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**ROC Pref II Corp.**  
Semi-Annual Report

## ROC Pref II Corp Message to Shareholders

August 12<sup>th</sup>, 2005

Dear Investor,

We welcome the opportunity to provide you with the financial statements for ROC Pref II Corp for the period from January 1st, 2005 to June 30th, 2005, along with an update on the company's performance.

ROC Pref II Corp was launched on October 1st, 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, equally-weighted portfolio of 140 investment grade 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. Connor, Clark & Lunn 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.

At June 30, 2005 the NAV of ROC Pref II Corp was \$25.06, up from the initial NAV of \$24.15. The closing price for the shares on the TSX was \$24.97 and they have traded in a range from \$24.60 to \$25.65 since inception. ROC Pref II Corp preferred shares continue to be rated P-1 Low by Standard & Poors, a division of The McGraw Hill Companies, Inc ("S&P").

The outlook for global credit markets remains relatively strong. Credit spreads continue to contract, bringing yields on investment grade bonds closer to yields on government bonds. Strong fundamentals underpin these higher valuations, with healthy corporate balance sheets and liquidity at near historic high levels. Growth is stable as the economy continues to benefit from the stimulus of aggregate demand-enhancing fiscal and monetary policies. These factors have resulted in a steady improvement in global default rates. With the caveat that central bank tightening in the U.S., flattening yield curves and rising energy costs should eventually impact economic growth, we remain optimistic for the credit environment during the remainder of 2005 and are confident that the investment objectives of ROC Pref II Corp shareholders will be met.

ROC Pref II Corp paid cash distributions of \$0.290625 per preferred share on March 31<sup>st</sup> and on June 30<sup>th</sup>. The distributions were 100% return of capital. ROC Pref II Corp remains on track to provide Shareholders with quarterly fixed cumulative preferential distributions yielding 4.65% on the subscription price of \$25.00.

Yours truly,



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

## Management Report of Fund Performance

This semi-annual management report of fund performance for ROC Pref II Corp. (“the Company”) contains financial highlights but does not contain the complete semi-annual financial statements. **It should be read in conjunction with the attached consolidated financial statements and accompanying notes, together with the prospectus dated September 24, 2004 qualifying the public offering of the preferred shares of the Company (“the Prospectus”).**

### *Investment Objectives and Strategy*

The Company’s investment objectives are: to pay holders of preferred shares an amount per preferred share equal to the original subscription price of \$25.00 on or about December 31, 2009; and to pay quarterly, fixed cumulative distributions of \$0.290625 per preferred share to yield 4.65% on the original issue price.

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 (“HBCN”) in October, 2004, matures in December 2009, is currently rated A- by Standard & Poors and is structured to provide an enhanced return compared to comparably rated debt securities. The return on the CLN is linked to the performance of a globally diversified, equally weighted portfolio of 140 companies (the “Reference Portfolio”), all of which were rated investment grade at the time the CLN was issued. The Reference Portfolio is actively managed by Connor, Clark & Lunn Investment Management.

In order to provide exposure to the CLN the Company:

- (i) Purchased a portfolio of the common shares of 12 publicly traded Canadian companies at an aggregate cost of \$289,775,000 on October 1, 2004; and
- (ii) Entered into a forward purchase and sale agreement (the “Forward Agreement”) with HSBC Bank USA National Association (“HBUS”) 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 HBCN. 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 HBUS under the Forward Agreement.

### *Risk*

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

## ***Results of Operations***

### ***Investments of the Company***

#### *The common share portfolio*

The value of the common share portfolio decreased from \$288.344 million at December 31, 2004 to \$250.055 million at June 30, 2005. This decline resulted from the combination of a decline in the market value of the portfolio of \$30.258 million and the delivery of shares with an aggregate cost of \$8.031 million in order to partially settle under the Forward Agreement. The details of the common share portfolio at June 30, 2005 are set out in the Statement of Investments in the accompanying financial statements.

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

Quarterly payments of the 6.867% annual coupon on the CLN and the repayment of principal at maturity in December 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 period, the Company delivered shares with a cost base of \$8.031 million to HBUS in exchange for \$8.308 million in cash.

#### *Other investments of the Company*

The Company has no other investments apart from cash and equivalents which are held in order to fund near-term operating expenses. As at June 30, 2005 the Company held \$306,967 in cash and short-term investments on a non-consolidated basis. In order to return the full principal amount per preferred share on December 31, 2009, the Company must have accumulated at least \$10.225 million in cash and short-term investments by that time. On a consolidated basis, the Company had \$1.758 million in cash and short-term investments on June 30, 2005 compared to \$386,910 on December 31, 2004.

