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ROC Pref II Corp.

Annual Report

December 31, 2008

ROC Pref II Corp. Message to Shareholders

March 13, 2009

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 twelve-month period ended December 31, 2008. It has been an extremely challenging year in the financial markets. The global credit markets have gone through a crisis that has been unprecedented in many of our lifetimes. The Company has been caught up in this turmoil. Less than ten months remain until maturity of the Preferred Shares, which occurs on December 31, 2009. Since inception the Company has paid all scheduled distributions, totalling \$4.94 per Preferred Share, but as a result of the turmoil and the defaults sustained by the Company, the Preferred Shares are currently rated P-3 (low) by Standard & Poor’s, down from their original rating of P-1 (low).

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 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.

On January 23, 2008, the Reference Portfolio experienced its first default when Quebecor World Inc. filed for creditor protection. In the last four months of the year, the Reference Portfolio sustained a further three defaults, Lehman Brothers, Fannie Mae and Tribune Co. As a result, the actual subordination level and the number of defaults that the CLN can experience while continuing to make full coupon payments and return principal at maturity declined. The Company is still scheduled to return \$25 per Preferred Share to investors at maturity. The Company could withstand approximately 3.8 further defaults before the coupon or par value would be impacted (assuming the trading reserve is used to purchase subordination and the recovery rate is 40%). This default protection level equates to 5.2 times the historical average rate of default on a portfolio with the same ratings distribution as the Company’s reference portfolio and 2.4 times the worse one year period since S&P’s database began in 1982.

In the face of rapidly decelerating economic activity and financial sector deleveraging, prices for a range of financial assets, including equities and credit instruments reflect very adverse expectations for fundamentals. Investment grade credit spreads have experienced unprecedented widening over the past year and in many cases are above levels seen in the Great Depression. This increase in spreads has had a significant impact on the net asset value of the Preferred Shares.

The Investment Manager believed that as 2008 progressed there were three primary risks to the reference portfolio: 1) The meltdown of the global financial system; 2) The depth and breadth of the US housing downturn; and 3) The extent and length of the US/global recession. At this point they believe that, given the extensive actions of governments across the Western world the risk of a market meltdown appears to have dropped considerably. If the current actions are not sufficient then governments have given the indication that they are willing to take even more actions. The depth and breadth of the US housing downturn is a significant risk to a number of holdings in the portfolio, but the primary risk is to financials that are exposed to the sector (e.g., Ambac and MGIC).

As discussed above, there have already been a number of private sector and government actions that have been taken to allow mortgages to be modified to lessen the likelihood and severity of losses. The third risk, a prolonged deep recession in the United States or throughout the world continues to be very significant. The Investment Manager’s concerns with default risk are now less focused on financials and more on cyclical names, particularly those that are more levered (high yield, LBO names). While we are generally well-positioned for this turn, all of the ROC portfolios are diversified. Consequently, there is some exposure to cyclical names (e.g., Sabre and Idearc) that we expect to come under pressure in 2009.

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.**

Note that any reference to “Net Assets” or “Net Assets per Unit” means that the value was determined in accordance with the Canadian Generally Accepted Accounting Principles for financial statements purposes. Also any reference to “Net Asset Value” or “Net Asset Value per Unit” means that the value was determined for valuation and transactional purposes. An explanation of the difference between both values can be found in note 3 to the financial statements

Investment Objectives and Strategy

The 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 BB- 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 (the “Investment Manager”). Please refer to the Supplementary Financial Information - CLN Portfolio Schedule as at December 31, 2008 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.

Recent Developments

Subsequent to year-end, the CLN and the Preferred Shares were downgraded to BB- and P-3 (low) and remain on CreditWatch with negative implications.

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. The CLN is currently rated BB- and the Preferred Shares are rated of P-3 (low), both by S&P.

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.

Results of Operations

Investments of the Company

The common share portfolio

The value of the common share portfolio decreased from \$283.6 million on December 31, 2007 to \$136.6 million at December 31, 2008. This decline resulted from the combination of a decrease in the market value of the portfolio of \$99.3 million, and the delivery of shares with a cost base of \$47.7 million in order to partially settle under the Forward Agreement. The details of the common share portfolio at December 31, 2008 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, its own operating expenses and any payments on redemptions of Preferred Shares.

During the year ended December 31, 2008, the Company delivered shares with a cost base of \$47.7 million to Counterparty in exchange for \$37.9 million in cash.

Other investments of the Company

The Company has no other investments apart from cash and short-term investments, which are held in order to fund near-term operating expenses. As at December 31, 2008 the Company held \$316,134 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 \$8,238,325 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, 2008, the Company had (on consolidated basis) \$14,022,627 in cash and short-term 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 has accumulated funds in excess of the \$8,238,325 amount required 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 was rated A- at inception and is currently rated BB- by S&P.

The global credit markets have gone through a crisis that has been unprecedented in many of our lifetimes. The Company has been caught up in this turmoil. During the quarter, the CLN experienced a credit event when Tribune Company declared bankruptcy. The recovery rate on Tribune was exceptionally low at 1.5%, which is equivalent to 1.7 defaults at a 40% recovery rate (the estimated recovery rate the Investment Manager always uses in the default protection level

calculations). The impact of the Tribune credit event and its very low recovery rate have lowered the safety cushion for the CLN, but given the short time frame until maturity of the CLN (December 20, 2009) the Investment Manager remains optimistic that the investment objectives will be met. Tribune was the fourth credit event experienced by the Company since its inception. The Quebecor World credit event had a 41.3% recovery rate in early 2008 and the Fannie Mae and Lehman Brothers credit events had recovery rates of 91.5% and 8.6%, respectively in September 2008.

