1.07)</b>	<b>(1.07)</b>	<b>(0.35)</b>
<b>Net Asset Value, end of period <sup>(5)</sup></b>	<b>25.16</b>	<b>24.12</b>	<b>23.81</b>

<sup>(1)</sup> Results for the period June 2, 2004 (Inception date) to September 30, 2004.

<sup>(2)</sup> Issue expense of \$2,812,422 incurred in connection with the share issuance, principally consisting of Agents' fees and other offering expenses, which has been charged to retained earnings prior to calculating the opening Net Asset Value of \$23.83.

<sup>(3)</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>(4)</sup> Distributions were paid in cash.

<sup>(5)</sup> This is not reconciliation between the opening and the closing net asset values per Share.

Ratios and Supplemental Data:

	September 30, 2006	September 30, 2005	September 30, 2004 <sup>(1)</sup>
Net assets (000's)	60,395	57,891	57,149
Number of Preferred shares outstanding	2,400,000	2,400,000	2,400,000
Base Management expense ratio <sup>(2)</sup>	1.47%	1.39%	1.49%
Management expense ratio <b>including distributions on preferred shares, deferred management fees and issue expenses <sup>(2)(3)</sup></b>	<b>6.40%</b>	<b>6.30%</b>	<b>11.60%</b>
<b>before waivers or absorptions <sup>(3)</sup></b>	<b>6.40%</b>	<b>6.30%</b>	<b>11.60%</b>
Portfolio turnover rate <sup>(4)</sup>	19.89%	15.81%	18.04%
Trading expense ratio <sup>(5)</sup>	0.01%	0.00%	0.00%
Closing market price (TSX)	24.10	25.00	24.95

<sup>(1)</sup> Results for the period June 2, 2004 (Inception date) to September 30, 2004.

<sup>(2)</sup> A separate base management expense ratio has been presented to include the normal operating expenses of the Fund and exclude (i) deferred management fees (which are only payable on maturity date), (ii) **distributions on preferred shares** and (iii) the one time initial share offering issue expenses.

<sup>(3)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. The MER for the period ending September 30, 2004 annualizes expenses incurred from commencement of operations on June 2, 2004 to September 30, 2004 and it also includes all Agents' fees and other offering expenses, which are one time expenses and therefore not annualized. To the extent that assets remain in the Company after the original issue price of the Preferred Shares together with any accrued and unpaid distributions have been paid to Shareholders, the Manager is entitled to: (a) an additional one-time management fee, the "Deferred Management Fee", payable on the Redemption Date and calculated on the quarterly net asset value of the Company on an effective basis of up to 0.65% per annum; and (b) to recover any fees and expenses funded by it on behalf of the Company, plus applicable taxes.

<sup>(4)</sup> The Company's turnover rate indicates how actively the Company's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company's buying and selling all of the securities in its portfolio once in the course of the year. In the case of the Company, a high turnover rate may lead to a marginal increase in trading costs and may increase the chance of an investor receiving taxable capital gains in that year. There is not necessarily a relationship between turnover rate and the performance of the Company.

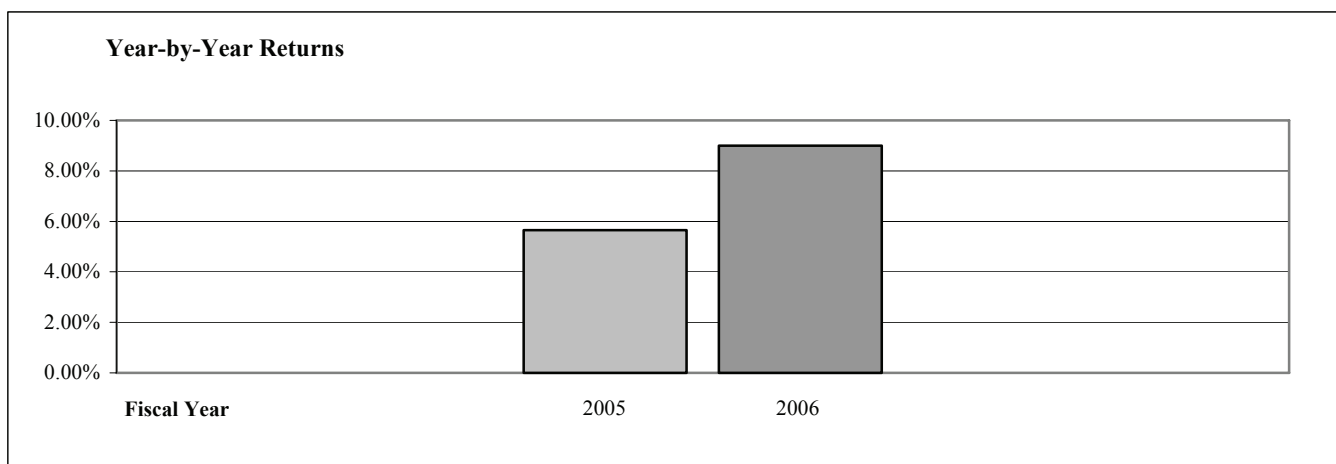
<sup>(5)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Past Performance

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

### Year – by –Year Returns

The following bar chart shows the Company’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 decrease by the last day of the financial year.



### Annual Compound Returns

	Past Year	Since Inception <sup>(1)</sup>
Based on NAV <sup>(2)</sup>	9.00%	6.95%
Based on share price <sup>(3)</sup>	0.70%	2.77%
Bloomberg / EFFAS <sup>(4)</sup> Canada Government 3-5 year Index	4.07%	4.65%

<sup>(1)</sup> Annualized for the period June 2, 2004 (Inception date) to September 30, 2006.