### ***Investments of Credit Trust II***

#### *The CLN*

Credit Trust II purchased the CLN issued by HBCN on October 6th, 2004 at par, in a principal amount of \$289,775,000. The note matures on December 20, 2009, pays a coupon of 6.867% quarterly and is 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 140 reference companies in the credit linked note's reference portfolio (the "Reference Portfolio"). Based on the Reference Portfolio's credit quality, the rating agency 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 achieve an A- credit rating, the Company's required level of subordination is currently 3.41%. The actual level of subordination structured into the CLN is 3.43%. If losses due to cumulative defaults, net of recoveries, 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, 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. Losses of 3.43% due to defaults net of recoveries (using an estimated historical recovery rate of 35.6%) would represent approximately 2.2x the worst level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any five-year period since 1973, the earliest date from which reliable studies are available.

The CLN features an embedded trading reserve account, initially in an amount of \$2.567 million, which stood at \$2.775 million on June 30, 2005. 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 HBCN. At June 30, the trading reserve account would have purchased an additional 0.14% of subordination, bringing total percentage loss that could be absorbed in the Reference Portfolio to 3.57%.

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 would in turn affect net asset value and possibly trading price. S&P's rating anticipates some deterioration in the credit quality of the Reference Portfolio over time. The companies in the Reference Portfolio are listed in the Supplementary Financial Information as at December 31, 2004 (Unaudited). ***Please refer to the Prospectus for a detailed discussion of the CLN.***

*Credit quality of the Reference Portfolio*

The following table describes the Reference Portfolio's ratings characteristics on the date of issuance on October 6, 2004, on December 31, 2004 and on February 28th, 2005:

Rating	Number of Issuers			Rating	Number of Issuers		
	October 6, 2004	December 31, 2004	June 30 2005		October 6, 2004	December 31 2004	June 30, 2005
AAA	3	3	3	BBB+	26	27	31
AA+	0	0	0	BBB	25	23	20
AA	3	3	3	BBB-	11	13	8
AA-	2	2	2	BB+	0	0	3
A+	18	17	17	BB	0	1	1
A	25	26	29	BB-	0	0	0
A-	27	24	23	N/R	0	1	0
Total					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.

From inception to June 30, 2005 seventeen companies in the Reference Portfolio had their debt downgraded by S&P while two companies were upgraded. The portfolio substitutions described below, however, have helped to keep the weighted average ratings distribution of the portfolio approximately constant since inception.

### *Substitutions in the Reference Portfolio*

The Reference Portfolio is managed by 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 Credit Trust 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 has made nine substitutions in the Reference Portfolio since inception.

### *Value of the CLN*

The CLN is valued on the 10<sup>th</sup> and last business day of each month by HBCN. 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 portfolio, and interest rates as measured by the Canadian dollar swap rate to the date of maturity of the note, as well as the value of the trading reserve account. At June 30, 2005, the CLN value was \$300.720 million, up from \$289.775 million at inception.

### *Other investments of the Credit Trust*

The Credit Trust held \$1,451,167 in cash and short-term investments on June 30, 2005 compared to \$77,944 on December 31, 2004.

### *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 June 30, 2005, the value of the common share portfolio was \$250.055 million. Since the Company can deliver the value of the common share portfolio to HBUS 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 June 30, 2005 value of the Forward Agreement was \$52.115 million. Other net assets in ROC Pref Corp. prior to consolidation totalled \$(1.448) million leaving a net asset value of \$300.722 million or \$25.06 per Preferred Share.

The net asset value per Preferred Share was \$25.39 as at December 31, 2005. The decrease in net asset value over the period is attributable to a 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 June 30, 2005, the Company had current assets of \$986,664 and current liabilities of \$386,066 on a consolidated basis.

***Expense Ratio***

The expense ratio represents the ratio of annual expenses that are required to operate the company to the value of issued Preferred Share capital. The annualized expense ratio for the six-month period ended June 30, 2005 was approximately 1.66% (inception to December 31, 2004 was approximately 1.64%).

The annualized expense ratio excluding deferred management fees, which are only payable after full repayment of the original preferred share issue price and any accrued and unpaid distributions, for the six-month period ended June 30, 2005 was approximately 0.94% (inception to December 31, 2004 was approximately 0.93%).

***Distributions***

Distributions of \$0.290625 per share were paid on December 31, 2004, March 31, 2005 and June 30, 2005.