Following these events, the rating of the CLN was downgraded to BBB on November 14, 2008 and to BB on December 22, 2008. The credit rating of the Preferred Shares was also downgraded to P-2 and P-3 respectively. Subsequent to year-end, the CLN and the Preferred Shares were downgraded to BB- and P-3 (low) and remain on CreditWatch with negative implications.

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 (after deducting the four defaulted companies). 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 a BB credit rating, the CLN's required level of subordination was 1.73% on December 31, 2008. The actual level of subordination structured into the CLN was 1.64%. If losses due to cumulative further defaults net of recoveries, including the loss due to the defaults of Quebecor World Inc., Fannie Mae, Lehman Brothers and Tribune Company, do not exceed a total of 1.64% 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 further 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 2.54% 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 \$2,781,090 on December 31, 2008. 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 December 31, 2008 the trading reserve account would have purchased an additional 0.05% of subordination, bringing total percentage loss that could have been absorbed in the Reference Portfolio without affecting payments of interest or principal to 1.69%. The amount of additional subordination that can be purchased using the trading reserve account will vary in response to changing market conditions. Losses of 1.69% due to defaults net of recoveries (using an estimated historical recovery rate of 40 %) would represent approximately 5.2 times the average level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any one year period over the 25 year period ending in 2007. The subordination levels indicated above reflect the realized recovery rate on the Tribune Company credit event, which was determined subsequent to the period under review.

During the year ended December 31, 2008, the Company redeemed 1,690,007 Preferred Shares for a total cost of \$22,461,167, or an average of \$13.29 per Preferred Share (21,600 Preferred Shares for a total cost of \$484,884 during the year ended December 31, 2007). As a result, the principal amount of the CLN is currently \$248,971,500.

Credit quality of the Reference Portfolio

Risk in the CLN is mainly 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:

	December 31, 2005	December 31, 2006	December 31, 2007	December 31, 2008
Dow Jones IG 3 index	77.36	44.06	127.64	428.59
Reference Portfolio spread	53.06	55.84	141.64	552.12

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, 2007 and 2008:

Exposure to Issuers						Exposure to Issuers					
Rating ⁽¹⁾	2004	2005	2006	2007	2008	Rating ⁽¹⁾	2004	2005	2006	2007	2008
AAA	3	3	4	4	2	BB+	0	3	3.5	1.5	3.5
AA+	0	0	0	0	2	BB	1	2	4.5	2.5	3
AA	3	3	4	9	2	BB-	0	1	1	2	3
AA-	2	6	8	9	7	B+	0	0	1	3.5	2.5
A+	17	19	16	13	13	B	0	0	1	2	0
A	26	24	21.5	16.5	18.5	B-	0	0	0	1	1.5
A-	24	23	25.5	26	28	CCC+	0	0	0	1	1
BBB+	27	30	23	27	20	SD ⁽³⁾	0	0	0	0	1
BBB	23	21	24	14	20	D	0	0	0	0	4
BBB-	13	5	3	8	8	N/R	1	0	0	0	0
Total ⁽²⁾							140	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.

⁽³⁾ An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. This is not considered a default for the purposes of the CLN. As of January 2009 S&P changed the rating of General Motors Acceptance Corporation from SD to CCC.

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 14 reference company upgrades averaging 3.07 rating categories, or notches, per upgrade for a total of 43 notch increases and 74.5 reference company downgrades averaging 2.0 notches per downgrade for a total 149 notch decreases. The companies in the Reference Portfolio are listed in the Supplementary Financial Information as at December 31, 2008.

Substitutions in the Reference Portfolio

The Reference Portfolio is 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 38 substitutions in the Reference Portfolio from October 1, 2004 (commencement of operations) to December 31, 2008.

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, 2008, the CLN value was \$104.352 million, down from \$279.960 million on December 31, 2007.

Other investments of the Credit Trust II

On December 31, 2008 the Credit Trust II held \$13,706,493 in cash and short-term investments maturing prior to December 31, 2009, compared to total cash, short-term investments and other bond investments of \$9,257,967 on December 31, 2007.

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, 2008, the value of the common share portfolio was \$136.58 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, 2008 value of the Forward Agreement was \$(17.97) million. Other net assets in the Company, prior to consolidation, totalled \$(8.06) million leaving a net asset value of \$110.55 million or \$10.75 per Preferred Share. The net asset value per Preferred Share was \$23.64 on December 31, 2007. 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, 2008, the Company had current assets of \$14,602,060 and current liabilities of \$8,435,027 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, 2008 was approximately 0.87%. If the fees and expenses described above exceed 1.00% of the par value of the Preferred Shares per year (being \$2,572,098 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 MER for the year ended December 31, 2008 including all distributions paid to Preferred Shareholders and deferred management fees was approximately 7.70%.

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

Distributions

During the year ended December 31, 2008, 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, 2007), 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, 2008 was \$775,591 (\$1,125,664 for the year ended December 31, 2007) 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, 2008 were \$1,501,720 (\$2,089,462 for the year ended December 31, 2007).

