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CAPITAL MARKETS

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ROC Pref II Corp.

Annual Report

December 31, 2007

ROC Pref II Corp. Message to Shareholders

March 14, 2008

Dear Investor,

We thank you for your investment in ROC Pref II Corp. (the "Company") and are pleased to present the Company's annual report for the one year period ended December 31, 2007. Less than two years remain until maturity of the Company, which occurs on December 31, 2009. Since inception the Company has paid all scheduled distributions, totalling \$3.78 per preferred share and the preferred shares continue to be rated P-1 (low) by Standard & Poor's.

Launched on October 1, 2004, the Company was created to invest, in a tax-efficient manner, in an A- rated credit-linked note structured to provide an enhanced return relative to comparably rated debt securities. The return on the credit-linked note ("CLN") is linked to the credit performance of a globally diversified portfolio of 142 companies (the "Reference Companies") with a weighted 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 Connor, Clark & Lunn Investment Management Inc. (the "Investment Advisor"). The Investment Advisor 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.

Investment grade credit spreads have undergone significant widening since July. Financials names including banks, brokers and bond insurance companies have been particularly hard hit. Spreads for many financial names are now at wider levels than during each of the past two recessions.

The Investment Advisor expects North American economies to decelerate over the next few quarters with the risk of a mild recession not inconsequential. This is very likely to put continued pressure on lower quality cyclical credits. However, the broader investment grade credit market and financial names in particular should begin to stabilize and could even experience some improvement as monetary policy easing becomes more aggressive and begins to re-liquefy the banking system. Further supporting this segment of the market will be increased capital investments by sovereign wealth funds to support the balance sheet cleansing that is taking place. Corporate defaults remain virtually non-existent. Widening spreads cause the net asset value to decrease. The Investment Advisor does expect to see default rates increase in response to the difficult lending environment and the expected continued economic deterioration. However, given the general level of balance sheet strength they believe it is unlikely that default rates will increase to more than their long-term averages.

Subsequent to year-end, Quebecor World Inc. filed for creditor protection as it was unable to execute a capital funding plan. This credit event is the first default experienced in the portfolio of Reference Companies. The portfolio can withstand an additional seven defaults. This represents approximately 5.5 times the average and 2.2 times the worst level of defaults experienced by a diversified portfolio with the same distribution of credit ratings as the Reference Companies over any two-year period, being equal to the remaining life of the Company, since 1981. The rating of the CLN anticipates some defaults over the life of the CLN and this first default did not cause the rating of the preferred shares to be lowered. The Investment Advisor remains confident that the investment objectives of the Company will continue to be met.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
ROC Pref II Corp.

Management Report of Fund Performance

This annual management report of fund performance for ROC Pref II 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’s investment objectives are to pay holders of its preferred shares (the “Preferred Shares”) an amount per Preferred Share equal to the original subscription price of \$25.00 on or about December 31, 2009 and to pay quarterly, fixed cumulative distributions of \$0.290625 per preferred share to yield 4.65% 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 Canada (“HSBC”) on October 1, 2004 matures on December 20, 2009, is currently rated A- by Standard & Poor’s 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, portfolio of 142 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. Please refer to the Supplementary Financial Information - CLN Portfolio Schedule as of December 31, 2007 for listing of the Reference Portfolio.

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

- (i) Purchased a portfolio of the common shares of 12 publicly traded Canadian companies on October 1, 2004 at an aggregate cost of \$289,775,000; and
- (ii) Entered into a forward purchase and sale agreement (the “Forward Agreement”) with the HSBC Bank USA (the “Counterparty”), under which the company agreed to sell the portfolio of common shares on or prior to December 31, 2009 in exchange for the value of Credit Trust II, 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, Credit Trust II. A fee of 0.45% per annum calculated with reference to the net asset value of Credit Trust II is 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 Standard & Poor’s (“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 on 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 the Counterparty or HSBC.

For full disclosure of risks associated with an investment in the Preferred Shares, please refer to the Prospectus dated September 24, 2004.

Subsequent Events

Subsequent to the end of the period, the Reference Portfolio experienced its first default when Quebecor World Inc. filed for creditor protection. As a result, the actual subordination level declined from 3.43% to 3.01% and the number of defaults that the CLN can experience while continuing to make full coupon payments and return principal at maturity declined from eight to seven. The default did not cause S&P to change the rating of the CLN or the Preferred Shares.

Results of Operations

Investments of the Company

The common share portfolio

The value of the common share portfolio decreased from \$304.96 million on December 31, 2006 to \$283.62 million at December 31, 2007. This decline resulted from the combination of a decrease in the market value of the portfolio of \$6.84 million, and the delivery of shares with a cost base of \$14.50 million in order to partially settle under the Forward Agreement. The details of the common share portfolio at December 31, 2007 are set out in the Summary of Investment Portfolio.

Partial settlement of the Forward Agreement

Quarterly payments of the 6.867% annual coupon on the CLN and the repayment of principal at maturity on December 31, 2009 accrue to Credit Trust II. The Company partially settles the Forward Agreement from time to time, thus receiving some of the value that has built up in Credit Trust II, in order to fund distributions on the preferred shares and its own operating expenses.

During the year ended December 31, 2007, the Company delivered shares with a cost base of \$14.50 million to Counterparty in exchange for \$16.6 million in cash.

Other investments of the Company

The Company has no other investments apart from cash and cash equivalents, which are held in order to fund near-term operating expenses. As at December 31, 2007 the Company held \$222,600 in cash and short-term investments on a non-consolidated basis. In order to return the full principal amount per preferred share at maturity on December 31, 2009 the Company must have accumulated at least \$10,208,800 in cash and short-term investments on a consolidated basis by that time. Any amounts received by Credit Trust II that are not required to fund distributions and expenses are retained and invested in short-term debt instruments maturing on or before December 31, 2009. On December 31, 2007, the Company had (on consolidated basis) \$9,480,567 in cash, short-term investments and AAA- rated investments maturing prior to December 31, 2009.

Given the amount by which the CLN coupon exceeds the distribution and expenses requirements of the Company and Credit Trust II, the Company is on track to accumulate in excess of \$10,208,800 by the maturity date of the preferred shares.

