

2005

2005

2005

2005

ROC Pref II Corp.
Annual Report
December 31, 2005

ROC Pref II Corp. Message to Shareholders

March 31st, 2006

Dear Investor,

We thank you for your investment in ROC Pref II Corp. and are pleased to present the company's second annual report. We are now about 30% through the term of ROC Pref II Corp. The reference portfolio's credit quality has held up well and the preferred shares continue to be rated P-1 (low) by Standard & Poor's. The investment manager, Connor, Clark & Lunn Investment Management Inc., has performed well in terms of maintaining credit quality and the value of the trading reserve account. All scheduled distributions on the preferred shares have been paid.

ROC Pref II Corp was 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, equally weighted portfolio of 140 investment grade companies (the "Reference Companies") with a weighted average credit rating of A-. 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.

The investment manager believes that global credit markets continue to benefit from healthy corporate balance sheets and a strong global economic environment. The result is that defaults remain at historically low levels. In this positive overall environment, Connor, Clark & Lunn is monitoring the increase in M&A and LBO activity. While an increase in such activity reflects good credit conditions, it may become a concern where transactions are heavily debt financed, which in some cases may lead to downgrades of the companies involved. Other factors we are monitoring include the flattening of the yield curve, the impact of rising energy costs, and the possible vulnerability of the economy to a correction in the housing market. We would not be surprised to see some modest widening in credit spreads as a result of these factors but are managing the portfolio with this in mind and are confident that the investment objectives of the ROC Pref II Corp. shareholders will continue to be met.

Yours truly,



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

Management Report of Fund Performance

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

Investment Objectives and Strategy

The Company’s investment objectives are to pay holders of its preferred shares (the “Preferred Shares”) an amount per Preferred Share equal to the original subscription price of \$25.00 on or about December 31, 2009 and to pay quarterly, fixed cumulative distributions of \$0.290625 per preferred share to yield 4.65% per annum on the original issue price.

In order to meet its objectives, the Company’s strategy is to maintain exposure, in a tax-efficient manner, to the returns of a credit-linked note (“CLN”). The CLN was issued by HSBC Bank USA (“HSBC”) on October 1, 2004 matures on December 20, 2009, is currently rated A- by Standard & Poor’s and is structured to provide an enhanced return compared to comparably rated debt securities. The return on the CLN is linked to the performance of a globally diversified, 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. Please refer to the Supplementary Financial Information - CLN Portfolio Schedule as of December 31, 2005 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 million; and
- (ii) Entered into a forward purchase and sale agreement (the “Forward Agreement”) with the HSBC Bank Canada (the “Counterparty”), under which the company agreed to sell the portfolio of common shares on or prior to December 31, 2009 in exchange for the value of Credit Trust II, a vehicle formed to purchase a credit linked note (“CLN”) from HSBC. Sale of the common share portfolio under the Forward Agreement is intended to ensure that preferred shareholders have economic exposure to changes in the value of, and distributions effected by, Credit Trust II. A fee of 0.45% per annum calculated with reference to the net asset value of Credit Trust II is payable to Counterparty under the Forward Agreement.

Risk

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

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

- (i) Changes in the credit ratings on the companies in the Reference Portfolio;
- (ii) Occurrence of company defaults in the Reference Portfolio, which could result in the remaining first-loss amount falling below that required to affirm the rating on the CLN, which affects the ratings on the Preferred Shares; and
- (iii) Changes to the credit ratings on HSBC or HSBC Bank Canada.

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 \$288.34 million on December 31, 2004 to \$257.58 million at December 31, 2005. This decline resulted from the combination of a decrease in the market value of the portfolio of \$12.94 million, the delivery of shares with a cost base of \$15.42 million in order to partially settle under the Forward Agreement and a realized loss (with proceeds reinvested) on dispositions of \$2.40 million. The details of the common share portfolio at December 31, 2005 are set out in the Summary of Investment Portfolio.

Partial settlement of the Forward Agreement

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

During the period, the Company delivered shares with a cost base of \$15.42 million to Counterparty in exchange for \$16.45 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 December 31, 2005 the Company held \$370,439 in cash and short-term investments on a non-consolidated basis. In order to return the full principal amount per preferred share at maturity on December 31, 2009 the Company must have accumulated at least \$10,225,000 in cash and short-term investments 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 instrument maturing on or before December 31, 2009. On a consolidated basis, the Company had \$3,508,137 in cash and short-term investments on December 31, 2005 not including \$2,419,549 in the CLN's trading reserve account. Given amount by which the CLN coupon exceeds the distribution and expenses requirements of the Company and Credit Trust II, the Company is on track to accumulate in excess of \$10,225,000 by the maturity date of the preferred shares.