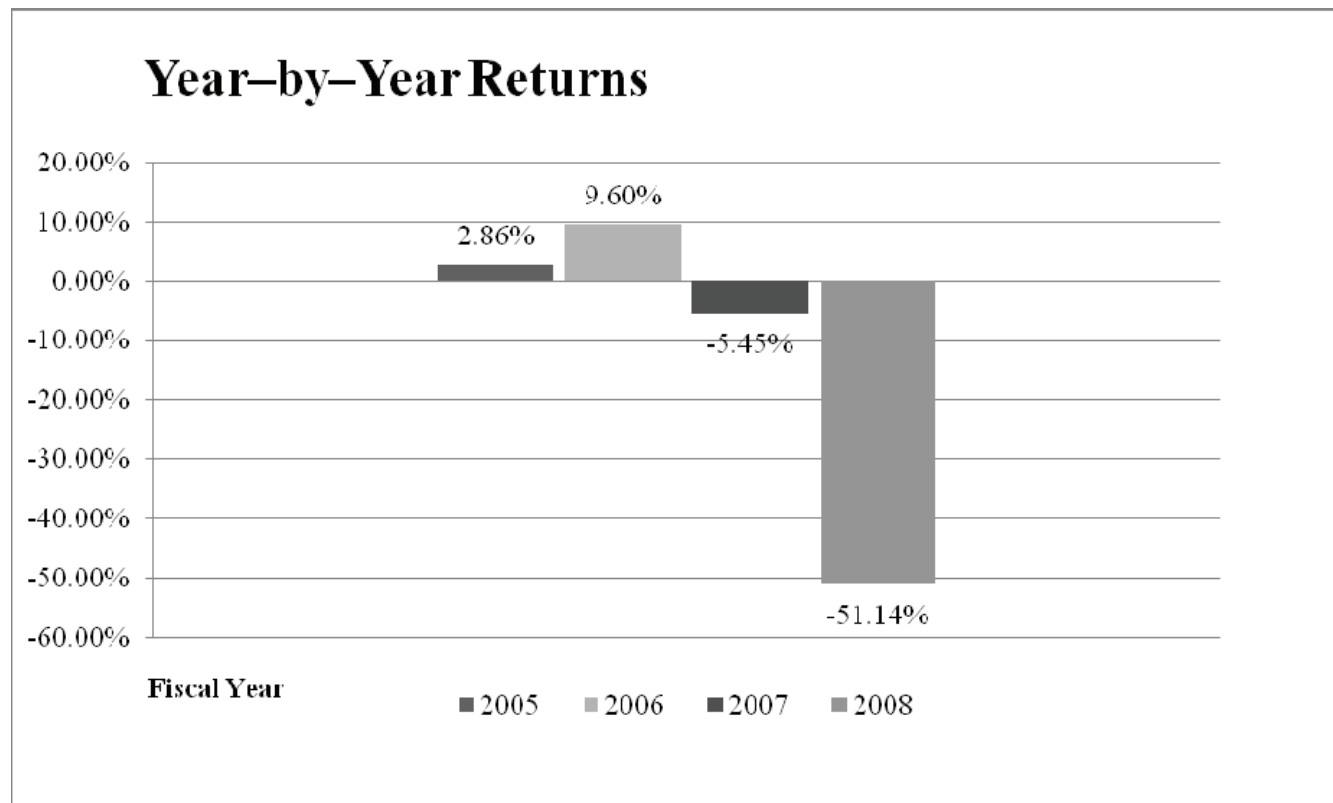
The Manager pays the Investment Manager out of the above management fees.

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee tabled no special reports and made no material recommendations to management of the Company during the year ended December 31, 2008.

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	-51.14%	-20.28%	-12.93%
Based on TSX share price	-68.03%	-31.64%	-22.79%
Bloomberg / EFFAS ⁽²⁾ Canada Government 1-3 year Index	8.13%	5.52%	4.66%

⁽¹⁾ Annualized.

⁽²⁾ Index of Canadian Government bonds with 1 to 3 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 financial statements:

The Company's Net Assets per share:

	2008	2007	2006	2005	2004 ⁽¹⁾
Net Assets, beginning of period	23.64	26.18	24.99	25.39	25.00
Increase (decrease) from operations:					
Total revenues	—	—	—	—	0.01
Total expenses	(0.29)	(0.38)	(0.39)	(0.37)	(0.10)
Issue expenses ⁽²⁾	—	—	—	—	(0.85)
Realized gains (losses) for the period	(0.84)	0.26	0.21	(0.11)	0.02
Unrealized gains (losses) for the period	(10.59)	(1.26)	2.53	1.25	1.59
Total increase (decrease) from operations⁽³⁾	(11.72)	(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)	(1.16)	(0.29)
Total Annual Distributions⁽⁴⁾	(1.16)	(1.16)	(1.16)	(1.16)	(0.29)
Net Assets, end of period⁽⁵⁾	10.75	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 assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(4) Distributions were paid in cash.

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

Ratios and Supplemental Data:

	2008	2007	2006	2005	2004 ⁽¹⁾
Net asset value (000's)	110,552	283,131	314,171	299,856	304,634
Number of Preferred Shares outstanding	10,288,393	11,978,400	12,000,000	12,000,000	12,000,000
Base Management expense ratio ⁽²⁾	0.87%	0.83%	0.85%	0.79%	0.88%
Management expense ratio including distributions on Preferred Shares, deferred management fees and issue expenses⁽²⁾⁽³⁾	7.70%	6.14%	6.12%	6.15%	9.74%
Management expense ratio before waivers or absorptions ⁽²⁾⁽³⁾	7.70%	6.14%	6.12%	6.15%	9.74%
Portfolio turnover rate ⁽⁴⁾	74.92%	15.20%	19.84%	50.08%	1.40%
Trading expense ratio ⁽⁵⁾	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per share	10.74	23.64	26.18	24.99	25.39
Closing market price (TSX)	6.46	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 asset value during the period.