Investments of Credit Trust II

The CLN

Credit Trust II purchased the CLN on October 6, 2004 at par for \$289,775,000. The CLN matures on December 20, 2009, pays a coupon of 6.867% and is currently rated A- by S&P.

The return on the CLN is linked to the number of defaults experienced over the term of the note among the 142 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 was 3.40% on December 31, 2007. The actual level of subordination structured into the CLN was 3.43%. If losses due to cumulative defaults net of recoveries, including the loss due to the default of Quebecor World Inc., do not exceed a total of 3.43% of

the initial value of the Reference Portfolio during the term of the CLN, Credit Trust II 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 Credit Trust II on maturity would decline. To the extent that cumulative losses due to defaults, net of recoveries, exceeded 4.33% there would be no amount paid to Credit Trust II and the value of the Preferred Shares would decline to the level of net current assets per share, possibly zero.**

The CLN features an embedded trading reserve account, initially in an amount of \$2,567,010, which stood at \$2,972,696 on December 31, 2007. The trading reserve account is available to absorb net losses that might be incurred when the Connor, Clark & Lunn Investment Management Ltd. (the “Investment Advisor”) makes substitutions in the Reference Portfolio. The trading reserve account can also be used to purchase additional subordination from HSBC. At December 31, 2007 the trading reserve account would have purchased an additional 0.16% of subordination, bringing total percentage loss that could have been absorbed in the Reference Portfolio without affecting payments of interest or principal to 3.59%. The amount of additional subordination that can be purchased using the trading reserve account will vary in response to changing market conditions. Losses of 3.59% due to defaults net of recoveries (using an estimated historical recovery rate of 40 %) would represent approximately 5.0 times the average level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any two year period since 1981.

Subsequent to the end of the period, the Reference Portfolio experienced its first default when Quebecor World Inc. filed for creditor protection. As a result, the actual subordination level declined from 3.43% to 3.01% based on a recovery rate of 41.25%.

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 3 Index:

	2005		2006		2007	
	June 30 th	December 31 st	June 30 th	December 31 st	June 30 th	December 31 st
Dow Jones IG 3 index	65.27	77.36	71.03	44.06	65.35	127.64
Reference Portfolio spread	53.12	53.06	48.38	55.84	58.73	141.64

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 December 31, 2004, 2005, 2006 and 2007:

Exposure to Issuers					Exposure to Issuers				
Rating ⁽¹⁾	2004	2005	2006	2007	Rating ⁽¹⁾	2004	2005	2006	2007
AAA	3	3	4	4	BBB-	13	5	3	8
AA+	0	0	0	0	BB+	0	3	3.5	1.5
AA	3	3	4	9	BB	1	2	4.5	2.5
AA-	2	6	8	9	BB-	0	1	1	2
A+	17	19	16	13	B+	0	0	1	3.5
A	26	24	21.5	16.5	B	0	0	1	2
A-	24	23	25.5	26	B-	0	0	0	1
BBB+	27	30	23	27	CCC	0	0	0	1
BBB	23	21	24	14	N/R	1	0	0	0
Total ⁽²⁾						140	140	140	140

⁽¹⁾ 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.

⁽²⁾ 142 reference companies are included in the CLN's Reference Portfolio. Four companies are included at half-weights, resulting in a total exposure to 140 issuers.

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. Over the one year period, as a result of ratings changes and trading activity, the Reference Portfolio experienced 12 reference company upgrades averaging 3.33 rating categories, or notches, per upgrade for a total 40 notch increase and 34.5 reference company downgrades averaging 1.71 notches per downgrade for a total 59 notch decrease, leaving the portfolio's average rating somewhat lower although still at a BBB level. The companies in the Reference Portfolio are listed in the Supplementary Financial Information as at December 31, 2007.

Substitutions in the Reference Portfolio

The Reference Portfolio is managed by the Investment Advisor. The Investment Advisor's goal is to reduce the likelihood of having exposure to companies that default on their senior obligations. To that end, the Investment Advisor can add or remove companies through a substitution process executed in accordance with the terms of the CLN. If the Investment Advisor 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 Advisor made 29 substitutions in the Reference Portfolio from October 1, 2004 (commencement of operations) to December 31, 2007.

Value of the CLN

The CLN is valued on the 10th and last business day of each month by HSBC. 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 December 31, 2007, the CLN value was \$279.960 million, down from \$311.865 million on December 31, 2006.

Other investments of the Credit Trust II

On December 31, 2007 the Credit Trust II held \$9,257,967 in cash, short-term investments and AAA- rated investments maturing prior to December 31, 2009, compared to total other investments of \$6,083,897 on December 31, 2006.

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 December 31, 2007, the value of the common share portfolio was \$283.62 million. Since the Company can deliver the value of the common share portfolio to HSBC in exchange for the value of Credit Trust II, the value of the Forward Agreement to the Company is equal to the value of Credit Trust II less the value of the common share portfolio. On December 31, 2007 value of the Forward Agreement was \$6.21 million. Other net assets in the Company, prior to consolidation, totalled \$(6.93) million leaving a net asset value of \$283.13 million or \$23.64 per Preferred Share. The net asset value per Preferred Share was \$26.18 on December 31, 2006. The decrease in net asset value over the period is mainly attributable to the decrease 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 December 31, 2007, the Company had current assets of \$7,163,654 and current liabilities of \$6,976,477 on a consolidated basis.

Management 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 annualized 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 December 31, 2007 was approximately 0.83%. If the fees and expenses described above exceed 1.00% of the par value of the Preferred Shares per year (being \$3,000,000 per year), the Manager will agree to fund such excess out of, but only to the extent of, its Deferred Management Fee (as defined below in 'Related Party Transactions – Management fees').

The annualized MER for the same period including all distributions paid to preferred shareholders and deferred management fees was approximately 6.14%.

Please refer to the Financial Highlights section of this document for more information.

Distributions

During the year ended December 31, 2007, the Preferred Shares paid regular quarterly distributions of \$0.290625 per share for a total of \$1.1625 per share (\$1.1625 per share for the year ended December 31, 2006), representing a yield of 4.65% on the \$25.00 par value.