Investments of Credit Trust II

The CLN

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

The return on the CLN is linked to the number of defaults experienced over the term of the note among the 140 reference companies in the CLN's Reference Portfolio. Based on the Reference Portfolio's credit quality, S&P assigns a minimum level of subordination, which reflects the degree of net losses that a portfolio must be able to absorb without impacting cash flows to shareholders. In order to retain an A- credit rating, the CLN's required level of subordination is currently 3.40%. 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, subsequent coupon payments and the amount that would be paid to Credit Trust II on maturity would decline. To the extent that cumulative losses due to defaults, net of recoveries, exceeded 4.33% there would be no amount paid to Credit Trust II and the value of the Preferred Shares would decline to the level of net current assets**

per share, possibly zero. Losses of 3.43% due to defaults net of recoveries (using an estimated historical recovery rate of 35.6%) would represent approximately 2.2 times the worst level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any four-year period since 1981.

The CLN features an embedded trading reserve account, initially in an amount of \$2,567,010, which stood at \$2,419,549 on December 31, 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 HSBC. At December 31, 2005 the trading reserve account would have purchased an additional 0.13% of subordination, bringing total percentage loss that could have been absorbed in the Reference Portfolio without affecting payments of interest or principal to 3.56%. The amount of additional subordination that can be purchased using the trading reserve account will vary in response to changing market conditions. The ability to absorb 3.56% losses in the portfolio currently translates into a coverage ratio of 4.5x the average level of defaults for a portfolio with the same ratings characteristics and term as the Reference Portfolio.

Credit quality of the Reference Portfolio

Risk in the CLN is a function of Reference Portfolio credit quality and time to maturity. As the CLN ages, the risk of default for companies with a given rating decreases. Balanced against that time benefit is the fact that credit ratings have historically moved lower over time. The composition of the Reference Portfolio is designed with the objective that the CLN will maintain its initial rating as these two effects act on the portfolio. Changes in credit quality as it is measured by the market can be seen through changes in the average credit spread of the Reference Portfolio. A good indication of the performance of the Reference Portfolio is the movement in credit spread of the Reference Portfolio versus that of a corresponding index. Lower credit spread indicates less risk. The index that best corresponds to the Reference Portfolio is the Dow Jones CDX North America Investment Grade 3 Index:

| | 2004 | | 2005 | | | |
|----------------------------|--------------------------|---------------------------|------------------------|-----------------------|----------------------------|---------------------------|
| | October 31 st | December 31 st | March 31 st | June 30 th | September 30 th | December 31 st |
| Dow Jones IG 3 index | 48.76 | 40.94 | 52.83 | 81.95 | 66.16 | 77.36 |
| Reference Portfolio spread | 50.97 | 40.86 | 45.68 | 66.42 | 51.039 | 53.06 |

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, June 30, 2005 and on December 31, 2005:

| Rating ⁽¹⁾ | Number of Issuers | | | Rating ⁽¹⁾ | Number of Issuers | | |
|-----------------------|-------------------|---------------|-------------------|-----------------------|-------------------|---------------|-------------------|
| | December 31, 2004 | June 30, 2005 | December 31, 2005 | | December 31, 2004 | June 30, 2005 | December 31, 2005 |
| AAA | 3 | 3 | 3 | BBB+ | 27 | 31 | 30 |
| AA+ | 0 | 0 | 0 | BBB | 23 | 20 | 21 |
| AA | 3 | 3 | 3 | BBB- | 13 | 8 | 5 |
| AA- | 2 | 2 | 6 | BB+ | 0 | 3 | 3 |
| A+ | 17 | 17 | 19 | BB | 1 | 1 | 2 |
| A | 26 | 29 | 24 | BB- | 0 | 0 | 1 |
| A- | 24 | 23 | 23 | N/R | 1 | 0 | 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.

As described above, S&P's rating anticipates deterioration in the average credit rating of the companies in the Reference Portfolio over time, reflecting the fact that credit ratings tend to migrate lower over time. The maintenance of the A- rating and the increase in the CLN's cushion over the required subordination level indicate that the Reference Portfolio has performed better than required to maintain the CLN's credit rating. Over the year, as a result of ratings changes and trading activity, the Reference Portfolio experienced 22 reference company upgrades averaging 1.8 rating categories, or notches, per upgrade for a total 40 notch increase and 20 reference company downgrades averaging 1.2 notches per downgrade for a total 24 notch decrease, leaving the portfolio's average rating approximately constant. The companies in the Reference Portfolio are listed in the Supplementary Financial Information as at December 31, 2005.

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 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 has made 15 substitutions in the Reference Portfolio from October 1, 2004 (commencement of operations) to December 31, 2005.

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, 2005, the CLN value was \$298.65 million, slightly down from \$304.56 million on December 31, 2004.

Other investments of the Credit Trust II

The Credit Trust II held \$3,137,698 in cash and short-term investments on December 31, 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 December 31, 2005, the value of the common share portfolio was \$257.58 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, 2005 value of the Forward Agreement was \$44.76 million. Other net assets in the Company, prior to consolidation, totalled \$(2.49) million leaving a net asset value of \$299.85 million or \$24.99 per Preferred Share. The net asset value per Preferred Share was \$25.39 on December 31, 2004. The decrease in net asset value over the period is attributable to a decrease in the value of the CLN net of the increase in cash and short-term investments on a consolidated basis.