Summary of Investment Portfolio as of December 31, 2008

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.

	Fair Value \$	% of NAV
Portfolio by Category		
Information Technology	35,654,724	32.3%
Materials	34,336,530	31.1%
Industrials	23,808,000	21.5%
Consumer Discretionary	15,952,475	14.4%
Health Care	11,370,000	10.3%
Energy	9,172,468	8.3%
Consumer Staples	7,230,687	6.5%
Cash and Short-Term Investments	316,134	0.3%
Equity Derivatives	(18,962,883)	-17.2%
Top 25 Holdings		
Rona Inc.	13,885,020	12.6%
Eldorado Gold Corp.	13,512,461	12.2%
Alamos Gold	11,375,000	10.3%
SXC Health Solutions	11,370,000	10.3%
Westjet Airlines Ltd.	10,114,182	9.1%
CGI Group Class A	9,417,725	8.5%
Stantec Inc.	8,602,458	7.8%
Celestica Inc.	8,264,368	7.5%
Miranda Technologies Inc. Common	8,195,290	7.4%
TriStar Oil and Gas Ltd.	7,791,706	7.1%
Viterra Inc	7,230,687	6.5%
Research In Motion	5,346,099	4.8%
Firstservice Corp. Sub Vtg.	5,091,360	4.6%
MacDonald Dettwiler & Assoc	4,431,242	4.0%
Sino-Forest Corporation - Class A	4,322,251	3.9%
Red Back Mining Inc.	2,353,754	2.1%
Gildan Activewear Class A	2,067,455	1.9%
Atrium Innovations Inc.	1,515,981	1.4%
ProEx Energy Ltd.	1,135,658	1.0%
FNX Mining Company Inc.	734,078	0.7%
Ivanhoe Mines Ltd.	408,616	0.4%
Cash and Cash Equivalents	316,134	0.3%
OPTI Canada Inc.	245,104	0.2%
HudBay Minerals Inc.	114,389	0.1%
Equity Derivatives	(18,962,883)	-17.2%
Net Asset Value (NAV)	\$ 110,503,000	

Supplementary Financial Information

The following is a listing of CLN Portfolio (Reference Portfolio) as at December 31, 2008:

CLN Portfolio (Reference Portfolio) as at December 31, 2008 (Unaudited):

Entity Description	SP 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.	BBB	Insurance	USA
American Standard Inc	AA-	Industrial equipment	USA
Amgen Inc.	A+	Drugs	USA
Anglo American Plc	A-	Nonferrous metals/minerals	Britain
Anheuser-Busch Companies Inc	BBB+	Beverage & Tobacco	USA
Aon Corporation	BBB+	Insurance	USA
Atlantia SPA	A	Surface transport	Italy
Bank of America Corp.	A+	Financial intermediaries	USA
Barclays Bank Plc	A+	Financial intermediaries	Britain
Barrick Gold Corporation	A-	Nonferrous metals/minerals	Canada
Bayer Aktiengesellschaft	A-	Chemicals & plastics	Germany
Bear Stearns Companies Inc.	AA-	Brokers, Dealers & Investment houses	USA
Bhp Billiton Ltd.	A+	Nonferrous metals/minerals	Australia
Bombardier Inc.	BB+	Aerospace & Defence	Canada
Borgwarner Inc.	A-	Automotive	USA
British American Tobacco Plc	BBB+	Beverage & Tobacco	Britain
Brookfield Asset Management	A-	Building & Development	Canada
Cameco Corporation	BBB+	Nonferrous metals/minerals	Canada
Cargill Incorporated	A	Farming/agriculture	USA
Carrefour SA	A	Food/drug retailers	France
Caterpillar Financial Services Corp.	A	Industrial equipment	USA
Centex Corporation	BB-	Building & Development	USA
Centurytel Inc.	BBB-	Telecommunications	USA
Cingular Wireless LLC	A	Telecommunications	USA
Cit Group Inc.	A-	Financial intermediaries	USA
Citigroup Inc.	A	Financial intermediaries	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
Countrywide Home Loans Inc.	A+	Financial intermediaries	USA
Credit Suisse Group	A	Financial intermediaries	Switzerland
Daimlerchrysler AG	A-	Automotive	Germany
Deutsche Bank Aktiengesellschaft	A+	Financial intermediaries	Germany
Deutsche Lufthansa AG	BBB	Air transport	Germany
Deutsche Telekom AG	BBB+	Telecommunications	Germany
Domtar Inc.	BB	Forest products	Canada
Dte Energy Co.	BBB	Utilities	USA
Duke Capital LLC	BBB+	Utilities	USA
Emi Group Plc	B+	Leisure goods/activities/movies	Britain
Enbridge Inc.	A-	Utilities	Canada

CLN Portfolio (Reference Portfolio) as at December 31, 2008 (Unaudited):