***Related Party Transactions******Management Fees***

Annual management fees paid to the Manager by the Company and Credit Trust II include:

- i) 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; and
- ii) 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.

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

**Financial Highlights:**

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

**The Company's Net Asset Value per share:**

	June 30, 2005 <sup>(1)</sup>	December 31, 2004 <sup>(2)</sup>
<b>Net Asset Value, beginning of period</b>	<b>25.39</b>	<b>25.00</b>
<b>Increase (decrease) from operations:</b>		
Total revenues	0.83	0.40
Total expenses	(0.21)	(0.10)
Share issue expense <sup>(3)</sup>	—	(0.85)
Realized gains (losses) for the period	(0.18)	0.02
Unrealized gains (losses) for the period	(0.19)	1.21
<b>Total increase from operations <sup>(4)</sup></b>	<b>0.25</b>	<b>0.68</b>
<b>Distributions:</b>		
From income (excluding dividends)	—	—
From dividends	—	—
From capital gains	—	—
Return of capital	(0.58)	(0.29)
<b>Total Annual Distributions</b>	<b>(0.58)</b>	<b>(0.29)</b>
<b>Net Asset Value, end of period <sup>(5)</sup></b>	<b>25.06</b>	<b>25.39</b>

(1) Results for the six months period ended June 30, 2005.

(2) Results for the period October 1, 2004 (Inception date) to December 31, 2004.

(3) Issue expense of \$10,213,712 incurred in connection with the share issuance, which has been charged to retained earnings.

(4) 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.

(5) Distributions were paid in cash.

**Ratios and Supplemental Data:**

	June 30, 2005 <sup>(1)</sup>	December 31, 2004 <sup>(2)</sup>
Net assets (000's) <sup>(3)</sup>	300,722	304,634
Number of Preferred shares outstanding <sup>(3)</sup>	12,000,000	12,000,000
Management expense ratio <sup>(4)</sup>	1.66%	1.64%
Management expense ratio before Waivers or absorptions <sup>(4)</sup>	1.66%	1.64%
Management expense ratio excluding deferred management fees <sup>(5)</sup>	0.94%	0.93%
Portfolio turnover rate <sup>(6)</sup>	50.70%	5.37%
Trading expense ratio <sup>(7)</sup>	0.00%	0.00%
Closing market price (TSX)	24.97	25.50

(1) Results for the six months period ended June 30, 2005.

(2) Results for the period October 1, 2004 (Inception date) to December 31, 2004.

(3) This information is provided as at June 30, 2005 (December 31, 2004).

(4) 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. 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. The Management expense ratio is based on all the ongoing expenses and the Deferred Management Fee portion.

(5) A separate management expense ratio has been presented above excluding deferred management fees.

(6) 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.

(7) 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 <sup>(\*)</sup>**

	<b>Maturity date</b>	<b>Number of shares or par value</b>	<b>Average cost \$</b>	<b>Market value \$</b>	<b>% of Portfolio</b>
<b>Short-term investments</b>					
<b>Bearer Deposit Notes</b>					
Bank of Montreal	7/28/2005	1,000,000	997,590	998,141	57.2%
Royal Bank	7/12/2005	450,000	448,695	449,658	25.7%
Bank of Montreal	8/3/2005	300,000	299,256	299,318	17.1%
<b>Total short-term investments</b>			<b>1,745,541</b>	<b>1,747,117</b>	<b>100.0%</b>
<b>Investments</b>					
<b>Credit-linked notes</b>					
HSBC 6.867% Bond	12/20/2009	289,775,000	289,775,000	300,157,782	100.0%
<b>Total credit-linked notes</b>			<b>289,775,000</b>	<b>300,157,782</b>	<b>100.0%</b>
<b>Canadian common stocks (pledged to the Counterparty under the Forward Agreement)</b>					
<b>Energy</b>					
Precision Drilling Corp.		596,132	22,176,110	28,787,214	9.6%
<b>Materials</b>					
Kinross Gold Corp.		3,072,252	24,147,901	23,041,890	7.7%
<b>Consumer Staples</b>					
Alimentation Couche-Tard Class B		1,322,759	20,132,391	24,748,820	8.2%
Cott Corp.		663,404	24,147,906	17,706,253	5.9%
			<b>44,280,297</b>	<b>42,455,073</b>	<b>14.1%</b>
<b>Biotechnology/Pharmaceuticals</b>					
Angiotech Pharmaceuticals Inc.		948,093	24,147,929	15,994,329	5.3%
Biovail Corp.		1,049,909	24,147,907	19,853,779	6.6%
			<b>48,295,836</b>	<b>35,848,108</b>	<b>11.9%</b>