Related Party Transactions

Management Fees

Pursuant to a management agreement ("the Management Agreement") the Company and Credit Trust II have retained Connor, Clark & Lunn Capital Markets Inc. ("the Manager") to act as a manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Company and Credit Trust II, 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 Credit Trust II, the Manager will also receive an annual management fee in an amount equal to 0.10% per annum of the net asset value of the Credit Trust II to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Company on a consolidated basis for the year ended December 31, 2007 was \$1,125,664 (\$1,163,860 for the year ended December 31, 2006) including GST 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 December 31, 2007 were \$2,089,462 (\$2,098,072 for the year ended December 31, 2006).

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

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Board of Directors tabled no special reports and made no material recommendations to management of the Company during the year ended December 31, 2007.

Deconsolidation of the Credit Trust II

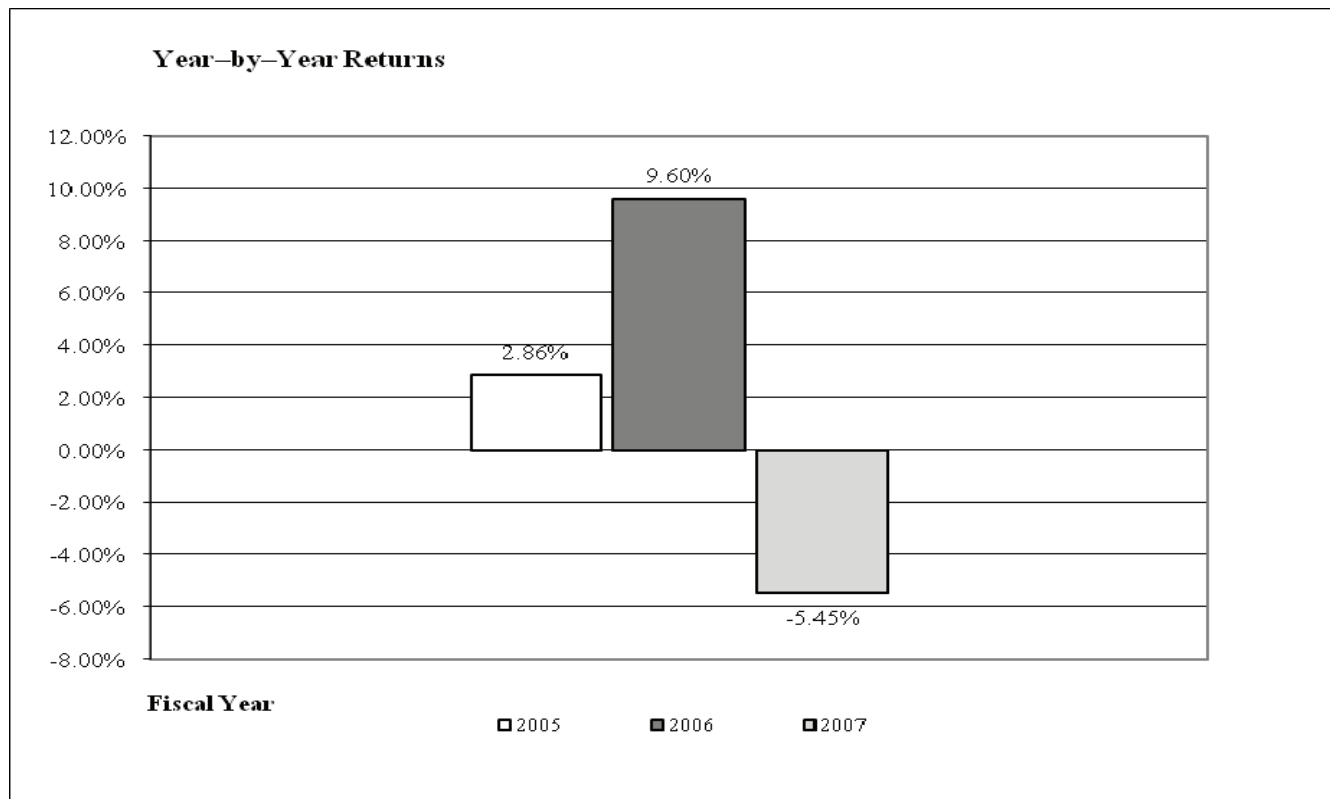
As the company is exposed to the future gains or losses arising on the portfolio securities held by credit Trust, Accounting Guideline "AcG 15 – Consolidation of Variable Interest Entities" required that the Company's financial statements be presented on a consolidated basis by including the results of Credit Trust. The 2006 financial statements were prepared on this basis.

Effective February 2007, AcG 15 has been amended and now specifically excludes investment companies from its application. These changes were applicable for periods beginning on or after September 30, 2007, with early adoption encouraged.

The company has adopted the amended AcG for the December 31, 2007 year-end and reclassified the December 31, 2006 comparative financial statements and financial highlights to conform to the new presentation.

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 inceptions assuming all the distributions made by the Company in the periods shown were reinvested. Past performance is not necessarily indicative of future performance.



Annual Compound Returns

The following table shows the annualized compound return of the preferred shares for the periods indicated.

	Past Year	Three Years ⁽¹⁾	Since Inception ⁽¹⁾
Based on NAV	-5.45%	2.15%	3.99%
Based on TSX share price	-4.69%	1.34%	1.23%
Bloomberg / EFFAS ⁽²⁾ Canada Government 3-5 year Index	4.87%	3.76%	4.21%

⁽¹⁾ Annualized.

⁽²⁾ Index of Canadian Government bonds with 3 to 5 years to maturity. EFFAS: European Federation of Financial Analyst societies.