Entity Description	SP Rating	Industry	Country
Encana Corporation	A-	Oil & gas	Canada
Erac Usa Finance Company	BBB	Equipment leasing	USA
European Aeronautic Defense And Space Company Eads NV	BBB+	Aerospace & Defence	Netherlands
Exelon Generation Co. LLC	BBB	Utilities	USA
Federal National Mortgage Association	D	U.S. Agency	USA
Financial Security Assurance Inc.	AAA	Insurance	USA
Ford Motor Credit Company	CCC+	Automotive	USA
France Telecom	A-	Telecommunications	France
Gannett Co. Inc.	BBB-	Publishing	USA
General Electric Capital Corporation	AAA	Conglomerates	USA
General Motors Acceptance Corporation (*)	SD	Automotive	USA
Hannover Rueckversicherungs-AG	AA-	Insurance	Germany
Hellenic Telecommunications Organiz SA	BBB	Telecommunications	Greece
Hutchison Whampoa Limited	A-	Conglomerates	Hong Kong
Idearc Inc.	B-	Telecommunications	USA
ING Bank NV	AA	Financial intermediaries	Netherlands
International Business Machines Corporation	A+	Electronics/electrical	USA
International Lease Finance Corporation	A-	Equipment leasing	USA
Israel Electric Corp Ltd	BBB+	Utilities	Israel
J.P. Morgan Chase & Co.	A+	Financial intermediaries	USA
Kimco Realty Corp.	A-	REITs and REOCs	USA
Kinder Morgan Energy Partners LP	BBB	Utilities	USA
Korea Electric Power Corporation	A	Utilities	South Korea
Korea Telecom	A-	Telecommunications	South Korea
Lehman Brothers Holdings Inc.	D	Financial intermediaries	USA
Loews Corporation	A	Conglomerates	USA
Macy's Incorporated	BBB-	Retailers (except food & drug)	USA
Marriott International Inc.	BBB	Lodging & casinos	USA
MBIA Inc.	A-	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	BB+	Insurance	USA
Morgan Stanley	A	Brokers, Dealers & Investment houses	USA
Motorola Inc.	BB+	Telecommunications	USA
MTR Corporation Ltd	AA+	Rail industries	Hong Kong
Muenchener Rueckversicherungs-Gesellschaft AG	A	Insurance	Germany
Nabors Industries Inc.	BBB+	Oil & gas	USA
Newell Rubbermaid Inc.	BBB+	Home furnishings	USA
Norbord Inc.	BB-	Forest products	Canada
Nordstrom Inc.	A-	Retailers	USA
Novartis AG	AA-	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
Petrolia Nasional Berhad	A-	Oil & gas	Malaysia
Pitney Bowes Credit Corporation	A	Business equipment & services	USA
Placer Dome Inc.	A-	Nonferrous metals/minerals	Canada
Prologis	BBB-	REITs and REOCs	USA
Qantas Airways Limited	BBB+	Air transport	Australia
Quebecor World Inc.	D	Publishing	Canada
Radioshack Corporation	BB	Retailers (except food & drug)	USA

CLN Portfolio (Reference Portfolio) as at December 31, 2008 (Unaudited):

Entity Description	SP Rating	Industry	Country
Reuters Group Plc	A-	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 LP	A-	REITs and REOCs	USA
SLM Corporation	BBB-	Financial intermediaries	USA
Sodexo Alliance SA	BBB+	Food service	France
Southwest Airlines Co.	BBB+	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
Textron Financial Corporation	BBB	Financial intermediaries	USA
The Dow Chemical Company	BBB	Chemicals & plastics	USA
The Export-Import Bank Of Korea	A	Uncorrelated (Corporate)	South Korea
The Goldman Sachs Group Inc.	A	Brokers, Dealers & Investment houses	USA
The Royal Bank Of Scotland Public Limited Company	A	Financial intermediaries	Britain
The Ryland Group Inc.	BB-	Building & Development	USA
Time Warner Inc.	BBB+	Leisure goods/activities/movies	USA
Transalta Corp.	BBB	Utilities	Canada
Transocean Inc.	BBB+	Oil & gas	USA
Tribune Company	D	Publishing	USA
TXU Corporation	B-	Utilities	USA
Tyson Foods Inc.	BB	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	USA
Wells Fargo & Company	AA+	Financial intermediaries	USA
Windstream	BB+	Telecommunications	USA
Wolters Kluwer NV	BBB+	Publishing	Netherlands
WPP Group Plc	BBB	Business equipment & services	Britain
Wyeth	A+	Drugs	USA
XL Capital Ltd	A-	Insurance	Bermuda
Zurich Insurance Company	AA-	Insurance	Switzerland

(*) An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. This is not considered a default for the purposes of the CLN. As of January 2009 S&P changed the rating of General Motors Acceptance Corporation from SD to CCC.

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 ("PwC") on behalf of the shareholders. PwC has audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements.



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



Michael W. Freund
Director
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada
March 13, 2009

March 17, 2009

Auditors' Report

To the Shareholders of ROC Pref II Corp.