<sup>(2)</sup> Calculated from initial net asset value of \$23.83 (issue price \$25.00 less \$1.17 issue expenses) and September 30, 2005 net asset value of \$24.12 assuming all distributions reinvested.

<sup>(3)</sup> Calculated from issue price of \$25.00 and September 30, 2005 market price of \$25.00 assuming all distributions reinvested.

<sup>(4)</sup> Index of Canadian Government bonds with 3 to 5 years to maturity. EFFAS: European Federation of Financial Analyst Societies.

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

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

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of NAV
<b>Short-term investments</b>					
<b>Bearer deposit notes</b>					
Bank of Nova Scotia	10/27/2006	150,000	148,406	148,406	0.2%
Bank of Nova Scotia	11/21/2006	200,000	198,592	198,592	0.3%
Bank of Montreal	11/29/2006	150,000	148,910	148,910	0.2%
<b>Total short-term investments</b>			<u>495,908</u>	<u>495,908</u>	<u>0.7%</u>
<b>Investments</b>					
<b>Credit-linked notes</b>					
HSBC 7.05% Bond	9/30/2009	57,161,000	57,161,000	59,564,144	98.7%
<b>Domestic Bonds</b>					
Golden Credit Card Trust 4.159%	10/15/2008	900,000	893,277	899,245	1.5%
<b>Canadian common stocks (pledged to the Counterparty under the Forward Agreement)</b>					
<b>Energy</b>					
Compton Petroleum Corp.		148,326	1,802,161	1,653,835	2.7%
Western Oil Sands Inc.		98,391	2,686,074	2,813,983	4.7%
			<u>4,488,235</u>	<u>4,467,818</u>	<u>7.4%</u>
<b>Materials</b>					
Glamis Gold		100,700	2,285,890	4,424,758	7.3%
Ivanhoe Mines Ltd.		271,996	2,472,444	1,895,812	3.1%
Kinross Gold Corp.		285,800	2,286,400	3,998,342	6.6%
Meridian Gold		136,099	2,511,648	3,769,942	6.2%
Tembec Inc.		208,700	2,279,192	290,093	0.5%
			<u>11,835,574</u>	<u>14,378,947</u>	<u>23.7%</u>
<b>Capital Goods</b>					
ATS Automation Tooling Systems Inc.		148,529	2,642,331	1,871,465	3.1%
Husky Injection Molding Systems		573,616	2,323,145	2,690,259	4.5%
			<u>4,965,476</u>	<u>4,561,724</u>	<u>7.6%</u>
<b>Pharmaceuticals &amp; Biotechnology</b>					
Angiotech Pharmaceuticals Inc.		76,600	2,285,744	750,680	1.2%
QLT Inc.		72,000	2,286,000	607,680	1.0%
			<u>4,571,744</u>	<u>1,358,360</u>	<u>2.2%</u>

Summary of Investment Portfolio as of September 30, 2006 .... Continued

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of NAV
<b>Consumer Discretionary</b>					
Dorel Industries Inc. Class B		52,000	2,288,000	1,479,400	2.4%
Gildan Activewear Class A		23,032	452,579	1,251,559	2.1%
Alliance Atlantis Communications		44,737	1,577,426	1,550,137	2.6%
CanWest Global Communications Sub Voting		255,912	2,884,973	2,124,070	3.5%
Forzani Group Ltd. Class A		168,000	2,286,480	2,780,400	4.6%
			<u>9,489,458</u>	<u>9,185,566</u>	<u>15.2%</u>
<b>Consumer Staples</b>					
Cott Corp.		53,100	2,288,079	1,014,210	1.7%
<b>Information Technology</b>					
CGI Group Class A		276,500	2,286,534	2,023,980	3.4%
Hummingbird Ltd.		53,732	1,611,960	1,663,543	2.8%
ATI Technologies Inc.		103,500	2,287,350	2,473,650	4.1%
Celestica Inc.		68,829	1,751,698	824,571	1.4%
Nortel Networks Corp.		427,400	2,286,590	1,089,870	1.8%
			<u>10,224,132</u>	<u>8,075,614</u>	<u>13.5%</u>
<b>Total Canadian common stocks</b>			47,862,698	43,042,239	71.3%
<b>Payable to the Counterparty under the Forward Agreement</b>			<u>(47,862,698)</u>	<u>(43,042,239)</u>	<u>-71.3%</u>
<b>Total investments</b>			<u>58,054,277</u>	<u>60,463,389</u>	<u>100.2%</u>
<b>Other liabilities net of other assets</b>				<u>(564,599)</u>	<u>-0.9%</u>
<b>Net assets value (NAV)</b>				<u>60,394,698</u>	<u>100.0%</u>

## Supplementary Financial Information

The following is an unaudited listing of the CLN Portfolio (Reference Portfolio) as at September 30, 2006:

Entity Description	SP Rating	Industry	Country
Accor	BBB	Lodging & casinos	France
Agrium Inc.	BBB	Farming/agriculture	Canada
Albertson's Inc.	BB-	Food/drug retailers	USA
Alcan Inc.	BBB+	Nonferrous metals/minerals	Canada
Alltel Corporation	A-	Telecommunications	USA
Altria Group, Inc.	BBB+	Beverage & Tobacco	USA
Ambac Financial Group, Inc.	AA	Insurance	USA
American International Group, Inc.	AA	Insurance	USA
Aon Corporation	BBB+	Insurance	USA
Arcelor Finance	BBB	Steel	Luxembourg
BAA Plc	BBB+	CW-NEG Air transport	Britain
BAE Systems Plc	BBB	Aerospace & Defence	Britain
Barrick Gold Corporation	A-	Nonferrous metals/minerals	Canada
Baxter International Inc.	A-	CW-POS Health care	USA
Bayer Aktiengesellschaft	BBB+	Chemicals & plastics	Germany
Bear Stearns Companies Inc.	A	Brokers, Dealers & Investment houses	USA
Boeing Capital Corporation	A	Air transport	USA
Bombardier Inc.	BB	Aerospace & Defence	Canada
Bristol-Myers Squibb Company	A+	Drugs	USA
British American Tobacco p.l.c.	BBB+	Beverage & Tobacco	Britain
British Telecommunications public limited company	BBB+	Telecommunications	Britain
Brookfield Asset Management	A-	Building & Development	Canada
Burlington Northern Santa Fe Corporation	BBB+	Rail industries	USA
Cargill, Incorporated	A+	CW-NEG Farming/agriculture	USA
Casino Guichard-Perrachon	BBB-	Food/drug retailers	France
Cendant Corporation	N/R	Lodging & casinos	USA
Centex Corporation	BBB	Building & Development	USA
Centurytel Inc.	BBB	Telecommunications	USA
Chiron Corporation	AAA	Drugs	USA
Cingular Wireless LLC	A	CW-NEG Telecommunications	USA
CIT Group Inc.	A	Financial intermediaries	USA
Citigroup Inc.	AA-	Financial intermediaries	USA
Comcast Cable Communications Inc.	BBB+	Cable & satellite television	USA
Compagnie de Saint-Gobain	BBB+	Building & Development	France
Compagnie Financiere Michelin	BBB	Automotive	Switzerland
Compass Group Plc	BBB+	Food service	Britain
Computer Associates International Inc.	BB	CW-NEG Electronics/electrical	USA
Computer Sciences Corporation	A-	CW-NEG Electronics/electrical	USA
Constellation Energy Group, Inc.	BBB+	CW-POS Utilities	USA
Continental AG	BBB+	Automotive	Germany
Countrywide Home Loans, Inc.	A	Financial intermediaries	USA
CSX Corporation	BBB	Surface transport	USA
CVS Corporation	BBB+	Food/drug retailers	USA
DaimlerChrysler AG	BBB	Automotive	Germany
Deere & Company	A-	Farming/agriculture	USA
Deutsche Bank AG	AA-	Financial intermediaries	Germany
Deutsche Lufthansa AG	BBB	Air transport	Germany
Deutsche Telekom AG	A-	Telecommunications	Germany

Entity Description	SP Rating	Industry	Country
Diamond Offshore Drilling, Inc.	A-	Oil & gas	USA
Domtar, Inc.	BB-	CW-DEV Forest products	Canada
Duke Capital LLC	BBB	Utilities	USA
Eastman Chemical Company	BBB	Chemicals & plastics	USA
Eastman Kodak Company	B+	CW-NEG Leisure goods/activities/movies	USA
EMI Group plc	BB+	Leisure goods/activities/movies	Britain
Endesa S.A.	A	CW-NEG Utilities	Spain
European Aeronautic Defense and Space Company EADS N.V.	A	Aerospace & Defence	Netherlands
Federated Department Stores, Inc.	BBB	Retailers (except food & drug)	USA
FirstEnergy Corp.	BBB	Utilities	USA
Ford Motor Credit Company	B	Automotive	USA
France Telecom	A-	Telecommunications	France
Gannett Co Inc	A	Publishing	USA
General Electric Capital Corporation	AAA	Conglomerates	USA
General Motors Acceptance Corporation	BB	CW-DEV Automotive	USA
Hannover Rueckversicherungs-AG	AA-	Insurance	Germany
Hongkong Land Company Limited	BBB+	Building & Development	Hong Kong
Hutchison Whampoa Limited	A-	Conglomerates	Hong Kong
Imperial Chemical Industries plc	BBB	Chemicals & plastics	Britain
Ingersoll-Rand Company	A-	Industrial equipment	USA
International Business Machines Corporation	A+	Electronics/electrical	USA
International Lease Finance Corporation	AA-	Equipment leasing	USA
International Paper Company	BBB	Forest products	USA
J.P. Morgan Chase & Co.	A+	Financial intermediaries	USA
Koninklijke DSM NV	A-	Chemicals & plastics	Netherlands
Koninklijke KPN NV	BBB+	Telecommunications	Netherlands
Korea Electric Power Corporation	A	Utilities	South Korea
Korea Telecom	A-	Telecommunications	South Korea
Kraft Foods Inc.	A-	Food products	USA
Kroger Co.	BBB-	Food/drug retailers	USA
Land Securities plc	A-	Building & Development	Britain
Lear Corp.	B+	Automotive	USA
Lehman Brothers Holdings Inc.	A+	Financial intermediaries	USA
Lockheed Martin Corporation	BBB+	Aerospace & Defence	USA
Loews Corporation	A	Conglomerates	USA
Marriott International, Inc.	BBB+	Lodging & casinos	USA
Marsh & McLennan Companies Inc.	BBB	Insurance	USA
May Department Stores Company	BBB	Retailers (except food & drug)	USA
MBIA Inc.	AA	Insurance	USA
MBNA Corporation	AA-	Brokers, Dealers & Investment houses	USA
MeadWestvaco Corporation	BBB	CW-NEG Forest products	USA
Merck & Co Inc	AA-	Drugs	USA
Merrill Lynch & Co., Inc.	A+	Financial intermediaries	USA
Metro AG	BBB	Retailers (except food & drug)	Germany
Monsanto Company	A-	Farming/agriculture	USA
Morgan Stanley	A+	Brokers, Dealers & Investment houses	USA
Muenchener Rueckversicherungs-Gesellschaft AG	A+	Insurance	Germany
Nabors Industries, Inc.	A-	CW-NEG Oil & gas	USA
Newell Rubbermaid Inc.	BBB+	Home furnishings	USA
Newmont Mining Corporation	BBB+	Nonferrous metals/minerals	USA
News America Incorporated	BBB	Publishing	USA
Nordstrom, Inc.	A	Retailers (except food & drug)	USA
Omnicom Group Inc.	A-	Business equipment & services	USA