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of Portfolio
<b>Information Technology - Software &amp; Services</b>					
CGI Group Class A		3,088,472	21,433,996	22,731,154	7.6%
Open Text Corp.		1,047,632	24,147,918	18,155,463	6.0%
			<u>45,581,914</u>	<u>40,886,617</u>	<u>13.6%</u>
<b>Information Technology - Hardware &amp; Equipment</b>					
ATI Technologies Inc.		1,100,922	22,271,652	15,963,369	5.3%
Celstica Inc.		1,462,720	22,419,442	23,988,608	8.0%
Nortel Networks Corp.		5,488,163	24,147,917	17,507,240	5.8%
Research In Motion		239,300	22,271,666	21,577,681	7.2%
			<u>91,110,677</u>	<u>79,036,898</u>	<u>26.3%</u>
<b>Total Canadian common stocks</b>			275,592,735	250,055,800	83.2%
<b>Payable to the Counterparty under the Forward Agreement</b>			<u>(275,592,735)</u>	<u>(250,055,800)</u>	<u>(83.2%)</u>
<b>Total investments</b>			<u>289,775,000</u>	<u>300,157,782</u>	<u>100.0%</u>

(\*) The summary of investment portfolio may change due to ongoing portfolio transactions of the investment fund and a semi-annual update is available.

**CLN Portfolio (Reference Portfolio)****ROC II Corp.  
Supplementary Financial Information  
CLN Portfolio (Reference Portfolio) as at June 30, 2005  
(Unaudited)**

<b>Entity Description</b>	<b>SP Rating</b>	<b>Industry</b>	<b>Country</b>
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 Corp.	A	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 Corp.	BBB+	Insurance	USA
Autostrade Spa	A	Surface transport	Italy
Autozone Inc.	BBB+	Retailers (except food & drug)	USA
Barrick Gold Corp.	A	Nonferrous metals/minerals	Canada
Baxter International Inc.	A-	Health care	USA
Bayer Aktiengesellschaft	A	Chemicals & plastics	Germany
BCE Inc.	A	Telecommunications	Canada
BHP Billiton Ltd.	A+	Nonferrous metals/minerals	Australia
BorgWarner Inc.	A-	Automotive	USA
Bristol-Myers Squibb Company	A+	Drugs	USA
British American Tobacco Plc	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 Inc.	A+	Farming/agriculture	USA
Carrefour Sa	A+	Food/drug retailers	France
Caterpillar Financial Services Corp.	A	Industrial equipment	USA
Centex Corp.	BBB	Building & Development	USA
Centurytel Inc.	BBB+	Telecommunications	USA
Chiron Corp.	BBB+	Drugs	USA
Cinergy Corp.	BBB+	Utilities	USA
Cingular Wireless LLC	A	Telecommunications	USA
CIT Group Inc.	A	Financial intermediaries	USA
Clear Channel Communications Inc.	BBB-	Radio & Television	USA
Coca-Cola Enterprises Inc	A	Beverage & Tobacco	USA
Comcast Cable Communications Inc.	BBB+	Cable & satellite television	USA
Computer Sciences Corp.	A	Electronics/electrical	USA
Constellation Energy Group Inc.	BBB+	Utilities	USA
DaimlerChrysler AG	BBB	Automotive	Germany
Deutsche Lufthansa AG	BBB	Air transport	Germany
Dominion Resources Inc.	BBB+	Utilities	USA
Dte Energy Co.	BBB	Utilities	USA
Duke Capital Corp.	BBB	Utilities	USA
EMI Group plc	BB+	Leisure goods/activities/movies	Britain
Enbridge Inc.	A-	Utilities	Canada
Eop Operating Limited Partnership	BBB+	REITs and REOCs	USA

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**Supplementary Financial Information**  
**CLN Portfolio (Reference Portfolio) as at June 30, 2005**  
**(Unaudited)**