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 and unaudited semi annual financial statements:

The Company's Net Asset Value per share:

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004 ⁽¹⁾
Net Asset Value, beginning of period	26.18	24.99	25.39	25.00
Increase (decrease) from operations:				
Total revenues	—	—	—	0.01
Total expenses	(0.38)	(0.39)	(0.37)	(0.10)
Issue expenses ⁽²⁾	—	—	—	(0.85)
Realized gains (losses) for the period	0.26	0.21	(0.11)	0.02
Unrealized gains (losses) for the period	(1.26)	2.53	1.25	1.59
Total increase (decrease) from operations⁽³⁾	(1.38)	2.35	0.77	0.67
Distributions:				
From income (excluding dividends)	—	—	—	—
From dividends	—	—	—	—
From capital gains	—	—	—	—
Return of capital	(1.16)	(1.16)	(1.16)	(0.29)
Total Annual Distributions⁽⁴⁾	(1.16)	(1.16)	(1.16)	(0.29)
Net Asset Value, end of period⁽⁵⁾	23.64	26.18	24.99	25.39

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

(2) Issue expense of \$10,213,702 incurred in connection with the Share issuance, which has been treated as a reduction of capital.

(3) 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.

(4) Distributions were paid in cash.

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

Ratios and Supplemental Data:

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004 ⁽¹⁾
Net assets (000's)	283,131	314,171	299,856	304,634
Number of Preferred shares outstanding	11,978,400	12,000,000	12,000,000	12,000,000
Base Management expense ratio ⁽²⁾	0.83%	0.85%	0.79%	0.88%
Management expense ratio including distributions on preferred shares , deferred management fees and issue expenses ⁽²⁾⁽³⁾	6.14%	6.12%	6.15%	9.74%
Management expense ratio before waivers or absorptions ⁽²⁾⁽³⁾	6.14%	6.12%	6.15%	9.74%
Portfolio turnover rate ⁽⁴⁾	15.20%	19.84%	50.08%	1.40%
Trading expense ratio ⁽⁵⁾	0.00%	0.00%	0.00%	0.00%
Closing market price (TSX)	22.30	23.65	24.60	25.50

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

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

(3) 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 December 31, 2004 annualizes expenses incurred from commencement of operations on October 1, 2004 to December 31, 2004 and it also includes all Agents' fees and other offering expenses, which are onetime 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.

(4) 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.

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

Summary of Investment Portfolio as of December 31, 2007

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

	Market Value \$	% of NAV
Portfolio by Category		
Information Technology	147,024,858	51.9%
Industrials	57,067,115	20.2%
Materials	50,606,528	17.9%
Consumer Discretionary	19,728,299	7.0%
Equity Derivatives	6,213,929	2.2%
Consumer Staples	4,345,296	1.5%
Energy	2,825,270	1.0%
Health Care	2,024,376	0.7%
Cash and Cash Equivalents	222,600	0.1%
	Market Value \$	% of NAV
Top 25 Holdings		
Research In Motion Ltd.	55,379,294	19.6%
Kinross Gold Corp.	47,909,439	16.9%
Bombardier Inc. Class B	35,520,003	12.5%
CGI Group Class A	35,517,428	12.5%
Cognos Inc.	34,278,969	12.1%
Rona Inc.	19,728,299	7.0%
Stantec Inc.	11,093,319	3.9%
Firstservice Corp. Sub. Vtg.	9,587,295	3.4%
MacDonald Dettwiler & Associates	8,486,439	3.0%
Celestica Inc.	8,410,640	3.0%
Equity Derivatives	6,213,929	2.2%
Nortel Networks Corp.	4,952,088	1.7%
Cott Corp.	4,345,296	1.5%
OPTI Canada Inc.	2,825,270	1.0%
Angiotech Pharmaceuticals Inc.	2,024,376	0.7%
HudBay Minerals Inc.	1,360,028	0.5%
Ivanhoe Mines Ltd.	1,337,061	0.5%
Westjet Airlines Ltd.	866,498	0.3%
Cash and Cash Equivalents	222,600	0.1%
Net Asset Value (NAV)	\$ 283,130,531	

Supplementary Financial Information:

The following is a listing of CLN Portfolio (Reference Portfolio) as at December 31, 2007:

CLN Portfolio (Reference Portfolio) as at December 31, 2007 (Unaudited):

Entity Description	S&P Rating	Industry	Country
3I Group Plc	A+	Brokers, Dealers & Investment houses	Britain
Accor	BBB	Lodging & casinos	France
Alcan Inc.	BBB+	Nonferrous metals/minerals	Canada
Allstate Corp.	A+	Insurance	USA
Alltel Corporation	B+	Telecommunications	USA
Altria Group Inc.	BBB+	Beverage & Tobacco	USA
Ambac Financial Group Inc.	AA	Insurance	USA
American Standard Inc	BBB-	Industrial equipment	USA
Amgen Inc.	A+	Drugs	USA
Anglo American Plc	A	Nonferrous metals/minerals	Britain
Anheuser-Busch Companies Inc	A	Beverage & Tobacco	USA
Aon Corporation	BBB+	Insurance	USA
Autostrade Spa	A	Surface transport	Italy
Bank Of America Corp	AA	Financial intermediaries	USA
Barclays Bank Plc	AA	Financial intermediaries	Britain
Barrick Gold Corporation	A-	Nonferrous metals/minerals	Canada
Baxter International Inc.	A+	Health care	USA
Bayer Aktiengesellschaft	BBB+	Chemicals & plastics	Germany
BCE Inc.	BB-	CW-NEG Telecommunications	Canada
Bear Stearns Companies Inc.	A	Brokers, Dealers & Investment houses	USA
BHP Billiton Ltd.	A+	CW-NEG Nonferrous metals/minerals	Australia
Bombardier Inc.	BB	Aerospace & Defence	Canada
Borgwarner Inc.	A-	Automotive	USA
Bristol-Myers Squibb Company	A+	Drugs	USA
British American Tobacco P.L.C.	BBB+	Beverage & Tobacco	Britain
Cameco Corporation	BBB+	Nonferrous metals/minerals	Canada
Campbell Soup Co.	A	Food products	USA
Cardinal Health Inc.	BBB	Food/drug retailers	USA
Cargill Incorporated	A	Farming/agriculture	USA
Carrefour Sa	A	Food/drug retailers	France
Caterpillar Financial Services Corp	A	Industrial equipment	USA
Centex Corporation	BBB-	Building & Development	USA
Centurytel Inc.	BBB	Telecommunications	USA
Cingular Wireless Llc	A	Telecommunications	USA
CIT Group Inc.	A	Financial intermediaries	USA
Citigroup Inc.	AA	CW-NEG Financial intermediaries	USA
Clear Channel Communications Inc.	B+	CW-NEG Radio & Television	USA
Coca-Cola Enterprises Inc	A	Beverage & Tobacco	USA
Comcast Cable Communications Inc.	BBB+	Cable & satellite television	USA
Compass Group Plc	BBB+	Food service	Britain
Computer Sciences Corporation	A-	Electronics/electrical	USA
Constellation Energy Group Inc.	BBB+	Utilities	USA
Daimlerchrysler Ag	BBB+	Automotive	Germany
Deutsche Bank Aktiengesellschaft	AA	Financial intermediaries	Germany
Deutsche Lufthansa Ag	BBB	Air transport	Germany
Domtar Inc.	BB-	Forest products	Canada