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, 2005, the Company had current assets of \$4,142,375 and current liabilities of \$339,905 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 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, 2005 was approximately 0.93%. The MER for the year ended December 31, 2005 including all distributions paid to preferred shareholders and deferred management fees was approximately 6.28%. Please refer to the Financial Highlights section of this document for more information.

Distributions

The Preferred Shares paid regular quarterly distributions of \$0.290625 per share for a total of \$1.1625 per share, 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 for the year ended December 31, 2005 was \$1,153,414 (\$281,436 for the period from inception on October 1, 2004 to December 31, 2004) 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, 2005 were \$2,068,378 (\$529,264 for the period from inception on October 1, 2004 to December 31, 2004).

The Manager pays Connor, Clark & Lunn Investment Management Ltd. (“the Investment Advisor”) out of the above management fees.

Recommendations or Reports by the Independent Committee

The Independent Committee of the Board of Directors tabled no special reports and made no material recommendations to management of the Company in the year ending December 31, 2005.

Financial Highlights

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

The Company's Net Asset Value per share:

| | December 31, 2005 | December 31, 2004 ⁽¹⁾ |
|--|----------------------|-------------------------------------|
| Net Asset Value, beginning of period | 25.39 | 25.00 |
| Increase (decrease) from operations: | | |
| Total revenues | 1.66 | 0.40 |
| Total expenses | (0.41) | (0.10) |
| Issue expenses ⁽²⁾ | – | (0.85) |
| Realized gains (losses) for the period | (0.11) | 0.02 |
| Unrealized gains (losses) for the period | (0.38) | 1.21 |
| Total increase (decrease) from operations⁽³⁾ | 0.76 | 0.68 |
| Distributions: | | |
| From income (excluding dividends) | – | – |
| From dividends | – | – |
| From capital gains | – | – |
| Return of capital | (1.16) | (0.29) |
| Total Annual Distributions⁽⁴⁾ | (1.16) | (0.29) |
| Net Asset Value, end of period⁽⁵⁾ | 24.99 | 25.39 |

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

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

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

(4) Distributions were paid in cash.

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

Ratios and Supplemental Data:

| | December 31, 2005 | December 31, 2004 ⁽¹⁾ |
|--|----------------------|-------------------------------------|
| Net assets (000's) | 299,856 | 304,6349 |
| Number of Preferred shares outstanding | 12,000,000 | 12,000,000 |
| Base Management expense ratio ⁽²⁾ | 0.93% | 0.93% |
| Management expense ratio including distributions on preferred shares , deferred management fees and issue expenses ⁽²⁾⁽³⁾ | 6.28% | 9.79% |
| before waivers or absorptions ⁽³⁾ | 6.28% | 9.79% |
| Portfolio turnover rate ⁽⁴⁾ | 50.08% | 1.40% |
| Trading expense ratio ⁽⁵⁾ | 0.00% | 0.00% |
| Closing market price (TSX) | 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 (which are only 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, 2005 and it also includes all Agents' fees and other offering expenses, which are one time expenses and therefore not annualized. To the extent that assets remain in the Company after the original issue price of the Preferred Shares together with any accrued and unpaid distributions have been paid to Shareholders, the Manager is entitled to: (a) an additional one-time management fee, the "Deferred Management Fee", payable on the Redemption Date and calculated on the quarterly net asset value of the Company on an effective basis of up to 0.65% per annum; and (b) to recover any fees and expenses funded by it on behalf of the Company, plus applicable taxes.

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

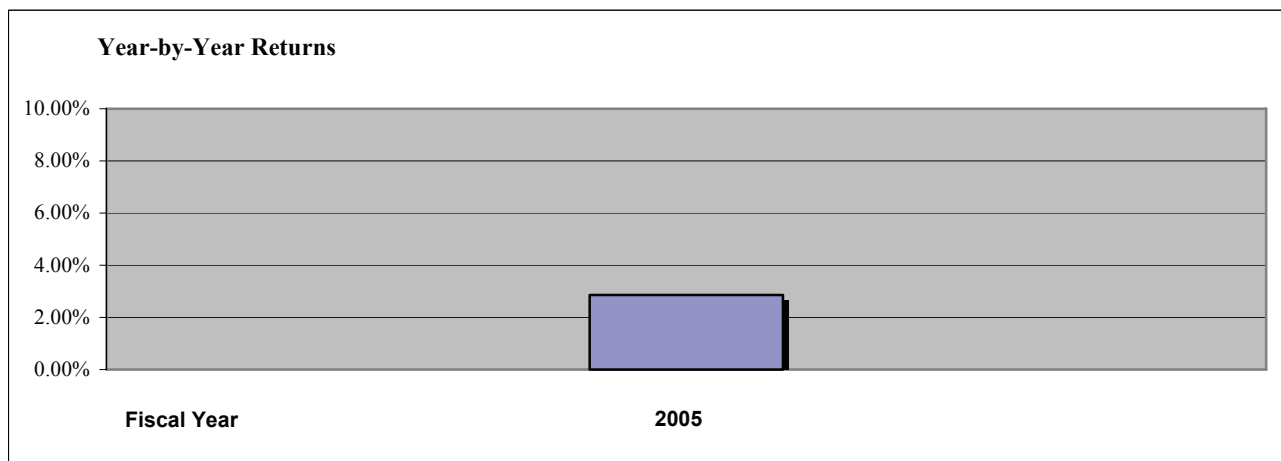
(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Past Performance