<b>Entity Description</b>	<b>SP Rating</b>	<b>Industry</b>	<b>Country</b>
European Aeronautic Defense and Space Company	A	Aerospace & Defence	Netherlands
Exelon Generation Co.	A-	Utilities	USA
Federal National Mortgage Association	AAA	U.S. Agency (Explicitly Guaranteed)	USA
Federated Department Stores Inc.	BBB+	Retailers (except food & drug)	USA
Financial Security Assurance Inc.	AAA	Insurance	USA
Finmeccanica S.p.A.	BBB	Aerospace & Defence	Italy
Ford Motor Credit Company	BB+	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
Harrah's Entertainment Inc.	BBB-	Lodging & casinos	USA
Hellenic Telecommunications Organiz Sa	BBB+	Telecommunications	Greece
Hertz Corporation	BBB-	Equipment leasing	USA
Honeywell International Inc.	A	Aerospace & Defence	USA
Humana Inc.	BBB	Health care	USA
Hutchison Whampoa Limited	A-	Conglomerates	Hong Kong
International Business Machines Corporation	A+	Electronics/electrical	USA
International Lease Finance Corporation	AA-	Equipment leasing	USA
Israel Electric Corp Ltd	BBB+	Utilities	Israel
J Sainsbury Plc	BBB-	Food/drug retailers	Britain
J.P. Morgan Chase & Co.	A+	Financial intermediaries	USA
Kerr-McGee Corp.	BB+	Oil & gas	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
Man Group Plc	N/R	Brokers Dealers & Investment houses	Britain
Marathon Oil Corporation	BBB+	Oil & gas	USA
Marks & Spencer Plc	BBB	Retailers (except food & drug)	Britain
Marriott International Inc.	BBB+	Lodging & casinos	USA
Marsh & McLennan Companies Inc.	BBB	Insurance	USA
MBIA Inc.	AA	Insurance	USA
Mckesson Corporation	BBB	Health care	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	A+	Brokers Dealers & Investment houses	USA
Mtr Corporation Ltd	AA-	Rail industries	Hong Kong
National Rural Utilities Coop Finance Corp.	A	Electronics/electrical	USA
Newell Rubbermaid Inc.	BBB+	Home furnishings	USA
Noranda Inc.	BBB-	Nonferrous metals/minerals	Canada
Nordstrom Inc.	A-	Retailers (except food & drug)	USA
Omnicom Group Inc.	A-	Business equipment & services	USA
PCCW - HKT Telephone Limited	BBB	Telecommunications	Hong Kong
Petroliam Nasional Berhad	A-	Oil & gas	Malaysia

**ROC II Corp.**  
**Supplementary Financial Information**  
**CLN Portfolio (Reference Portfolio) as at June 30, 2005**  
**(Unaudited)**

<b>Entity Description</b>	<b>SP Rating</b>	<b>Industry</b>	<b>Country</b>
Placer Dome Inc.	BBB+	Nonferrous metals/minerals	Canada
POSCO	A-	Steel	South Korea
Qantas Airways Limited	BBB+	Air transport	Australia
Quebecor World Inc.	BBB-	Publishing	Canada
RadioShack Corporation	BBB+	Retailers (except food & drug)	USA
Reuters Group plc	A-	Business equipment & services	Britain
Sabre Holdings Corporation	BBB	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
Siemens Aktiengesellschaft	AA-	Conglomerates	Germany
Simon Property Group L.P.	BBB+	REITs and REOCs	USA
SLM Corporation	A	Financial intermediaries	USA
Sodexo Alliance Sa	BBB+	Food service	France
Southwest Airlines Co.	A	Air transport	USA
Supervalu Inc.	BBB	Food/drug retailers	USA
Takefuji Corporation	BBB	Financial intermediaries	Japan
Target Corporation	A+	Retailers (except food & drug)	USA
TDC	BBB+	Telecommunications	Denmark
Telecom Italia Spa	BBB+	Telecommunications	Italy
Telephone And Data Systems Inc.	A-	Telecommunications	USA
Temple-Inland Inc.	BBB	Forest products	USA
Textron Financial Corporation	A-	Financial intermediaries	USA
The Bear Stearns Companies Inc.	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.	A+	Brokers Dealers & Investment houses	USA
The Walt Disney Company	A-	Leisure goods/activities/movies	USA
Time Warner Inc.	BBB+	Leisure goods/activities/movies	USA
Transalta Corp.	BBB-	Utilities	Canada
Transocean Inc.	A-	Oil & gas	USA
TXU Corporation	BBB-	Utilities	USA
Tyson Foods Inc.	BBB	Food products	USA
UST Inc.	A	Beverage & Tobacco	USA
Verizon Global Funding Corp.	A+	Telecommunications	USA
Viacom Inc.	BBB+	Radio & Television	USA
Vodafone Group Plc	A	Telecommunications	Britain
Volkswagen Aktiengesellschaft	A-	Automotive	Germany
Wal-Mart Stores Inc.	AA	Retailers (except food & drug)	USA
WPP Group Plc	BBB+	Business equipment & services	Britain
Wyeth	A	Drugs	USA
XL Capital Ltd	A	Insurance	Bermuda
Zurich Insurance Company	A+	Insurance	Switzerland

# **ROC II Pref. Corp.**

Financial Statements  
(Unaudited)  
**June 30, 2005**

## **Notice to Reader**

These interim financial statements and related notes for the period from January 1, 2005 to June 30, 2005 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Trust have not audited or reviewed these interim financial statements.