We have audited the statement of investment portfolio of **ROC Pref II Corp.** (the Company) as at December 31, 2008, the statements of financial position as at December 31, 2008 and 2007 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, 2008 and 2007 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, 2008 and 2007

	2008	2007
	\$	\$
Assets		
Cash	17,178	74,524
Short-term investments	298,956	148,076
Investments pledged to counter party under forward agreement (cost - \$192,733,816; 2007 - \$240,463,631)	136,584,982	283,621,742
Interest receivable	115	216
Unrealized gain on forward agreement	-	6,213,929
Prepaid expenses	33,454	3,667
	<u>136,934,685</u>	<u>290,062,154</u>
Liabilities		
Accounts payable and accrued liabilities	75,164	77,437
Management fees payable	46,544	68,910
Deferred management fees payable (note 9)	8,286,896	6,785,176
Unrealized loss on forward agreement	17,974,046	-
Preferred Share (note 6)	110,551,935	283,130,531
	<u>136,934,585</u>	<u>290,062,054</u>
Shareholders' Equity		
Share capital (note 5)	100	100
Retained earnings	-	-
	<u>100</u>	<u>100</u>
Total Liabilities and Shareholders' Equity	<u>136,934,685</u>	<u>290,062,154</u>
Number of Preferred Shares outstanding (note 6)	<u>10,288,393</u>	<u>11,978,400</u>
Net Assets per Preferred Share outstanding	<u>10.75</u>	<u>23.64</u>
Number of Class A Shares outstanding (note 5)	<u>100</u>	<u>100</u>
Net Assets 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

ROC Pref II Corp.

Statements of Operations

For the years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
Revenue		
Interest	<u>6,085</u>	<u>25,765</u>
Expenses		
Deferred management fees (note 9)	1,501,720	2,089,462
Forward fees	999,344	1,364,671
Management fees	553,942	807,449
Capital tax expense	108,604	68,811
Custodial fees	22,167	47,338
Rating agency fees	42,917	43,034
Insurance Premiums	38,498	34,089
Sustaining fees	29,819	32,100
Administration fees	20,467	20,577
Directors' fees	20,543	20,550
Printing and mailing charges	4,840	15,493
Audit fees	49,571	14,864
Transfer agent fees	10,953	14,725
Legal fees	-	2,137
IRC fees	2,404	-
Other	<u>4,717</u>	<u>1,684</u>
	<u>3,410,506</u>	<u>4,576,984</u>
Net investment income before distributions on Preferred Shares	(3,404,421)	(4,551,219)
Distributions paid on Preferred Shares	<u>(13,407,336)</u>	<u>(13,943,721)</u>
Net investment income	(16,811,757)	(18,494,940)
Net realized gain (loss) on investments (note 7)	(9,810,752)	3,061,250
Change in unrealized gain (loss) on Forward Agreement (notes 2 and 7)	(24,187,975)	(8,285,447)
Change in unrealized gain (loss) on investments	<u>(99,306,945)</u>	<u>(6,836,852)</u>
Increase (decrease) in net assets from operations	<u>(150,117,429)</u>	<u>(30,555,989)</u>
Increase (decrease) in net assets from operations per Preferred Share	<u>(12.88)</u>	<u>(2.55)</u>
Total distributions paid per Preferred Share		
Return of Capital	<u>1.16</u>	<u>1.16</u>

(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, 2008 and 2007

	2008	2007
	\$	\$
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	(150,117,429)	(30,555,989)
(Surplus) deficit attributable to preferred shareholders (note 6)	<u>150,117,429</u>	<u>30,555,989</u>
Retained earnings - end of period	<u>-</u>	<u>-</u>

ROC Pref II Corp.

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	(150,117,429)	(30,555,989)
Items not affecting cash:		
Net realized (gain) loss on investments	9,810,752	(3,061,250)
Unrealized (gain) loss on Forward Agreement (notes 2 and 7)	24,187,975	8,285,447
Change in unrealized (gain) loss on investments	99,306,945	6,836,852
Changes in non-cash working capital		
(Increase) decrease in interest receivable	101	(57)
(Increase) decrease in prepaid expenses	(29,787)	30,930
Increase (decrease) in accounts payable and accrued liabilities	(2,273)	(41,646)
Increase (decrease) in management fees payable	(22,366)	(878)
Increase (decrease) in deferred management fees payable	1,501,720	2,089,462
Purchase of investments	(154,603,324)	(45,803,392)
Proceeds on disposition of investments	192,522,387	62,448,888
Net cash flow provided by operating activities	<u>22,554,701</u>	<u>228,367</u>
Financing Activities		
Payments on redemptions of preferred shares	<u>(22,461,167)</u>	<u>(484,884)</u>
Net cash flow provided by financing activities	<u>(22,461,167)</u>	<u>(484,884)</u>
Net increase in cash and short-term investments	93,534	(256,517)
Cash and short-term investments - beginning of period	<u>222,600</u>	<u>479,117</u>
Cash and short-term investments - end of period	<u>316,134</u>	<u>222,600</u>

(See accompanying notes to financial statements)

ROC Pref II Corp.