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

Year – by –Year Returns

The following bar chart shows the Company’s annual performance for the year shown. This bar chart shows, in percentage terms, how much an investment made on the first day of the financial year would have grown or decreased by the last day of the financial year.



Annual Compound Returns

| | Past Year | Since Inception ⁽¹⁾ |
|---|-----------|--------------------------------|
| Based on NAV ⁽²⁾ | 2.86 % | 7.59% |
| Based on share price ⁽³⁾ | 1.06% | 3.38% |
| Bloomberg / EFFAS ⁽⁴⁾ Canada Government 3-5 year Index | 2.50% | 4.84% |

⁽¹⁾ Annualized for the period October 1, 2004 (Commencement of operations) to December 31, 2005.

⁽²⁾ Calculated from initial net asset value of \$24.15 and December 31, 2004 net asset value of \$25.44 assuming all distributions reinvested.

⁽³⁾ Calculated from issue price of \$25.00 and December 31, 2004 market price of \$25.50 assuming all distributions reinvested.

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

Summary of Investment Portfolio

The summary of investment portfolio may change due to ongoing portfolio transactions of the investment fund and a quarterly update is available.

Summary of investment portfolio as of September 30, 2005:

| | Maturity date | Number of shares or par value | Average cost \$ | Market value \$ | % of NAV |
|---|---------------|-------------------------------|--------------------|--------------------|--------------|
| Short-term investments | | | | | |
| Bearer Deposit Notes | | | | | |
| Toronto Dominion Bank | 01/30/06 | 350,000 | 348,982 | 349,077 | 0.1% |
| Bank of Montreal | 01/23/06 | 800,000 | 797,688 | 797,688 | 0.3% |
| Royal Bank | 01/26/06 | 800,000 | 797,256 | 797,256 | 0.3% |
| Bank of Montreal | 01/27/06 | 1,500,000 | 1,495,920 | 1,495,920 | 0.5% |
| | | | <u>3,439,846</u> | <u>3,439,941</u> | <u>1.2%</u> |
| Total short-term investments | | | | | |
| Investments | | | | | |
| Credit-linked notes | | | | | |
| HSBC 6.867% Bond | 12/20/09 | 289,775,000 | 289,775,000 | 298,650,951 | 99.6% |
| | | | <u>289,775,000</u> | <u>298,650,951</u> | <u>99.6%</u> |
| Total credit-linked notes | | | | | |
| Canadian common stocks (pledged to the Counterparty under the Forward Agreement) | | | | | |
| Materials | | | | | |
| Glamis Gold | | 962,964 | 22,343,943 | 30,785,958 | 10.3% |
| Kinross Gold Corp. | | 3,072,252 | 24,147,748 | 32,995,986 | 11.0% |
| Lionore Mining International Ltd. | | 5,524,994 | 18,328,615 | 27,348,720 | 9.1% |
| | | | <u>64,820,306</u> | <u>91,130,664</u> | <u>30.4%</u> |
| Industrials | | | | | |
| Bombardier Inc. Class B | | 6,995,618 | 22,176,109 | 19,307,906 | 6.4% |
| Consumer Staples | | | | | |
| Cott Corp. | | 663,404 | 24,147,906 | 11,430,451 | 3.8% |
| Health Care | | | | | |
| Angiotech Pharmaceuticals Inc. | | 873,920 | 22,258,742 | 13,405,933 | 4.5% |
| Software & Services | | | | | |
| CGI Group Class A | | 3,088,472 | 21,433,996 | 28,722,790 | 9.6% |
| Open Text Corp. | | 965,671 | 22,258,717 | 15,885,288 | 5.3% |
| | | | <u>43,692,713</u> | <u>44,608,078</u> | <u>14.9%</u> |
| Technology Hardware & Equipment | | | | | |
| ATI Technologies Inc. | | 1,100,922 | 22,271,652 | 21,798,256 | 7.3% |
| Celestica Inc. | | 1,462,720 | 22,419,442 | 18,049,965 | 6.0% |
| Nortel Networks Corp. | | 5,488,163 | 24,147,917 | 19,482,979 | 6.5% |
| Research In Motion | | 239,300 | 22,271,651 | 18,366,275 | 6.1% |
| | | | <u>91,110,662</u> | <u>77,697,475</u> | <u>25.9%</u> |