# ROC Pref II Corp.

Consolidated Statement of Net Assets (Unaudited)

As at June 30, 2005

	June 30, 2005 (Unaudited)	December 31, 2004 (Audited)
	\$	\$
<b>Assets</b>		
Cash	11,017	87,594
Short-term investments	1,747,117	299,316
Investments at market value (cost - \$289,775,000)	300,157,782	304,562,362
Interest receivable	599,691	599,754
Prepaid expenses	28,051	-
	<u>302,543,658</u>	<u>305,549,026</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	266,693	386,066
Deffered management fees payable	1,554,808	529,264
Preferred share capital (note 5)	300,722,057	304,633,596
	<u>302,543,558</u>	<u>305,548,926</u>
<b>Shareholders' Equity</b>		
Share capital (note 5)	100	100
Retained earnings	-	-
	<u>100</u>	<u>100</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>302,543,658</u>	<u>305,549,026</u>
<b>Number of Preferred Shares outstanding</b> (note 5)	<u>12,000,000</u>	<u>12,000,000</u>
<b>Value per Preferred Share outstanding</b>	<u>25.06</u>	<u>25.39</u>

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



(See accompanying notes to financial statements)

## ROC Pref II Corp.

Consolidated Statement of Operations and Retained Earnings (Unaudited)

For the six month period ended June 30, 2005

	For the period Jan. 1, 05 to Jun. 30, 2005 (Unaudited)	For the period Oct. 1, 04 to Dec. 31, 2004 (Audited)
	\$	\$
<b>Revenue</b>		
Interest	9,929,808	4,771,834
<b>Expenses</b>		
Deferred management fees	1,060,210	529,264
Forward and hedging fees	640,566	332,985
Management fees	584,386	281,436
Custodial fees	43,020	12,998
Audit fees	21,812	21,749
Sustaining fees	25,046	8,322
Rating agency fees	30,649	10,671
Insurance Premiums	20,209	-
Directors' fees	15,504	7,854
Printing and mailing charges	10,144	5,335
Transfer agent fees	5,254	8,008
Legal fees	3,870	4,002
Other	1,097	1,774
	2,461,767	1,224,398
<b>Net investment income before the undernoted:</b>	7,468,041	3,547,436
Distributions paid on Preferred Shares	(6,975,000)	(3,487,500)
<b>Net investment income</b>	493,041	59,936
Net realized (loss) gain on investments	(2,122,223)	247,458
Unrealized gain (loss) on Forward Agreement (notes 2 and 6)	2,122,223	(247,458)
Change in unrealized (depreciation) appreciation on investments	(4,404,580)	14,787,362
<b>(Decrease) increase in net assets from operations</b>	(3,911,539)	14,847,298
<b>Retained earnings - beginning of period</b>	-	-
Expenses of issue of preferred shares	-	(10,213,702)
Less amount attributable to preferred shareholders (note 5)	3,911,539	(4,633,596)
<b>Retained earnings - end of period</b>	-	-
<b>Total distributions paid per Preferred Share</b> (Return of Capital)	0.5813	0.2906
<b>(Decrease) increase in net assets from operations per preferred share</b>	(0.3260)	1.2373

(See accompanying notes to financial statements)

## ROC Pref II Corp.

Consolidated Statement of Cash Flow (Unaudited)