<b>Entity Description</b>	<b>SP Rating</b>	<b>Industry</b>	<b>Country</b>
PCCW - HKT Telephone Limited	BBB	Telecommunications	Hong Kong
Petroliam Nasional Berhad	A-	Oil & gas	Malaysia
Pulte Homes, Inc.	BBB	Building & Development	USA
Qantas Airways Limited	BBB+	Air transport	Australia
RadioShack Corporation	BBB-	Retailers (except food & drug)	USA
Reuters Group plc	A-	Business equipment & services	Britain
Sabre Holdings Corporation	BBB	Business equipment & services	USA
Schering-Plough Corporation	A-	Drugs	USA
SCOR	A-	Insurance	France
Securitas AB	BBB+	Business equipment & services	Sweden
Sherwin-Williams Company	A-	CW-NEG Chemicals & plastics	USA
Siemens Aktiengesellschaft	AA-	CW-NEG Conglomerates	Germany
Southwest Airlines Co.	A	Air transport	USA
Sprint Corporation	BBB+	Telecommunications	USA
STMicroelectronics N.V.	A-	Electronics/electrical	Switzerland
Suez	A-	CW-POS Utilities	France
Swiss Reinsurance Co	AA-	Insurance	USA
Target Corporation	A+	Retailers (except food & drug)	USA
TECO Energy, Inc.	BB	Utilities	USA
Telecom Italia SpA	BBB+	CW-NEG Telecommunications	Italy
The Dow Chemical Company	A-	Chemicals & plastics	USA
The Goldman Sachs Group, Inc.	A+	Brokers, Dealers & Investment houses	USA
Time Warner Inc.	BBB+	CW-NEG Leisure goods/activities/movies	USA
Transocean Inc.	A-	Oil & gas	USA
Tribune Company	BBB-	CW-NEG Publishing	USA
TXU Corporation	BBB-	Utilities	USA
Tyson Foods, Inc.	BB+	Food products	USA
Union Fenosa, S.A.	BBB+	Utilities	Spain
Universal Corp.	BBB-	Beverage & Tobacco	USA
UST Inc.	A	Beverage & Tobacco	USA
VNU N.V.	B	Radio & Television	Netherlands
Volkswagen Aktiengesellschaft	A-	Automotive	Germany
Walt Disney Company	A-	Leisure goods/activities/movies	USA
Weyerhaeuser Company	BBB	Forest products	USA
Windstream	BB+	Telecommunications	USA
Wolters Kluwer N.V.	BBB+	Publishing	Netherlands
WPP Group Plc	BBB+	Business equipment & services	Britain
Wyeth	A	Drugs	USA
XL Capital Ltd	A-	Insurance	Bermuda


## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **ROC Pref Corp.** and all the information in this annual report are the responsibility of management and approved by the Board of Directors (the "Board") on December 07, 2006.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management 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 shareholders.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these responsibilities through its Audit Committee (the "Committee").

The Committee is appointed by the Board. The Committee meets periodically with management and external auditors to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings semi-annually to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the voting shareholders, the engagement or re-appointment of the external auditors. PricewaterhouseCoopers LLP has full and free, independent access to the Committee.



W. Neil Murdoch  
President and Chief Executive Officer



Philip Gow  
Chief Financial Officer

Toronto, Canada  
December 07, 2006

December 7, 2006

## **Auditors' Report**

### **To the Shareholders of ROC Pref Corp.**

We have audited the consolidated statement of investments of **ROC Pref Corp.** (the Company) as at September 30, 2006, the consolidated statements of net assets as at September 30, 2006 and 2005 and the consolidated statements of operations, changes in shareholders' equity and retained earnings, cash flow and changes in investments for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations, its cash flows and the changes in its investments for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# ROC Pref Corp.

Consolidated Statements of Net Assets

As at September 30, 2006 and 2005

	2006	2005
	\$	\$
<b>Assets</b>		
Cash	28,804	26,242
Short-term investments	495,908	797,945
Investments at market value (cost - \$58,054,277; 2005 - \$57,161,000)	60,463,389	57,437,755
Investments pledged to counter party under forward agreement (cost - \$47,862,698; 2005 - \$49,970,632)	43,042,239	48,772,536
Interest receivable	130,572	112,805
Prepaid expenses	30,761	33,524
	<u>104,191,673</u>	<u>107,180,807</u>
<b>Liabilities</b>		
Payable to counterparty under forward agreement	43,042,239	48,772,536
Accounts payable and accrued liabilities	98,956	74,872
Deferred management fees payable (note 8)	637,967	372,130
Management fees payable	17,713	70,167
Preferred share capital (note 5)	60,394,698	57,891,002
	<u>104,191,573</u>	<u>107,180,707</u>
<b>Shareholders' Equity</b>		
Share capital (note 5)	100	100
Retained earnings (Deficit)	-	-
	<u>100</u>	<u>100</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>104,191,673</u>	<u>107,180,807</u>
<b>Number of Preferred Shares outstanding</b> (note 5)	<u>2,400,000</u>	<u>2,400,000</u>
<b>Value per Preferred Shares outstanding</b>	<u>25.16</u>	<u>24.12</u>
<b>Number of Class A Shares outstanding</b> (note 5)	<u>100</u>	<u>100</u>
<b>Value per Class A Shares outstanding</b>	<u>1.00</u>	<u>1.00</u>

On behalf of the Board:



Director



Director

# ROC Pref Corp.

## Consolidated Statements of Operations

For the years ended September 30, 2006 and 2005

	2006	2005
	\$	\$
<b>Revenue</b>		
Interest	<u>4,068,309</u>	<u>4,040,653</u>
<b>Expenses</b>		
Forward and hedging fees	401,871	397,667
Deferred management fees	265,837	290,928
Management fees	214,757	210,694
Directors' fees	41,881	39,793
Custodial fees	41,213	42,572
Rating agency fees	35,877	21,864
Audit fees	33,058	36,539
Legal fees	18,997	18,077
Transfer agent fees	16,454	6,821
Administrative fees	14,956	-
Sustaining fees	13,117	26,149
Printing and mailing charges	4,044	8,034
Other	<u>14,908</u>	<u>8,221</u>
	<u>1,116,970</u>	<u>1,107,359</u>
<b>Net investment income (loss) before the undernoted</b>	2,951,339	2,933,294
Distributions to Preferred shareholders	<u>(2,580,000)</u>	<u>(2,580,000)</u>
<b>Net investment income (loss)</b>	371,339	353,294
Net realized gain (loss) on investments (note 6)	1,307,066	(2,756,624)
Unrealized gain (loss) on Forward Agreement (notes 2 and 6)	(1,307,066)	2,756,624
Change in unrealized gain (loss) on investments	<u>2,132,357</u>	<u>388,695</u>
<b>Increase (decrease) in net assets from operations</b>	<u>2,503,696</u>	<u>741,989</u>
<b>Increase (decrease) in net assets from operations per Preferred share*</b>	<u>1.04</u>	<u>0.31</u>

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

## ROC Pref Corp.

Consolidated Statements of Changes in Shareholders' Equity and Retained Earnings

For the years ended September 30, 2006 and 2005

---

	2006	2005
	\$	\$
<b>Changes in shareholders' equity</b>		
Share capital - beginning of year	100	100
Proceeds from issuance of class A shares	<u>-</u>	<u>-</u>
Share capital - end of year	<u>100</u>	<u>100</u>
<b>Changes in Retained Earnings</b>		
Retained earnings - beginning of year	-	-
Increase (decrease) in net assets from operations	2,503,696	741,989
Deficit (surplus) attributable to preferred shareholders (note 5)	<u>(2,503,696)</u>	<u>(741,989)</u>
Retained earnings - end of year	<u>-</u>	<u>-</u>

(See accompanying notes to financial statements)

# ROC Pref Corp.

## Consolidated Statements of Cash Flow

For the years ended September 30, 2006 and 2005

	2006	2005
	\$	\$
<b>Operating Activities</b>		
Increase (decrease) in net assets from operations	2,503,696	741,989
Items not affecting cash:		
Net realized (gain) loss on investments	(1,307,066)	2,756,624
Unrealized (gain) loss on Forward Agreement	1,307,066	(2,756,624)
Change in unrealized gain (loss) on investments	(2,132,357)	(388,695)
Changes in non-cash working capital		
(Increase) decrease in interest receivable	(17,767)	(584)
(Increase) decrease in prepaid expenses	2,763	(10,147)
Increase (decrease) in accounts payable and accrued liabilities	24,084	(180,407)
Increase (decrease) in deferred management fees payable	265,837	283,459
Increase (decrease) in management fees payable	(52,454)	(313)
<b>Net cash flow provided by operating activities</b>	<b>593,802</b>	<b>445,302</b>
<b>Investing Activities</b>		
Purchase of common stocks	(10,122,258)	(7,716,733)
Proceeds on disposition of investments	9,228,981	7,716,733
<b>Net cash used in investing activities</b>	<b>(893,277)</b>	<b>-</b>
Net increase in cash and short-term investments	(299,475)	445,302
Cash and short-term investments - beginning of period	824,187	378,885
<b>Cash and short-term investments - end of period</b>	<b>524,712</b>	<b>824,187</b>
<b>Supplemental cash flow information:</b>		
Distributions to Preferred shareholders	2,580,000	2,580,000

(See accompanying notes to financial statements)

## ROC Pref Corp.

### Consolidated Statements of Changes in Investments

For the years ended September 30, 2006 and 2005

	2006	2005
	\$	\$
<b>Investments at average cost - Beginning of year</b>	57,161,000	57,161,000
Cost of investments purchased	10,122,258	7,716,733
Cost of investments sold	(11,336,915)	(13,828,357)
Cost of investments pledged to the Counterparty under the Forward Agreement	<u>2,107,934</u>	<u>6,111,624</u>
<b>Investments at average cost - End of year</b>	58,054,277	57,161,000
Unrealized appreciation (depreciation) of investments	<u>2,409,112</u>	<u>276,755</u>
<b>Investments at market value</b>	<u>60,463,389</u>	<u>57,437,755</u>
Proceeds from investments sold	12,643,981	11,071,733
Cost of investments sold	<u>(11,336,915)</u>	<u>(13,828,357)</u>
<b>Net realized gain (loss) on investments</b>	<u>1,307,066</u>	<u>(2,756,624)</u>