Summary of investment portfolio as of September 30, 2005:

| | Maturity date | Number of shares or par value | Average cost \$ | Market value \$ | % of NAV |
|--|----------------------|--------------------------------------|------------------------|------------------------|-----------------|
| Total Canadian common stocks | | | <u>268,206,438</u> | <u>257,580,507</u> | 85.9% |
| Payable to the Counterparty under the Forward Agreement | | | <u>(268,206,438)</u> | <u>(257,580,507)</u> | -85.9% |
| Total investments | | | <u>289,775,000</u> | <u>298,650,951</u> | 99.6% |
| Other liabilities net of other assets | | | | <u>(2,235,111)</u> | -0.8% |
| Net assts value (NAV) | | | | <u>299,855,781</u> | 100.0% |

Supplementary Financial Information:

The following is a listing of CLN Portfolio (Reference Portfolio) as at December 31, 2005:

CLN Portfolio (Reference Portfolio) as at December 31, 2005 (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 | 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 Corporation | BBB+ | Insurance | USA |
| Autostrade Spa | A | Surface transport | Italy |
| Barrick Gold Corporation | A | Nonferrous metals/minerals | Canada |
| Baxter International Inc. | A- | Health care | USA |
| Bayer Aktiengesellschaft | A | Drugs | 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 Incorporated | A+ | Farming/agriculture | USA |
| Carrefour Sa | A+ | Food/drug retailers | France |
| Caterpillar Financial Services Corp. | A | Industrial equipment | USA |
| Centex Corporation | BBB | Building & Development | USA |
| Centurytel Inc. | BBB+ | Telecommunications | USA |
| Chiron Corporation | 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 |
| Compass Group Plc | BBB+ | Food service | Britain |
| Computer Sciences Corporation | A | Electronics/electrical | USA |
| Constellation Energy Group Inc. | BBB+ | Utilities | USA |
| DaimlerChrysler AG | BBB | Automotive | Germany |
| Deutsche Bank AG | AA- | Financial intermediaries | Germany |
| Deutsche Lufthansa AG | BBB | Air transport | Germany |
| Dominion Resources Inc. | BBB+ | Utilities | USA |
| DTE Energy Co | BBB | Utilities | USA |
| Duke Capital Corporation | 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 |

CLN Portfolio (Reference Portfolio) as at December 31, 2005 (Unaudited):

| Entity Description | SP Rating | Industry | Country |
|---|-----------|-------------------------------------|-------------|
| European Aeronautic Defence and Space Company EADS N.V. | A | Aerospace & Defence | Netherlands |
| Exelon Generation Co Llc | BBB+ | 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 Spa | 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 |
| Hannover Rueckversicherungs AG | AA- | Insurance | Germany |
| Hellenic Telecommunications Organiz Sa | BBB+ | Telecommunications | Greece |
| Hertz Corporation | BB- | 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+ | Brokers Dealers & Investment houses | 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+ | Brokers Dealers & Investment houses | USA |
| Loews Corporation | A | Conglomerates | USA |
| Man Group Plc | N/R | Brokers Dealers & Investment houses | Britain |
| 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 |
| MeadWestvaco Corporation | BBB | Forest products | USA |
| Merck & Co Inc | AA- | Drugs | USA |
| Merrill Lynch & Co. Inc. | A+ | Brokers Dealers & Investment houses | USA |
| MGIC Investment Corporation | A | Insurance | USA |
| Morgan Stanley | A+ | Brokers Dealers & Investment houses | USA |
| Mtr Corporation Ltd | AA- | Rail industries | Hong Kong |
| Muenchener Rueckversicherungs-Gesellschaft AG | A+ | Insurance | Germany |
| 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 |
| Omicom Group Inc. | A- | Business equipment & services | USA |
| PCCW - HKT Telephone Limited | BBB | Telecommunications | Hong Kong |
| Petroliam Nasional Berhad | A- | Oil & gas | Malaysia |
| Placer Dome Inc | BBB+ | Nonferrous metals/minerals | Canada |
| Qantas Airways Limited | BBB+ | Air transport | Australia |
| Quebecor World Inc. | BB | Publishing | Canada |
| RadioShack Corporation | BBB+ | Retailers (except food & drug) | USA |

CLN Portfolio (Reference Portfolio) as at December 31, 2005 (Unaudited):

| Entity Description | SP Rating | Industry | Country |
|---------------------------------|-----------|-------------------------------------|-------------|
| 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 A/S | 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 | Brokers Dealers & Investment houses | 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 |
| Tribune Company | A- | Publishing | 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 |

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of ROC Pref II Corp. and all the information in this annual report are the responsibility of management and will be submitted for approval by the Board of Directors (the "Board") on March 10, 2006.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the shareholders.