For the six month period ended June 30, 2005

	For the period Jan. 1, 05 to Jun. 30, 2005 (Unaudited)	For the period Oct. 1, 04 to Dec. 31, 2004 (Audited)
	\$	\$
<b>Operating Activities</b>		
(Decrease) increase in net assets from operations	(3,911,539)	14,847,298
Items not affecting cash:		
Net realized loss (gain) on investments	2,122,223	(247,458)
Unrealized (gain) loss on Forward Agreement (notes 2 and 6)	(2,122,223)	247,458
Change in unrealized depreciation (appreciation) on investments	4,404,580	(14,787,362)
Changes in non-cash working capital		
Decrease (increase) in interest receivable	63	(599,754)
Increase in prepaid expenses	(28,051)	-
Increase in accounts payable and accrued liabilities	906,171	915,330
<b>Net cash flow provided by operating activities</b>	<u>1,371,224</u>	<u>375,512</u>
<b>Investing Activities</b>		
Purchase of common stocks	(67,355,305)	(289,775,000)
Purchase of Credit-Linked Note	-	(289,775,000)
Proceeds on disposition of investments	67,355,305	
Cash received from the Counterparty to fund the purchase of the credit-linked notes (note 2)	-	289,775,000
<b>Net cash used in investing activities</b>	<u>-</u>	<u>(289,775,000)</u>
<b>Financing Activities</b>		
Proceeds from issuance of preferred shares	-	300,000,000
Proceeds from issuance of Class A shares	-	100
Share issue costs	-	(10,213,702)
<b>Net cash flow provided by financing activities</b>	<u>-</u>	<u>289,786,398</u>
<b>Net increase in cash and short-term investments</b>	1,371,224	386,910
<b>Cash and short-term investments - beginning of period</b>	<u>386,910</u>	<u>-</u>
<b>Cash and short-term investments - end of period</b>	<u>1,758,134</u>	<u>386,910</u>
<b>Supplemental cash flow information:</b>		
Distributions paid on preferred shares	6,975,000	3,487,500

(See accompanying notes to financial statements)

## ROC Pref II Corp.

Consolidated Statement of Changes in Investments (Unaudited)

For the six month period ended June 30, 2005

	For the period Jan. 1, 05 to Jun. 30, 2005 (Unaudited)	For the period Oct. 1, 04 to Dec. 31, 2004 (Audited)
	\$	\$
<b>Investments at average cost - Beginning of period</b>	289,775,000	-
Cost of common stocks purchased	67,355,305	289,775,000
Cost of Credit-Linked Note purchased	-	289,775,000
Cost of investments sold	(77,785,028)	(3,752,542)
Cost of investments released by (pledged to) the Counterparty under the Forward Agreement (notes 2 and 6)	10,429,723	(286,022,458)
	<b>289,775,000</b>	<b>289,775,000</b>
<b>Investments at average cost - End of period</b>		
Change in unrealized appreciation of investments	10,382,782	14,787,362
	<b>300,157,782</b>	<b>304,562,362</b>
<b>Investments at market value</b>		
Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement	8,307,500	4,000,000
Cost of investments delivered on partial pre-settlement	(8,031,109)	(3,752,542)
Realized gain on partial pre-settlement	276,391	247,458
Proceeds on sale of investments (subsequently reinvested)	67,355,305	-
Cost of investments sold	(69,753,919)	-
Realized loss on sale of investments	(2,398,614)	-
	<b>(2,122,223)</b>	<b>247,458</b>
<b>Realized (loss) gain on investments</b>		
Liability to Counterparty under Forward Agreement	286,022,458	289,775,000
Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement	(8,307,500)	(4,000,000)
Liability to Counterparty under Forward Agreement at period end, at cost	275,592,735	286,022,458
	<b>2,122,223</b>	<b>(247,458)</b>
<b>Unrealized gain (loss) on Forward Agreement</b>		

(See accompanying notes to financial statements)

## ROC Pref II Corp.

Consolidated Statement of Investments (Unaudited)

As at June 30, 2005

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of Portfolio
<b>Short-term investments</b>					
<b>Bearer Deposit Notes</b>					
Bank of Montreal	7/28/2005	1,000,000	997,590	998,141	57.2%
Royal Bank	7/12/2005	450,000	448,695	449,658	25.7%
Bank of Montreal	8/3/2005	300,000	299,256	299,318	17.1%
<b>Total short-term investments</b>			1,745,541	1,747,117	100.0%
<b>Investments</b>					
<b>Credit-linked notes</b>					
HSBC 6.867% Bond	12/20/2009	289,775,000	289,775,000	300,157,782	100.0%
<b>Total credit-linked notes</b>			289,775,000	300,157,782	100.0%
<b>Canadian common stocks (pledged to the Counterparty under the Forward Agreement)</b>					
<b>Energy</b>					
Precision Drilling Corp.		596,132	22,176,110	28,787,214	9.6%
<b>Materials</b>					
Kinross Gold Corp.		3,072,252	24,147,901	23,041,890	7.7%
<b>Consumer Staples</b>					
Alimentation Couche-Tard Class B		1,322,759	20,132,391	24,748,820	8.2%
Cott Corp.		663,404	24,147,906	17,706,253	5.9%
			44,280,297	42,455,073	14.1%
<b>Biotechnology/Pharmaceuticals</b>					
Angiotech Pharmaceuticals Inc.		948,093	24,147,929	15,994,329	5.3%
Biovail Corp.		1,049,909	24,147,907	19,853,779	6.6%
			48,295,836	35,848,108	11.9%