Statement of Investment Portfolio

As at December 31, 2008

	Maturity date	Number of shares or par value	Average cost \$	Fair value \$	% of portfolio
Short-term investments					
Bearer Deposit Notes					
Bank of Nova Scotia	3/23/2009	300,000	298,956	298,956	100.0%
Total short-term investments			298,956	298,956	100.0%
Investments					
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)					
Energy					
OPTI Canada Inc.		136,169	3,043,377	242,381	0.2%
ProEx Energy Ltd.		101,398	1,896,143	1,116,392	0.8%
TriStar Oil and Gas Ltd.		682,884	14,258,618	7,716,589	5.6%
			<u>19,198,138</u>	<u>9,075,362</u>	<u>6.6%</u>
Materials					
Alamos Gold		1,300,000	9,607,000	11,232,000	8.2%
Atrium Innovations Inc.		117,336	1,896,150	1,512,461	1.1%
Eldorado Gold Corp.		1,400,255	11,370,071	13,484,456	9.9%
FNX Mining Company Inc.		241,473	7,263,508	729,248	0.5%
HudBay Minerals Inc.		37,382	878,477	114,389	0.1%
Ivanhoe Mines Ltd.		124,959	1,691,945	396,120	0.3%
Red Back Mining Inc.		274,011	1,896,156	2,331,834	1.7%
Sino-Forest Corporation - Class A		437,918	8,473,713	4,221,530	3.1%
			<u>43,077,020</u>	<u>34,022,038</u>	<u>24.9%</u>
Industrials					
Stantec Inc.		285,322	9,775,132	8,525,421	6.2%
Firstservice Corp. Sub Vtg.		318,409	9,775,156	5,072,255	3.7%
Westjet Airlines Ltd.		770,898	9,111,075	10,091,055	7.4%
			<u>28,661,363</u>	<u>23,688,731</u>	<u>17.3%</u>
Consumer Discretionary					
Gildan Activewear Class A		145,698	5,431,621	2,064,541	1.5%
Rona Inc.		1,157,085	25,421,157	13,873,449	10.3%
			<u>30,852,778</u>	<u>15,937,990</u>	<u>11.8%</u>
Consumer Staples					
Viterra Inc		761,125	10,305,632	7,215,465	5.3%
Health Care					
SXC Health Solutions		500,000	9,025,000	11,330,000	8.3%

ROC Pref II Corp.

Statement of Investment Portfolio Continued

As at December 31, 2008

	Maturity date	Number of shares or par value	Average cost \$	Fair value \$	% of portfolio
Information Technology					
CGI Group Class A		981,013	6,808,230	9,319,622	6.8%
MacDonald Dettwiler & Assoc		203,268	9,775,158	4,384,491	3.2%
Celestica Inc.		1,462,720	22,419,442	8,074,214	5.9%
Miranda Technologies Inc. Common		1,236,092	8,808,614	8,195,290	6.0%
Research In Motion		108,002	3,802,441	5,341,779	3.9%
			<u>51,613,885</u>	<u>35,315,396</u>	<u>25.8%</u>
Total investments			<u>192,733,816</u>	<u>136,584,982</u>	<u>100.0%</u>
Derivative contracts					
	Maturity date	Number of contracts	Fair value \$		
Forward Agreement (note 7)	31-Dec-09	1	(17,974,046)		

ROC Pref II Corp.

Notes to Financial Statements

December 31, 2008 and 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 7) with HSBC Bank USA (the “Counterparty”) which will provide the Company with the economic return generated by a credit-linked note (“CLN”). 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 CLN.

The CLN is owned by Credit Trust II. The CLN has been issued by HSBC Bank Canada (“HSBC”). The CLN was 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 CLN is linked to the number of defaults experienced over the term of the CLN 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 CLN 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 CLN 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 CLN may be substantially less than the initial principal amount thereof and, in some cases, may be nil. In addition, interest on the CLN will cease to accrue on the portion of the principal amount of the CLN that has been reduced.

The Company may have exposure to cash and short-term investments by virtue of the Forward Agreement because the CLN 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, short-term investments 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.

Recent accounting pronouncements

On January 1, 2008, the Company adopted Section 1535 of the CICA Handbook, Capital Disclosures, which 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. This standard impacted the Company’s disclosure provided but did not affect the Company’s results or financial position.

On January 1, 2008, the Company adopted CICA Section 3862, Financial Instruments – Disclosures (“Section 3862”), and CICA Section 3863, Financial Instruments – Presentation (“Section 3863”), which replaced 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 financial instruments and how the entity manages those risks. This standard impacted the Company’s disclosure provided but did not affect the Company’s results or financial position.

The Canadian Accounting Standards Board confirmed that effective January 1, 2011, International Financial Reporting Standards will be adopted as Canadian GAAP for publicly accountable enterprises, including investment funds. As the Company is expected to mature on December 31, 2009, the Manager does not expect this to impact the Company.

Valuation of investments

Investments are deemed to be categorized as “held for trading” in accordance with CICA 3855, Financial Instruments – Recognition and Measurement (“Section 3855”) and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded. Should the quoted value for a security, in the opinion of the Managers, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Managers on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost.

On January 1, 2007, the Company adopted Section 3855 on a prospective basis for financial reporting purposes (“GAAP Net Assets”). Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for the security. In addition, Section 3855 requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Company be charged to net income in the period.

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On September 8, 2008, the Canadian Securities Administration issued the amended National Instrument 81-106 ("NI 81-106") Section 14.2 of this amended NI 81-106 requires an investment fund to calculate its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day). The Company did not change its methodology in this respect.

There were no differences between the Transactional NAV and the GAAP Net Assets during the years ended December 31, 2008 and 2007.

Cash

Cash is deemed to be held for trading and therefore carried at fair value.

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives which are deemed held for trading.

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 forward agreements.

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 3863 of the Handbook of the Canadian Institute of Chartered Accountants.

Net assets per Preferred Share

The Net assets per Preferred Share presented in the Statement of Financial Position 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 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 subordinate 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 August 23, 2004, the Company issued 100 Class A Shares for cash consideration of \$100.

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

The Company considers capital to include share capital and the Preferred Shares. The Company manages its capital in accordance with the objectives outlined in Note 2.

6 Preferred Shares

The Company is authorized to issue an unlimited number of redeemable, retractable cumulative Preferred Shares (the "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.