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

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



W. Neil Murdoch
President and Chief Executive Officer



Philip Gow
Chief Financial Officer

Toronto, Canada
February 24, 2006

February 24, 2006

Auditors' Report

To the Shareholders of ROC Pref II Corp.

We have audited the consolidated statement of investments of **ROC Pref II Corp.** as at December 31, 2005, the consolidated statements of net assets as at December 31, 2005 and 2004 and the consolidated statements of operations and retained earnings, cash flow and changes in investments for the year ended December 31, 2005 and the period from October 1, 2004 (commencement of operations) to December 31, 2004. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations, its cash flows and changes in its investments for the year ended December 31, 2005 and 2004 and the period from October 1, 2004 (commencement of operations) to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

ROC Pref II Corp.

Consolidated Statements of Financial Position

As at December 31, 2005 and 2004

| | 2005 | 2004 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Assets | | |
| Cash | 68,196 | 87,594 |
| Short-term investments | 3,439,941 | 299,316 |
| Investments at market value (cost - \$289,775,000; 2004 - \$289,775,000) | 298,650,951 | 304,562,362 |
| Investments pledged to counter party under forward agreement | 257,580,507 | 288,343,961 |
| Interest receivable | 601,897 | 599,754 |
| Prepaid expenses | 32,341 | - |
| | <u>560,373,833</u> | <u>593,892,987</u> |
| Liabilities | | |
| Payable to counterparty under forward agreement | 257,580,507 | 288,343,961 |
| Accounts payable and accrued liabilities | 110,703 | 123,041 |
| Management fees payable | 229,200 | 263,025 |
| Deferred management fees payable (note 8) | 2,597,642 | 529,264 |
| Preferred share capital (note 5) | 299,855,681 | 304,633,596 |
| | <u>560,373,733</u> | <u>593,892,887</u> |
| Shareholders' Equity | | |
| Share capital (note 5) | 100 | 100 |
| Retained earnings | - | - |
| | <u>100</u> | <u>100</u> |
| Total Liabilities and Shareholders' Equity | <u>560,373,833</u> | <u>593,892,987</u> |
| Number of Preferred Shares outstanding (note 5) | <u>12,000,000</u> | <u>12,000,000</u> |
| Value per Preferred Share outstanding | <u>24.99</u> | <u>25.39</u> |

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



Director



Director

ROC Pref II Corp.

Consolidated Statements of Operations

For the year ended December 31, 2005 and the period from October 1, 2004 (commencement of operations) to December 31, 2004

| | 2005 | 2004 |
|--|--------------------|-------------------|
| | \$ | \$ |
| Revenue | | |
| Interest | <u>19,941,941</u> | <u>4,771,834</u> |
| Expenses | | |
| Deferred management fees (note 8) | 2,068,378 | 529,264 |
| Forward fees | 1,316,448 | 332,985 |
| Management fees | 1,153,414 | 281,436 |
| Custodial fees | 88,474 | 12,998 |
| Audit fees | 42,672 | 21,749 |
| Sustaining fees | 46,314 | 8,322 |
| Rating agency fees | 11,888 | 10,671 |
| Insurance Premiums | 36,261 | - |
| Directors' fees | 34,828 | 7,854 |
| Printing and mailing charges | 27,093 | 5,335 |
| Transfer agent fees | 13,195 | 8,008 |
| Legal fees | 18,450 | 4,002 |
| Other | <u>1,030</u> | <u>1,774</u> |
| | <u>4,858,445</u> | <u>1,224,398</u> |
| Net investment income before distributions on Preferred Shares | 15,083,496 | 3,547,436 |
| Distributions paid on Preferred Shares | <u>13,950,000</u> | <u>3,487,500</u> |
| Net investment income | 1,133,496 | 59,936 |
| Net realized gain (loss) on investments (note 6) | (1,368,520) | 247,458 |
| Unrealized gain (loss) on Forward Agreement (notes 2 and 6) | 1,368,520 | (247,458) |
| Change in unrealized gain (loss) on investments | <u>(5,911,411)</u> | <u>14,787,362</u> |
| Increase (Decrease) in net assets from operations | <u>(4,777,915)</u> | <u>14,847,298</u> |
| Increase (Decrease) in net assets from operations per preferred share | <u>(0.40)</u> | <u>1.24</u> |
| Total distributions paid per Preferred Share (Return of Capital) | <u>1.16</u> | <u>0.29</u> |

(See accompanying notes to financial statements)

ROC Pref II Corp.