(See accompanying notes to financial statements)

## ROC Pref II Corp.

Consolidated Statement of Investments ....continued

As at June 30, 2005

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of Portfolio
<b>Information Technology - Software &amp; Services</b>					
CGI Group Class A		3,088,472	21,433,996	22,731,154	7.6%
Open Text Corp.		1,047,632	24,147,918	18,155,463	6.0%
			45,581,914	40,886,617	13.6%
<b>Information Technology - Hardware &amp; Equipment</b>					
ATI Technologies Inc.		1,100,922	22,271,652	15,963,369	5.3%
Celestica Inc.		1,462,720	22,419,442	23,988,608	8.0%
Nortel Networks Corp.		5,488,163	24,147,917	17,507,240	5.8%
Research In Motion		239,300	22,271,666	21,577,681	7.2%
			91,110,677	79,036,898	26.3%
<b>Total Canadian common stocks</b>			275,592,735	250,055,800	83.2%
<b>Payable to the Counterparty under the Forward Agreement</b>			(275,592,735)	(250,055,800)	(83.2%)
<b>Total investments</b>			289,775,000	300,157,782	100.0%

(See accompanying notes to financial statements)

# ROC Pref II Corp.

## Notes to Consolidated Financial Statements (Unaudited)

### June 30, 2005

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#### 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").

These consolidated financial statements include the accounts of Credit Trust II ("Credit Trust II"), which was established under the laws of Ontario as of September 24, 2004 by a Trust Agreement (the "Trust Agreement") made by Connor, Clark & Lunn Capital Markets Inc. (the "Manager") and The Royal Trust Company as trustee of Credit Trust II. Credit Trust II will terminate on or about December 31, 2009 (the "Termination Date") if not terminated earlier in accordance with its terms.

#### 2 Investment objectives

The Company's investment objectives as set out in the Prospectus dated 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.

The Company will meet its investment objectives through 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 USA ("HSBC"), a global financial institution whose long-term debt is rated AA- as of June 30, 2005. 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.

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

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

##### Principles of consolidation

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

##### Valuation of investments

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

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

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

##### Investment transactions, income and expenses

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

Interest income and expenses are recognized on an accrual basis.

# ROC Pref II Corp.

## Notes to Consolidated Financial Statements (Unaudited)

### June 30, 2005

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#### Foreign currency translation

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

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

#### Foreign currency forward contracts

The Company may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date, and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

#### Forward contracts

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

#### Preferred share capital

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

#### Value per preferred share

The value per preferred share presented in the 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 The Royal Trust Company ("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 will pay a fee to the Custodian.

## 5 Share capital

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

#### Preferred Shares

The holders of Preferred Shares are entitled to receive quarterly fixed cumulative preferential cash distributions of \$0.290625 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. No Preferred Shares were retracted or redeemed during the period from December 31, 2004 to June 30, 2005. At June 30, 2005, retained earnings attributable to preferred shareholders totalled \$722,057.

#### 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

# ROC Pref II Corp.

## Notes to Consolidated Financial Statements (Unaudited)

June 30, 2005

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

On 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.

### 6 Forward Agreement and Common Share Portfolio

The Company will partially settle the Forward Agreement prior to the Redemption Date in order to fund quarterly distributions as well as retractions of Preferred Shares by holders and expenses and other liabilities of the Company. In addition, the Manager may, on behalf of the Company, settle all or part of the Forward Agreement prior to the Redemption Date and invest the net proceeds (after any distributions to holders necessary to ensure that the Company is not liable for income tax) in additional investments such as cash and cash equivalents. Similarly, the Manager may, on behalf of the Company, dispose of securities in the Common Share Portfolio and reinvest the proceeds in the Common Share Portfolio or adjust the Forward Agreement and enter into additional forward purchase and sale agreements to provide exposure to the Credit Trust 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 will pay to the Counterparty a fee under the Forward Agreement of approximately 0.45% per annum of the net asset value of Credit Trust II.

### 7 Distributions

Targeted quarterly distributions are \$0.290625 per Preferred Share. During the period from January 1, 2005 to June 30, 2005, the Company met its targeted quarterly distribution and paid total distributions of \$6,975,000, or \$0.58125 per unit, representing return of capital to holders of Preferred Shares.

### 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.