CLN Portfolio (Reference Portfolio) as at December 31, 2007 (Unaudited):

Entity Description	S&P Rating	Industry	Country
DTE Energy Co	BBB	Utilities	USA
Duke Capital LLC	BBB+	Utilities	USA
EMI Group Plc	B+	CW-NEG Leisure goods/activities/movies	Britain
Enbridge Inc	A-	Utilities	Canada
European Aeronautic Defense And Space Company Eads N.V.	BBB+	Aerospace & Defence	Netherlands
Exelon Generation Co LLC	BBB+	Utilities	USA
Federal National Mortgage Association	AAA	U.S. Agency (Explicitly Guaranteed)	USA
Financial Security Assurance Inc	AAA	Insurance	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+	Automotive	USA
Hannover Rueckversicherungs-Ag	AA-	Insurance	Germany
Hellenic Telecommunications Organiz Sa	BBB+	Telecommunications	Greece
Honeywell International Inc.	A	Aerospace & Defence	USA
Humana Inc	BBB	Health care	USA
Hutchison Whampoa Limited	A-	Conglomerates	Hong Kong
Idearc Inc	BB	Telecommunications	USA
International Business Machines Corporation	A+	Electronics/electrical	USA
International Lease Finance Corporation	AA-	Equipment leasing	USA
Israel Electric Corp Ltd	BBB+	Utilities	Israel
J.P. Morgan Chase & Co.	AA-	Financial intermediaries	USA
Kimco Realty Corp	A-	REITs and REOCs	USA
Kinder Morgan Energy Partners L.P.	BBB	Utilities	USA
Korea Electric Power Corporation	A	Utilities	South Korea
Korea Telecom	A-	Telecommunications	South Korea
Lehman Brothers Holdings Inc.	A+	Financial intermediaries	USA
Loews Corporation	A	Conglomerates	USA
Macys Incorporated	BBB	Retailers (except food & drug)	USA
Marriott International Inc.	BBB	Lodging & casinos	USA
MBIA Inc.	AA	Insurance	USA
Meadwestvaco Corporation	BBB	Forest products	USA
Merck & Co Inc	AA-	Drugs	USA
Merrill Lynch & Co. Inc.	A+	Financial intermediaries	USA
MGIC Investment Corporation	A-	Insurance	USA
Morgan Stanley	AA-	CW-NEG Brokers, Dealers & Investment houses	USA
Motorola Inc.	A-	CW-NEG Telecommunications	USA
MTR Corporation Ltd	AA	Rail industries	Hong Kong
Muenchener Rueckversicherungs-Gesellschaft Ag In Muenchen	AA-	Insurance	Germany
Nabors Industries Inc.	A-	Oil & gas	USA
Newell Rubbermaid Inc.	BBB+	Home furnishings	USA
Norbord Inc	BBB-	Forest products	Canada
Nordstrom Inc.	A-	Retailers (except food & drug)	USA
Novartis Ag	AAA	Drugs	Switzerland
Odyssey Re Holdings Corp	BBB-	Insurance	USA
Omnicom Group Inc.	A-	Business equipment & services	USA
PCCW - HKT Telephone Limited	BBB	Telecommunications	Hong Kong

CLN Portfolio (Reference Portfolio) as at December 31, 2007 (Unaudited):

Entity Description	S&P Rating	Industry	Country
Petroliam Nasional Berhad	A-	Oil & gas	Malaysia
Pitney Bowes Credit Corporation	A+	CW-NEG Business equipment & services	USA
Placer Dome Inc	A-	Nonferrous metals/minerals	Canada
Qantas Airways Limited	BBB+	Air transport	Australia
Quebecor World Inc.	CCC	CW-NEG Publishing	Canada
Radioshack Corporation	BB	Retailers (except food & drug)	USA
Reuters Group Plc	BBB+	CW-POS Business equipment & services	Britain
Sabre Holdings Corporation	B+	Business equipment & services	USA
Sara Lee Corp	BBB+	Food products	USA
Schering-Plough Corporation	A-	Drugs	USA
Scor	A-	Insurance	France
Sealed Air Corp	BBB	Containers & glass products	USA
Sherwin-Williams Company	A-	Chemicals & plastics	USA
Siemens Aktiengesellschaft	AA-	Conglomerates	Germany
Simon Property Group L.P.	A-	REITs and REOCs	USA
SLM Corporation	BBB+	CW-NEG Financial intermediaries	USA
Sodexo Alliance Sa	BBB+	Food service	France
Southwest Airlines Co.	A-	Air transport	USA
Takefuji Corporation	BBB-	Financial intermediaries	Japan
Target Corporation	A+	Retailers (except food & drug)	USA
Telecom Italia Spa	BBB+	Telecommunications	Italy
Telus Corporation	BBB+	Telecommunications	Canada
Temple-Inland Inc	BBB-	Forest products	USA
Textron Financial Corporation	A-	Financial intermediaries	USA
The Dow Chemical Company	A-	Chemicals & plastics	USA
The Export-Import Bank Of Korea	A	Uncorrelated (Corporate)	South Korea
The Goldman Sachs Group Inc.	AA-	Brokers, Dealers & Investment houses	USA
The Royal Bank Of Scotland Public Limited Company	AA	Financial intermediaries	Britain
The Ryland Group Inc.	BBB-	Building & Development	USA
Time Warner Inc.	BBB+	CW-NEG Leisure goods/activities/movies	USA
Transalta Corp	BBB	Utilities	Canada
Transocean Inc.	BBB+	Oil & gas	USA
Tribune Company	B	Publishing	USA
TXU Corporation	B-	Utilities	USA
Tyson Foods Inc.	BBB-	Food products	USA
Unilever N.V.	A+	Food products	Netherlands
UST Inc.	A	Beverage & Tobacco	USA
Verizon Communications Inc	A	Telecommunications	USA
Viacom Inc	BBB	Radio & Television	USA
Vodafone Group Plc	A-	Telecommunications	Germany
Volkswagen Aktiengesellschaft	A-	Automotive	Germany
Wal-Mart Stores Inc	AA	Retailers (except food & drug)	USA
Windstream	BB+	Telecommunications	USA
Wolters Kluwer N.V.	BBB+	Publishing	Netherlands
Wpp Group Plc	BBB+	Business equipment & services	Britain
Wyeth	A+	Drugs	USA
XI Capital Ltd	A-	Insurance	Bermuda
Zurich Insurance Company	AA-	Insurance	Switzerland