Consolidated Statements of Changes in Shareholders' Equity and Retained Earnings

For the year ended December 31, 2005 and the period from October 1, 2004 (commencement of operations) to December 31, 2004

| | 2005 | 2004 |
|---|------------------|--------------------|
| | \$ | \$ |
| Changes in shareholders' equity | | |
| Share capital - beginning of year | 100 | - |
| Proceeds from issuance of class A shares | - | 100 |
| Share capital - end of year | <u>100</u> | <u>100</u> |
| Changes in Retained Earnings | | |
| Retained earnings - beginning of period | - | - |
| Increase (Decrease) in net assets from operations | (4,777,915) | 14,847,298 |
| Expenses of issue of preferred shares | - | (10,213,702) |
| (Surplus) deficit attributable to preferred shareholders (note 5) | <u>4,777,915</u> | <u>(4,633,596)</u> |
| Retained earnings - end of period | <u>-</u> | <u>-</u> |

(See accompanying notes to financial statements)

ROC Pref II Corp.

Consolidated Statements of Cash Flow

For the year ended December 31, 2005 and the period from October 1, 2004 (commencement of operations) to December 31, 2004

| | 2005 | 2004 |
|--|------------------|----------------------|
| | \$ | \$ |
| Operating Activities | | |
| Increase (decrease) in net assets from operations | (4,777,915) | 14,847,298 |
| Items not affecting cash: | | |
| Net realized (gain) loss on investments | 1,368,520 | (247,458) |
| Unrealized (gain) loss on Forward Agreement (notes 2 and 6) | (1,368,520) | 247,458 |
| Change in unrealized (gain) loss on investments | 5,911,411 | (14,787,362) |
| Changes in non-cash working capital | | |
| (Increase) decrease in interest receivable | (2,143) | (599,754) |
| (Increase) decrease in prepaid expenses | (32,341) | - |
| Increase (decrease) in accounts payable and accrued liabilities | (12,338) | 123,041 |
| Increase (decrease) in management fees payable | (33,825) | 263,025 |
| Increase (decrease) in deferred management fees payable | 2,068,378 | 529,264 |
| Net cash flow provided by operating activities | <u>3,121,227</u> | <u>375,512</u> |
| Investing Activities | | |
| Purchase of common stocks | (130,203,805) | (289,775,000) |
| Purchase of Credit-Linked Note | - | (289,775,000) |
| Proceeds on disposition of investments | 130,203,805 | - |
| Cash received from the Counterparty to fund the purchase of the credit-linked notes (note 2) | - | 289,775,000 |
| Net cash used in investing activities | <u>-</u> | <u>(289,775,000)</u> |
| Financing Activities | | |
| Proceeds from issuance of preferred shares | - | 300,000,000 |
| Proceeds from issuance of Class A shares | - | 100 |
| Share issue costs | - | (10,213,702) |
| Net cash flow provided by financing activities | <u>-</u> | <u>289,786,398</u> |
| Net increase in cash and short-term investments | 3,121,227 | 386,910 |
| Cash and short-term investments - beginning of period | <u>386,910</u> | <u>-</u> |
| Cash and short-term investments - end of period | <u>3,508,137</u> | <u>386,910</u> |

(See accompanying notes to financial statements)

ROC Pref II Corp.

Consolidated Statement of Changes in Investments

For the year ended December 31, 2005 and the period from October 1, 2004 (commencement of operations) to December 31, 2004

| | 2005 | 2004 |
|--|----------------------|----------------------|
| | \$ | \$ |
| Investments at average cost - Beginning of period | 289,775,000 | - |
| Cost of common stocks purchased | 130,203,806 | 289,775,000 |
| Cost of Credit-Linked Note purchased | - | 289,775,000 |
| Cost of investments sold | (148,019,825) | (3,752,542) |
| Cost of investments released by (pledged to) the Counterparty under the Forward Agreement (notes 2 and 6) | <u>17,816,019</u> | <u>(286,022,458)</u> |
| Investments at average cost - End of period | 289,775,000 | 289,775,000 |
| Unrealized appreciation of investments | <u>8,875,951</u> | <u>14,787,362</u> |
| Investments at market value | <u>298,650,951</u> | <u>304,562,362</u> |
| Proceeds from investments sold | 146,651,305 | 4,000,000 |
| Cost of investments sold | <u>(148,019,825)</u> | <u>(3,752,542)</u> |
| Net realized gain (loss) on investments | <u>(1,368,520)</u> | <u>247,458</u> |

(See accompanying notes to financial statements)

ROC Pref II Corp.