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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 CLN) 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 year ended December 31, 2008, the Company paid \$22,461,167 to redeem 1,690,007 Preferred Shares (\$484,884 were paid to redeem 21,600 Preferred Shares during the year ended December 31, 2007). Changes in outstanding units are summarized as follows:

	Number of units	
	December 31, 2008	December 31, 2007
Balance - Beginning of year	11,978,400	12,000,000
Units redeemed	(1,690,007)	(21,600)
Balance - End of year	10,288,393	11,978,400

7 Forward Agreement and Common Share Portfolio

On December 31, 2008, the value of the common share portfolio was \$136.58 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, 2008 the value of the Forward Agreement was \$(17.97) million. Other net assets in the Company totalled \$(8.06) million leaving a net asset value of \$110.55 million or \$10.75 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 CLN.

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.

8 Distributions

Targeted quarterly distributions are \$0.290625 per Preferred Share. During the year ended December 31, 2008 the Company met its targeted quarterly distribution and paid total distributions of \$13,407,336, or \$1.16 per unit (\$0.290625 per quarter), representing return of capital to holders of Preferred Shares (\$13,943,721 or \$1.16 per unit for the year ended December 31, 2007).

9 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 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.

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10 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.

11 Broker commission charges and soft dollar services

There were \$nil broker commissions paid during the years ended December 31, 2008 and 2007 in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

12 Financial instrument 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 Reference Companies in the CLN 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 repayment of principal at maturity. Following the default of Quebecor World Inc., Fannie Mae, Lehman Brothers and Tribune Company, the rating of the CLN was downgraded to BBB on November 14, 2008, to BB on December 22, 2008 and to BB- on February 5, 2009. The credit rating of the Preferred Shares was also downgraded to P-2 and P-3 respectively. Both are currently maintaining the same rating.

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 Reference Companies in the CLN Portfolio;
- (ii) Occurrence of company defaults in the CLN 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.

The CLN Portfolio is actively managed by the Connor, Clark & Lunn Investment Management Ltd. (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 (the account which is available to absorb net losses that might be incurred when the Investment Manager makes substitutions in the reference Portfolio 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.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds. The Company is exposed to the interest risk of the CLN held by the Credit Trust II. The table below summarizes the Company's exposure to interest rate risks by consolidating the holdings of the Company and the Credit Trust II categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	104,351,548	—	—	—	—	104,351,548
Cash and short-term investments	13,960,102	—	—	—	62,525	14,022,627
Other assets	—	—	—	—	612,887	612,887
Liabilities	—	—	—	—	(8,435,128)	(8,435,128)
Net assets (Preferred Share capital)						110,551,934

As at December 31, 2008, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$768,000.

Credit risk

The credit risk in the CLN is a function of credit quality of the Reference Companies 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 CLN 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 CLN Portfolio. The Reference portfolio average credit spread as of December 31, 2008 was 552.12 basis points.

As at December 31, 2008, had prevailing average spreads raised or lowered by 100 basis points with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$11,541,000.

If losses due to cumulative further defaults, net of recoveries, over the remaining term of the CLN do not exceed a total of 1.64% of the value of the Reference Portfolio, the Credit Trust II will receive its full coupon payments and par value on maturity. To the extent that cumulative further defaults exceeded this amount, subsequent coupon payments and the amount that would be paid to the Credit Trust II on maturity would decline. **To the extent that cumulative further losses due to defaults, net of recoveries, exceeded 2.54% there would be no amount paid to the Credit Trust II and the value of the Preferred Shares would decline to the level of remaining net assets (excluding the CLN) per share, possibly zero.**

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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 S&P ratings characteristics on December 31, 2004, 2005, 2006, 2007 and 2008:

Exposure to Issuers						Exposure to Issuers					
Rating ⁽¹⁾	2004	2005	2006	2007	2008	Rating ⁽¹⁾	2004	2005	2006	2007	2008
AAA	3	3	4	4	2	BB+	0	3	3.5	1.5	3.5
AA+	0	0	0	0	2	BB	1	2	4.5	2.5	3
AA	3	3	4	9	2	BB-	0	1	1	2	3
AA-	2	6	8	9	7	B+	0	0	1	3.5	2.5
A+	17	19	16	13	13	B	0	0	1	2	0
A	26	24	21.5	16.5	18.5	B-	0	0	0	1	1.5
A-	24	23	25.5	26	28	CCC+	0	0	0	1	1
BBB+	27	30	23	27	20	SD ⁽³⁾	0	0	0	0	1
BBB	23	21	24	14	20	D	0	0	0	0	4
BBB-	13	5	3	8	8	N/R	1	0	0	0	0
Total ⁽²⁾							140	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.
- ⁽³⁾ An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. This is not considered a default for the purposes of the CLN. As of January 2009 S&P changed the rating of General Motors Acceptance Corporation from SD to CCC.

Liquidity risk

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 in note 7 above.

The Company will partially settle the Forward Agreement prior to the Redemption Date in order to fund retractions of Preferred Shares.

Concentration Risk

If HSBC, as the issuer of the CLN were to default on its senior debt (refer to note 2 and 7), the Credit Trust II, and by virtue of the Forward Agreement, the Company would have, assuming no recovery, little or no assets to meet its obligations to the Preferred Shareholders.

13 Subsequent event note

Subsequent to year-end, the CLN and the Preferred Shares were downgraded to BB- and P-3 (low) and remain on CreditWatch with negative implications.