Management's Responsibility for Financial Reporting

The accompanying financial statements of ROC Pref II Corp. (the "Company") and all the information have been prepared by Connor, Clark & Lunn Capital Markets Inc. in its capacity as Manager of the Company and have been approved by the Board of Directors of the Manager. The Company's Manager is responsible for all 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.



Philip Gow
Chief Financial Officer
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada
March 14, 2008

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March 14, 2008

Auditors' Report

To the Shareholders of ROC Pref II Corp.

We have audited the statement of investments of **ROC Pref II Corp.** as at December 31, 2007, the statements of financial position as at December 31, 2007 and 2006 and the statements of operations, changes in shareholders' equity and retained earnings and cash flows 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 December 31, 2007 and 2006 and the results of its operations, the changes in its shareholders' equity and retained earnings and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

ROC Pref II Corp.
 Statements of Financial Position
 As at December 31, 2007 and 2006

	2007	2006 ^(*)
	\$	\$
Assets		
Cash	74,524	30,494
Short-term investments	148,076	448,623
Investments pledged to counter party under forward agreement (cost - \$240,463,631; 2006 - \$292,752,590)	283,621,742	304,960,670
Interest receivable	216	159
Unrealized gain on forward agreement	6,213,929	13,581,546
Prepaid expenses	3,667	34,597
	<u>290,062,154</u>	<u>319,056,089</u>
Liabilities		
Accounts payable and accrued liabilities	77,437	119,083
Management fees payable	68,910	69,788
Deferred management fees payable (note 8)	6,785,176	4,695,714
Preferred share capital (note 5)	283,130,531	314,171,404
	<u>290,062,054</u>	<u>319,055,989</u>
Shareholders' Equity		
Share capital (note 5)	100	100
Retained earnings	-	-
	<u>100</u>	<u>100</u>
Total Liabilities and Shareholders' Equity	<u>290,062,154</u>	<u>319,056,089</u>
Number of Preferred Shares outstanding (note 5)	<u>11,978,400</u>	<u>12,000,000</u>
Net Asset Value per Preferred Share outstanding	<u>23.64</u>	<u>26.18</u>
Number of Class A Shares outstanding (note 5)	<u>100</u>	<u>100</u>
Net Asset Value per Class A Share outstanding	<u>1.00</u>	<u>1.00</u>

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



Director



Director

(*) Restated to reflect the change in accounting policy described in Note 3.
 (See accompanying notes to financial statements)

ROC Pref II Corp.

Statements of Operations

For the years ended December 31, 2007 & 2006

	2007	2006 (*)
	\$	\$
Revenue		
Interest	<u>25,765</u>	<u>16,000</u>
Expenses		
Deferred management fees (note 8)	2,089,462	2,098,072
Forward fees	1,364,671	1,405,352
Management fees	807,449	840,063
Capital tax expense	68,811	81,793
Custodial fees	47,338	40,249
Rating agency fees	43,034	40,851
Insurance Premiums	34,089	35,481
Sustaining fees	32,100	31,417
Administration fees	20,577	19,504
Directors' fees	20,550	20,440
Printing and mailing charges	15,493	10,293
Audit fees	14,864	21,803
Transfer agent fees	14,725	15,471
Legal fees	2,137	16,446
Other	<u>1,684</u>	<u>4,482</u>
	<u>4,576,984</u>	<u>4,681,717</u>
Net investment income before distributions on Preferred Shares	(4,551,219)	(4,665,717)
Distributions paid on Preferred Shares	<u>(13,943,721)</u>	<u>(13,950,000)</u>
Net investment income	(18,494,940)	(18,615,717)
Net realized gain (loss) on investments (note 6)	3,061,250	2,571,453
Change in unrealized gain (loss) on Forward Agreement (notes 2 and 6)	(8,285,447)	(31,178,889)
Change in unrealized gain (loss) on investments	<u>(6,836,852)</u>	<u>61,538,876</u>
Increase (decrease) in net assets from operations	<u>(30,555,989)</u>	<u>14,315,723</u>
Increase (decrease) in net assets from operations per preferred share	<u>(2.55)</u>	<u>1.19</u>
Total distributions paid per Preferred Share (Return of Capital)	<u>(1.16)</u>	<u>(1.16)</u>

(*) Restated to reflect the change in accounting policy described in Note 3.
(See accompanying notes to financial statements)

ROC Pref II Corp.

Statements of Changes in Shareholders' Equity and Retained Earnings

For the years ended December 31, 2007 & 2006

	2007	2006 (*)
	\$	\$
Changes in shareholders' equity		
Share capital - beginning of period	100	100
Proceeds from issuance of class A shares	<u>-</u>	<u>-</u>
Share capital - end of period	<u>100</u>	<u>100</u>
Changes in Retained Earnings		
Retained earnings - beginning of period	-	-
Increase (decrease) in net assets from operations	(30,555,989)	14,315,723
(Surplus) deficit attributable to preferred shareholders (note 5)	<u>30,555,989</u>	<u>(14,315,723)</u>
Retained earnings - end of period	<u>-</u>	<u>-</u>

(*) Restated to reflect the change in accounting policy described in Note 3.
(See accompanying notes to financial statements)

ROC Pref II Corp.