# ROC Pref Corp.

Consolidated Statement of Investments

As at September 30, 2006

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of Portfolio
<b>Short-term investments</b>					
<b>Bearer deposit notes</b>					
Bank of Nova Scotia	10/27/2006	150,000	148,406	148,406	29.9%
Bank of Nova Scotia	11/21/2006	200,000	198,592	198,592	40.1%
Bank of Montreal	11/29/2006	150,000	148,910	148,910	30.0%
<b>Total short-term investments</b>			<u>495,908</u>	<u>495,908</u>	<u>100.0%</u>
<b>Investments</b>					
<b>Credit-linked notes</b>					
HSBC 7.05% Bond	9/30/2009	57,161,000	<u>57,161,000</u>	<u>59,564,144</u>	<u>98.5%</u>
<b>Domestic Bonds</b>					
Golden Credit Card Trust 4.159%	10/15/2008	900,000	<u>893,277</u>	<u>899,245</u>	<u>1.5%</u>
<b>Canadian common stocks (pledged to the Counterparty under the Forward Agreement)</b>					
<b>Energy</b>					
Compton Petroleum Corp.		148,326	1,802,161	1,653,835	2.7%
Western Oil Sands Inc.		98,391	2,686,074	2,813,983	4.7%
			<u>4,488,235</u>	<u>4,467,818</u>	<u>7.4%</u>
<b>Materials</b>					
Glamis Gold		100,700	2,285,890	4,424,758	7.3%
Ivanhoe Mines Ltd.		271,996	2,472,444	1,895,812	3.1%
Kinross Gold Corp.		285,800	2,286,400	3,998,342	6.6%
Meridian Gold		136,099	2,511,648	3,769,942	6.2%
Tembec Inc.		208,700	2,279,192	290,093	0.5%
			<u>11,835,574</u>	<u>14,378,947</u>	<u>23.7%</u>
<b>Capital Goods</b>					
ATS Automation Tooling Systems Inc.		148,529	2,642,331	1,871,465	3.1%
Husky Injection Molding Systems		573,616	2,323,145	2,690,259	4.4%
			<u>4,965,476</u>	<u>4,561,724</u>	<u>7.5%</u>

(See accompanying notes to financial statements)

## ROC Pref Corp.

Consolidated Statement of Investments ....continued

As at September 30, 2006

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of Portfolio
<b>Consumer Discretionary</b>					
Dorel Industries Inc. Class B		52,000	2,288,000	1,479,400	2.4%
Gildan Activewear Class A		23,032	452,579	1,251,559	2.1%
Alliance Atlantis Communications		44,737	1,577,426	1,550,137	2.6%
CanWest Global Communications Sub Voting		255,912	2,884,973	2,124,070	3.5%
Forzani Group Ltd. Class A		168,000	2,286,480	2,780,400	4.6%
			<u>9,489,458</u>	<u>9,185,566</u>	<u>15.2%</u>
<b>Consumer Staples</b>					
Cott Corp.		53,100	2,288,079	1,014,210	1.7%
<b>Pharmaceuticals &amp; Biotechnology</b>					
Angiotech Pharmaceuticals Inc.		76,600	2,285,744	750,680	1.2%
QLT Inc.		72,000	2,286,000	607,680	1.1%
			<u>4,571,744</u>	<u>1,358,360</u>	<u>2.3%</u>
<b>Information Technology</b>					
CGI Group Class A		276,500	2,286,534	2,023,980	3.3%
Hummingbird Ltd.		53,732	1,611,960	1,663,543	2.8%
ATI Technologies Inc.		103,500	2,287,350	2,473,650	4.1%
Celestica Inc.		68,829	1,751,698	824,571	1.4%
Nortel Networks Corp.		427,400	2,286,590	1,089,870	1.8%
			<u>10,224,132</u>	<u>8,075,614</u>	<u>13.4%</u>
<b>Total Canadian common stocks</b>			47,862,698	43,042,239	71.2%
<b>Payable to the Counterparty under the Forward Agreement</b>			<u>(47,862,698)</u>	<u>(43,042,239)</u>	<u>-71.2%</u>
<b>Total investments</b>			<u>58,054,277</u>	<u>60,463,389</u>	<u>100.0%</u>

# ROC Pref Corp.

## Notes to Consolidated Financial Statements

### September 30, 2006

---

#### 1 Corporate Activities

ROC Pref Corp. (the "Company") was incorporated under the laws of the Province of Ontario on April 13, 2004. The Company is a mutual fund corporation 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 Company commenced operations on June 2, 2004.

These consolidated financial statements include the accounts of the Credit Trust ("Credit Trust"), which was established under the laws of Ontario as of May 27, 2004 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") (formerly "The Royal Trust Company") as trustee of the Credit Trust. The Credit Trust will terminate on or about September 30, 2009 (the "Termination Date") if not terminated earlier in accordance with its terms.

#### 2 Investment objectives

The Company's investment objectives as set out in the Prospectus dated May 27, 2004 are (i) to pay to holders of Preferred Shares ("Shareholders"), on or about September 30, 2009 (the "Redemption Date"), an amount per Preferred Share equal to the original subscription price of \$25.00 per Preferred Share; and (ii) to provide Shareholders with quarterly fixed cumulative preferential distributions of \$0.26875 per Preferred Share (\$1.075 per annum to yield 4.30% on the original subscription price of \$25.00 per Preferred Share). Preferred Share distributions will consist primarily of returns of capital and may include capital gains dividends.

The Company will meet its investment objectives through a forward purchase and sale agreement (the "Forward Agreement") (note 6) with the Bank of Nova Scotia (the "Counterparty") which will provide the Company with the economic return generated by a credit-linked note ("Credit-Linked Note"). Under the terms of the Forward Agreement, the Counterparty has agreed to pay to the Company on or about the Redemption Date, as the purchase price for the Common Share Portfolio acquired by the Company with the net proceeds of the offering of Preferred Shares (the "Offering"), the economic return provided by the Credit-Linked Note.

The Credit-Linked Note is owned by the Credit Trust. The Credit-Linked Note has been issued by HSBC Bank USA ("HSBC"). The Credit-Linked Note is issued at par, will mature on September 30, 2009 and pays a Canadian dollar coupon of 7.05% per annum on the outstanding principal amount. The return on the Credit-Linked Note is linked to the number of defaults experienced over the term of the Credit-Linked Note among companies in an equally weighted portfolio (the "CLN Portfolio") of 140 companies (the "Reference Companies") all of which were rated investment grade by Standard & Poor's, a division of The McGraw Hill Companies, Inc. ("S&P") as of the issue date of the Credit-Linked Note on June 2, 2004.

In the event HSBC determines that a default has occurred in respect of one or more Reference Companies in the CLN Portfolio and the market value of any of such companies' debt obligations, as selected by HSBC, has declined as compared to their par value, a loss amount will be calculated in respect of such decline in value. A default in respect of the Reference Companies in the CLN Portfolio includes the occurrence of bankruptcy, failure to pay or restructuring. The principal amount of the Credit-Linked Note will be reduced to the extent that the aggregate of all such loss amounts exceeds 3.75% of the current value of the CLN Portfolio or 3.90% of the initial value of the CLN portfolio. As a result, the amount payable upon redemption of the Credit-Linked Note may be substantially less than the initial principal amount thereof and, in some cases, may be nil. In addition, interest on the Credit-Linked Note will cease to accrue on the portion of the principal amount of the Credit-Linked Note that has been reduced.

The Company may have exposure to cash and cash equivalents by virtue of the Forward Agreement because the Credit-Linked Note pays cash distributions to the Credit Trust. Any excess received by the Credit Trust over what is paid out will be reinvested by the Credit Trust and held in cash, cash equivalents and other evidences of indebtedness.

#### 3 Summary of significant accounting policies

These consolidated 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 Company.

##### Principles of consolidation

These consolidated financial statements include the accounts of the Company and of the Credit Trust (see note 1). The financial statements of the Company and the Credit Trust have been consolidated for financial reporting purposes by virtue of the fact that the activities of the Credit Trust can be considered an extension of the operations of the Company and as such, the Credit Trust forms an integral part of the Company's business activities. Although not sharing common ownership, both the Company and the Credit Trust are subject to common influence over the management of its individual operations.

##### Valuation of investments

Common shares or other securities are valued at the last board lot sale price on the principal stock exchange on which they are traded or, if no sale price is available, at the average of the bid and the ask price.

Short-term investments are valued at cost, which together with accrued interest approximates market value.

The Credit Trust's investment in the Credit-Linked Note is valued with reference to the CLN Portfolio. The Trust's investment in the Credit-Linked Note is valued at fair value by the Manager using a price indication provided by HSBC. This price indication is determined with reference to a number of factors, including but not limited to (a) the diversification and credit quality of the CLN Portfolio and (b) the level of defaults, net of recoveries, that the CLN Portfolio can experience without affecting the payment of interest on and the principal value of the Credit-Linked Note.

**ROC Pref Corp.**  
*Notes to Consolidated Financial Statements*  
**September 30, 2006**

---

**Investment transactions, income and expenses**

Investment transactions are accounted for on the trade date. Realized and unrealized gains and losses on investments are determined using the average cost basis.

Interest income and expenses are recognized on an accrual basis.

**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 Company 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.

**Forward contracts**

Forward contracts entered into by the Company 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.

**Preferred share capital**

The Company accounts for preferred share capital and retained earnings attributable to preferred shareholders as a financial liability, in accordance with the recommendations contained in section 3860 of the Handbook of the Canadian Institute of Chartered Accountants.

**Value per preferred share**

The value per preferred share presented in the statements of net assets represents the assets of the Company less its liabilities (excluding preferred share capital) and the value of Class A shares outstanding, divided by the number of preferred shares outstanding.

**4 Custodian**

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

**5 Share capital**

The Company is authorized to issue an unlimited number of redeemable, retractable cumulative preferred shares (the "Preferred Shares") and Class A shares.

**Preferred Shares**

The holders of Preferred Shares are entitled to receive quarterly fixed cumulative preferential cash distributions of \$0.26875 per Preferred Share on the last business day of March, June, September and December in each year (each, a "Distribution Payment Date").

Preferred Shares may be surrendered at any time for retraction to the Company's registrar and transfer agent, but will be retracted only on the last day of the month (a "Valuation Date"). On retraction, holders will be entitled to receive a retraction price per share ("Preferred Share Retraction Price") equal to 95% of the net asset value per Preferred Share determined as of the relevant Valuation Date less \$0.25. Any declared and unpaid distributions payable to holders of record on or before a Valuation Date in respect of Preferred Shares tendered for retraction on such Valuation Date will also be paid on the retraction payment date.

For purposes of determining the Preferred Share Retraction Price, the net asset value per Preferred Share will be equal to the aggregate value of (i) the Forward Agreement, and (ii) any other assets of the Company, less liabilities of the Company (excluding preferred share capital) and less the amount paid for the Company's Class A Shares, divided by the number of Preferred Shares outstanding.

Preferred Shares will be redeemed by the Company on the Redemption Date at a price per Preferred Share (the "Preferred Share Redemption Price") equal to the lesser of (i) \$25.00 plus the Residual Amount, if any, and (ii) the amount received on settlement of the Forward Agreement (which will be an amount equal to the maturity value of the Credit-Linked Note) less liabilities of the Company (excluding preferred share capital) and less the amount paid for the Company's Class A Shares, divided by the number of Preferred Shares outstanding. The Residual Amount is equal to the amount, if any, remaining after payment of \$25.00 per Preferred Share issued and outstanding on the Redemption Date together with any accrued and unpaid distributions, setting aside of the amount payable on the Company's Class A Shares and payment to the Manager of any deferred management fees and any fees and expenses previously funded by the Manager on behalf of the Company.

On June 2, 2004, the Company issued 2,400,000 Preferred Shares at a price of \$25.00 per Preferred Share for aggregate gross proceeds of \$60 million. Issue costs of \$2,812,422 incurred in connection with the share issuance have been charged against retained earnings. No Preferred Shares were retracted or redeemed during the period from June 2, 2004 (inception date) to September 30, 2006.

**ROC Pref Corp.**  
*Notes to Consolidated Financial Statements*  
**September 30, 2006**

---

**Class A Shares**

The holders of Class A Shares are entitled to receive dividends as and when declared by the board of directors of the Company in their discretion. However, holders of Class A Shares are not entitled to receive any dividends on the Class A Shares at any time when there are Preferred Shares outstanding.