Statements of Cash Flows

For the years ended December 31, 2007 & 2006

	2007	2006 (*)
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	(30,555,989)	14,315,723
Items not affecting cash:		
Net realized (gain) loss on investments	(3,061,250)	(2,571,453)
Unrealized (gain) loss on Forward Agreement (notes 2 and 6)	8,285,447	31,178,886
Change in unrealized (gain) loss on investments	6,836,852	(61,538,876)
Changes in non-cash working capital		
(Increase) decrease in interest receivable	(57)	-
(Increase) decrease in prepaid expenses	30,930	(2,256)
Increase (decrease) in accounts payable and accrued liabilities	(41,646)	29,074
Increase (decrease) in management fees payable	(878)	(130,489)
Increase (decrease) in deferred management fees payable	2,089,462	2,098,072
Net cash flow provided by operating activities	<u>(16,417,129)</u>	<u>(16,621,319)</u>
Investing Activities		
Purchase of investments	(45,803,392)	(54,135,573)
Proceeds on disposition of investments	62,448,888	70,865,570
Net cash used in investing activities	<u>16,645,496</u>	<u>16,729,997</u>
Financing Activities		
Payments on redemptions of preferred shares	(484,884)	-
Net cash flow provided by financing activities	<u>(484,884)</u>	<u>-</u>
Net increase in cash and short-term investments	(256,517)	108,678
Cash and short-term investments - beginning of period	<u>479,117</u>	<u>370,439</u>
Cash and short-term investments - end of period	<u>222,600</u>	<u>479,117</u>

(*) Restated to reflect the change in accounting policy described in Note 3.
(See accompanying notes to financial statements)

ROC Pref II Corp.

Statement of Investments

As at December 31, 2007

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of portfolio
Short-term investments					
Bankers Acceptance					
Canadian Imperial Bank of Commerce	3/28/2008	150,000	148,076	148,076	100.0%
Total short-term investments			148,076	148,076	100.0%
Investments					
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)					
Energy					
OPTI Canada Inc.		170,197	3,803,902	2,825,270	1.0%
Materials					
HudBay Minerals Inc.		69,745	1,639,008	1,360,028	0.5%
Ivanhoe Mines Ltd.		124,959	1,691,945	1,337,061	0.5%
Kinross Gold Corp.		2,622,301	20,611,286	47,909,439	16.9%
			23,942,239	50,606,528	17.9%
Industrials					
Bombardier Inc. Class B		5,959,732	18,892,350	35,520,003	12.5%
Firstservice Corp. Sub. Vtg.		318,409	9,775,156	9,587,295	3.4%
Stantec Inc.		285,322	9,775,132	11,093,319	3.9%
Westjet Airlines Ltd.		38,511	637,357	866,498	0.3%
			39,079,995	57,067,115	20.1%
Consumer Discretionary					
Rona Inc.		1,157,085	25,421,158	19,728,299	7.0%
Consumer Staples					
Cott Corp.		663,404	24,147,906	4,345,296	1.5%
Health Care					
Angiotech Pharmaceuticals Inc.		597,161	15,209,690	2,024,376	0.7%
Information Technology					
CGI Group Class A		3,088,472	21,433,996	35,517,428	12.5%
Cognos Inc.		600,122	25,421,168	34,278,969	12.1%
MacDonald Dettwiler & Associates		203,268	9,775,158	8,486,439	3.0%
Celestica Inc.		1,462,720	22,419,441	8,410,640	3.0%
Nortel Networks Corp.		330,580	14,545,560	4,952,088	1.7%
Research In Motion		491,998	15,263,418	55,379,294	19.5%
			108,858,741	147,024,858	51.8%
Total investments			240,463,631	283,621,742	100.0%
Derivative contracts					
Forward Agreement (note 6)			31-Dec-09	1	6,213,929

(See accompanying notes to financial statements)

ROC Pref II Corp.

Notes to Financial Statements

December 31, 2007

1 Corporate Activities

ROC Pref II Corp. (the "Company") was incorporated under the laws of the Province of Ontario on August 23, 2004, as 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").

Connor, Clark & Lunn Capital Markets Inc. (the "Manager") acts as manager of the Company and RBC Dexia Investor Services Trust ("RBC Dexia" or "Trustee") acts as trustee of the Company. The Company will terminate on or about December 31, 2009 (the "Termination Date") if not terminated earlier in accordance with its terms. The Company commenced operations on October 1, 2004.

2 Investment objectives

The Company's investment objectives as set out in the Prospectus dated September 24, 2004 are (i) to pay to holders of Preferred Shares ("Shareholders"), on or about December 31, 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 \$0.290625 per Preferred Share (\$1.1625 per annum to yield 4.65% 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.

In order to meet its investment objectives, the Company has entered into a forward purchase and sale agreement (the "Forward Agreement") (note 6) with HSBC Bank USA (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 Credit Trust II. The Credit-Linked Note has been issued by HSBC Bank Canada ("HSBC"). The Credit-Linked Note is issued at par, will mature on December 20, 2009 and pays a Canadian dollar coupon of 6.867% 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 approximately 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 October 1, 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 to 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 3.43% 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. Subsequent to the end of the period, a credit event occurred in the CLN Portfolio which resulted in a reduction actual subordination level (see Note 12).

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 Credit Trust II. Any excess received by Credit Trust II over what is paid out will be reinvested by Credit Trust II and held in cash, cash equivalents and other evidences of indebtedness.

3 Summary of significant accounting policies

Basis of presentation

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

Deconsolidation of the Credit Trust

As the company is exposed to the future gains or losses arising on the portfolio securities held by Credit Trust, Accounting Guideline "AcG 15 – Consolidation of Variable Interest Entities" required that the Company's financial statements be presented on a consolidated basis by including the results of Credit Trust. The 2006 financial statements were prepared on this basis.