The holders of the Class A Shares will be entitled to one vote per share. The Class A Shares are retractable at any time. For retractions occurring at a time when any Preferred Shares are outstanding prior to the Redemption Date, the retraction will be \$1.00 per share; for other retractions, the retraction price will be based on the net asset value of the Company. The Class A Shares are redeemable by the Company at any time for a redemption price equal to \$1.00 per share when any Preferred Shares are outstanding; for other redemptions, the redemption price will be based on the net asset value of the Company. The Class A Shares rank subsequent to the Preferred Shares with respect to dividends, distributions on retractions and redemptions, and distributions on the dissolution, liquidation or winding-up of the Company. Each Class A Share entitles the holder thereof to participate in the distribution of the remaining net assets of the Company on a dissolution, liquidation or winding-up of the Company.

On April 13, 2004, the Company issued 100 Class A Shares for cash consideration of \$100.

A trust, a related party, was established for the benefit of the Class A Shareholders and owns all of the issued and outstanding Class A Shares of the Company.

**6 Forward Agreement and Common Share Portfolio**

The Company will partially settle the Forward Agreement prior to the Redemption Date in order to fund quarterly distributions as well as retractions of Preferred Shares by holders and expenses and other liabilities of the Company. In addition, the Manager may, on behalf of the Company, settle all or part of the Forward Agreement prior to the Redemption Date and invest the net proceeds (after any distributions to holders necessary to ensure that the Company is not liable for income tax) in additional investments such as cash and cash equivalents. Similarly, the Manager may, on behalf of the Company, dispose of securities in the Common Share Portfolio and reinvest the proceeds in the Common Share Portfolio or adjust the Forward Agreement and enter into additional forward purchase and sale agreements to provide exposure to the Credit Trust.

The payment obligations of the Counterparty to the Company under the Forward Agreement will be determined by reference to the performance of the Credit Trust. The Counterparty may hedge its exposure under the Forward Agreement to the economic performance of the Credit Trust. While the value of the Forward Agreement will be based primarily on the value of the Credit-Linked Note, the Counterparty will have no involvement in the pricing or valuation of the Credit-Linked Note.

The Company will pay to the Counterparty a fee under the Forward Agreement of approximately 0.55% per annum of the net asset value of the Credit Trust, plus a fee related to share borrow costs incurred by the Counterparty which in the first year is expected to be approximately 0.15% of the market value of the Common Share Portfolio, calculated and payable quarterly in arrears.

The following table splits the changes in the Common Share Portfolio between (i) shares delivered to the Counterparty as a partial settlement under the forward agreement, and (ii) substitutions in the Common Share Portfolio for the years ended September 30, 2006 and September 30, 2005:

	2006	2005
	\$	\$
Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement	3,415,000	3,355,000
Cost of investments delivered through partial pre-settlement	<u>(2,880,770)</u>	<u>(3,036,482)</u>
Realized gain on partial pre-settlement	534,230	318,518
Proceeds on sale of investments (subsequently reinvested)	9,228,981	7,716,733
Cost of investments sold	<u>(8,456,145)</u>	<u>(10,791,875)</u>
Realized gain (loss) on sale of investments	<u>772,836</u>	<u>(3,075,142)</u>
<b>Realized gain (loss) on investments</b>	<u>1,307,066</u>	<u>(2,756,624)</u>
Liability to Counterparty under Forward Agreement - Beginning of period	49,970,632	56,082,256
Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement	(3,415,000)	(3,355,000)
Liability to Counterparty under Forward Agreement at period end, at cost	<u>47,862,698</u>	<u>(49,970,632)</u>
<b>Unrealized gain (loss) on Forward Agreement</b>	<u>(1,307,066)</u>	<u>2,756,624</u>

**7 Distributions**

Quarterly distributions are \$0.26875 per Preferred Share. During the year ended September 30, 2006, the Company made its quarterly distributions, paying total distributions of \$2,580,000, or \$1.075 per unit (\$0.26875 per quarter), representing return of capital to holders of Preferred Shares.

# ROC Pref Corp.

## Notes to Consolidated Financial Statements

September 30, 2006

---

### 8 Management fee and deferred management fee

Pursuant to a management agreement ("the Management Agreement") the Company has retained Connor, Clark & Lunn Capital Markets Inc. ("the Manager") to act as manager. As compensation for management services rendered to the Company, the Manager receives an annual management fee in an amount equal to 0.25% of the net asset value of the Company's preferred shares, calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to the Credit Trust, the Manager also receives an annual management fee in an amount equal to 0.10% of the net asset value of the Credit Trust, calculated and payable monthly in arrears, plus applicable taxes.

The Manager is entitled to an additional one-time management fee, the "Deferred Management Fee", payable on the Redemption Date and calculated on the quarterly net asset value of the Company on an effective basis of up to 0.65% per annum together with any fees and expenses funded by the Manager, on behalf of the Company, plus applicable taxes, to be paid after the original issue price of the Preferred Shares together with any accrued and unpaid distributions have been paid to Shareholders.

### 9 Income taxes

The Company qualifies as a mutual fund corporation as defined by the Income Tax Act (Canada). As a mutual fund corporation the Company is entitled to capital gains refunds in respect of (i) capital gains dividends paid by it; and (ii) qualifying redemptions to the extent that the Company has paid or is liable to pay Canadian federal income tax on its taxable capital gains. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

As at September 30, 2005, the Company had net capital losses of \$ 2,828,914 (2004 - \$72,290), which may be carried forward indefinitely to reduce future realized capital gains and non-capital losses of \$ 2,034,499 (2004 - \$502,682), which expire within the next ten years.

### 10 Reclassification

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