Effective February 2007, AcG 15 was amended and now specifically excludes investment companies from its application. These changes were applicable for periods beginning on or after September 30, 2007, with early adoption encouraged.

The Company has applied these amendments on a retrospective basis and restated the December 31, 2006 presentation.

Recent accounting pronouncements

On January 1, 2007, the Company adopted Section 1506 of the CICA Handbook Accounting Changes, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect the Company's financial position or results of operations.

The new Section 1535, Capital Disclosures, requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company.

This standard will impact the Company's disclosures provided but will not affect the Company's results or financial position.

The new Sections 3862 and 3863 replace Handbook Section 3861 Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from

ROC Pref II Corp.

Notes to Financial Statements

December 31, 2007

financial instruments and how the entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company.

This standard will impact the Company's disclosures provided but will not affect the Company's results or financial position.

Section 3855

National Instrument 81-106 "Investment Fund Continuous Disclosure" requires the net asset value of the Company be calculated in accordance with Canadian generally accepted accounting principles ("GAAP").

The Canadian Institute of Chartered Accountants ("CICA") has issued Section 3855, Financial Instruments: Recognition and Measurement, effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The adoption of this section will impact the valuation and disclosure of the net asset value ("NAV") of the Company, and the way transaction costs are recorded for financial reporting purposes.

Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for securities held short. Prior to this new section, the fair value was based on the last traded price for the day, when available. The impact of adopting the amended policy is not material to the financial statements.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be charged to net income in the period. Prior to this new section, these costs have been added to the cost of the securities purchased or deducted from the proceeds of sale.

The Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting of NAV ("Trading NAV") (other than for financial reporting purposes) until September 30, 2008, to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption price of an investment fund.

On January 1, 2007, the Company adopted Section 3855 on a prospective basis for financial reporting purposes ("GAAP NAV"). The provisions of Section 3855 have been also applied to the opening NAV on January 1, 2007 without restating prior period financial statements. There were no differences between the Trading NAV and the GAAP NAV as a result of the adoption of Section 3855.

	<u>Transactional NAV</u>	<u>Section 3855 Adjustment</u>	<u>GAAP NAV</u>
Net Asset Value			
Opening NAV – January 1, 2007	314,171,404	-	314,171,404
Closing NAV – December 31, 2007	283,131,175	(644)	283,130,531
Net Asset Value Per Unit			
Opening NAV – January 1, 2007	26.18	-	26.18
Closing NAV – December 31, 2007	23.64	-	23.64

Valuation of investments

Short-term investments are carried at cost, which together with interest receivable approximates market value. Other investments are recorded at their fair value, being the bid price recorded by the securities exchanges on which such investments are principally traded.

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, **excluding transaction costs**.

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.

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 3861 and 3855 of the Handbook of the Canadian Institute of Chartered Accountants.

ROC Pref II Corp.

Notes to Financial Statements

December 31, 2007

Value per preferred share

The value per preferred share presented in the statement 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 ("the Custodian") to act as custodian of the assets of the Company. The Custodian is also responsible for certain aspects of the Company's day-to-day operations. In consideration for these services, the Company pays a fee to the Custodian.

5 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 \$0.290625 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 per share. 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 October 1, 2004, the Company issued 12,000,000 Preferred Shares at a price of \$25.00 per Preferred Share for aggregate gross proceeds of \$300 million. Issue costs of \$10,213,702 incurred in connection with the share issuance have been charged against retained earnings. During the period from January 1, 2007 to December 31, 2007, the Company paid \$484,884 to redeem 21,600 units. Changes in outstanding units are summarized as follows:

	<u>Number of units</u>	
	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Balance - Beginning of year	12,000,000	12,000,000
Units redeemed	<u>(21,600)</u>	<u>-</u>
Balance - End of year	<u>11,978,400</u>	<u>12,000,000</u>

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 dissolution, liquidation or winding-up of the Company.

On August 23, 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.

ROC Pref II Corp.

Notes to Financial Statements

December 31, 2007

6 Forward Agreement and Common Share Portfolio

On December 31, 2007, the value of the common share portfolio was \$283,621,742. Since the Company must deliver the value of the common share portfolio to the Counterparty in exchange for the value of Credit Trust, the value of the Forward Agreement to the Company is equal to the value of Credit Trust less the Value of the common share portfolio. On December 31, 2007, the value of the Forward Agreement was \$6,213,929. Other net assets in the Company totalled \$(6,705,140) leaving a net asset value of \$283,130,531 or \$23.64 per Preferred Share.

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 II.

The payment obligations of the Counterparty to the Company under the Forward Agreement will be determined by reference to the performance of Credit Trust II. The Counterparty may hedge its exposure under the Forward Agreement to the economic performance of the Credit Trust II. 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 pays to the Counterparty a fee under the Forward Agreement of approximately 0.45% per annum of the net asset value of Credit Trust II, calculated and payable quarterly in arrears.

7 Distributions

Targeted quarterly distributions are \$0.290625 per Preferred Share. During the year ended December 31, 2007 the Company met its targeted quarterly distribution and paid total distributions of \$13,943,721, or \$1.16 per unit (\$0.290625 per quarter), representing return of capital to holders of Preferred Shares (\$13,950,000 or \$1.16 per unit for the year ended December 31, 2006).

8 Management fees and other expenses

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 will receive an annual management fee in an amount equal to 0.25% 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 Credit Trust II, the Manager will also receive an annual management fee in an amount equal to 0.10% of the net asset value of Credit Trust II, to be 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.

10 Broker commission charges and soft dollar services

There were \$nil broker commissions paid during the year ended December 31, 2007 in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

11 Reclassification

Certain of the 2006 comparative figures have been reclassified from the statements previously presented to conform to the presentation of the 2007 annual financial statements.

12 Subsequent Events

Subsequent to the end of the period, the Reference Portfolio experienced its first default when Quebecor World Inc. filed for creditor protection. As a result, the actual subordination level declined from 3.43% to 3.01% based on a recovery rate of 41.25% and the number of defaults that the CLN can experience while continuing to make full coupon payments and return principal at maturity declined from eight to seven. The default did not cause S&P to change the rating of the CLN or the Preferred Shares.