Consolidated Statement of Investments

As at December 31, 2005

| | Maturity date | Number of shares or par value | Average cost \$ | Market value \$ | % of Portfolio |
|---|----------------------|--------------------------------------|------------------------|------------------------|-----------------------|
| Short-term investments | | | | | |
| Bearer Deposit Notes | | | | | |
| Toronto Dominion Bank | 01/30/06 | 350,000 | 348,982 | 349,077 | 10.1% |
| Bank of Montreal | 01/23/06 | 800,000 | 797,688 | 797,688 | 23.2% |
| Royal Bank | 01/26/06 | 800,000 | 797,256 | 797,256 | 23.2% |
| Bank of Montreal | 01/27/06 | 1,500,000 | 1,495,920 | 1,495,920 | 43.5% |
| | | | <u>3,439,846</u> | <u>3,439,941</u> | <u>100.0%</u> |
| Total short-term investments | | | | | |
| Investments | | | | | |
| Credit-linked notes | | | | | |
| HSBC 6.867% Bond | 12/20/09 | 289,775,000 | <u>289,775,000</u> | <u>298,650,951</u> | <u>100.0%</u> |
| Total credit-linked notes | | | | | |
| | | | <u>289,775,000</u> | <u>298,650,951</u> | <u>100.0%</u> |
| Canadian common stocks (pledged to the Counterparty under the Forward Agreement) | | | | | |
| Materials | | | | | |
| Glamis Gold | | 962,964 | 22,343,943 | 30,785,958 | 10.3% |
| Kinross Gold Corp. | | 3,072,252 | 24,147,748 | 32,995,986 | 11.0% |
| Lionore Mining International Ltd. | | 5,524,994 | 18,328,615 | 27,348,720 | 9.2% |
| | | | <u>64,820,306</u> | <u>91,130,664</u> | <u>30.5%</u> |
| Industrials | | | | | |
| Bombardier Inc. Class B | | 6,995,618 | <u>22,176,109</u> | <u>19,307,906</u> | <u>6.5%</u> |
| Consumer Staples | | | | | |
| Cott Corp. | | 663,404 | <u>24,147,906</u> | <u>11,430,451</u> | <u>3.8%</u> |
| Health Care | | | | | |
| Angiotech Pharmaceuticals Inc. | | 873,920 | <u>22,258,742</u> | <u>13,405,933</u> | <u>4.5%</u> |
| Software & Services | | | | | |
| CGI Group Class A | | 3,088,472 | 21,433,996 | 28,722,790 | 9.6% |
| Open Text Corp. | | 965,671 | <u>22,258,717</u> | <u>15,885,288</u> | <u>5.3%</u> |
| | | | <u>43,692,713</u> | <u>44,608,078</u> | <u>14.9%</u> |

ROC Pref II Corp.

Consolidated Statement of Investmentscontinued

As at December 31, 2005

| | Number of shares or par value | Average cost | Market value | % of Portfolio |
|--|-------------------------------------|----------------------|----------------------|-------------------|
| Technology Hardware & Equipment | | | | |
| ATI Technologies Inc. | 1,100,922 | 22,271,652 | 21,798,256 | 7.3% |
| Celestica Inc. | 1,462,720 | 22,419,442 | 18,049,965 | 6.0% |
| Nortel Networks Corp. | 5,488,163 | 24,147,917 | 19,482,979 | 6.5% |
| Research In Motion | 239,300 | 22,271,651 | 18,366,275 | 6.1% |
| | | <u>91,110,662</u> | <u>77,697,475</u> | <u>25.9%</u> |
| Total Canadian common stocks | | <u>268,206,438</u> | <u>257,580,507</u> | <u>86.2%</u> |
| Payable to the Counterparty under the Forward Agreement | | <u>(268,206,438)</u> | <u>(257,580,507)</u> | <u>-86.2%</u> |
| Total investments | | <u>289,775,000</u> | <u>298,650,951</u> | <u>100.0%</u> |

ROC Pref II Corp.

Notes to Consolidated Financial Statements

December 31, 2005

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 RBC Dexia Investor Services Trust ("RBC Dexia") (formerly "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. 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.

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 December 31, 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
December 31, 2005

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 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 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 October 1, 2004 (commencement of operations) to December 31, 2005.

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
December 31, 2005

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, calculated and payable quarterly in arrears.

The following table splits the changes in the Common Share Portfolio between (i) shares delivered to the Counterparty as a partial settlement under the forward agreement, and (ii) substitutions in the Common Share Portfolio for the year ended December 31, 2005 and the period from October 1, 2004 (commencement of operations) to December 31, 2004:

| | 2005 | 2004 |
|---|---------------------------|-------------------------|
| | \$ | \$ |
| Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement | 16,447,500 | 4,000,000 |
| Cost of investments delivered on partial pre-settlement | <u>(15,417,406)</u> | <u>(3,752,542)</u> |
| Realized gain on partial pre-settlement | 1,030,094 | 247,458 |
| Proceeds on sale of investments (subsequently reinvested) | 130,203,805 | — |
| Cost of investments sold | <u>(132,602,419)</u> | <u>—</u> |
| Realized loss on sale of investments | <u>(2,398,614)</u> | <u>—</u> |
| Realized gain (loss) on investments | <u>(1,368,520)</u> | <u>247,458</u> |
| Liability to Counterparty under Forward Agreement - Beginning of period | 286,022,458 | 289,775,000 |
| Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement | (16,447,500) | (4,000,000) |
| Liability to Counterparty under Forward Agreement at period end, at cost | <u>268,206,438</u> | <u>286,022,458</u> |
| Unrealized gain (loss) on Forward Agreement | <u>1,368,520</u> | <u>(247,458)</u> |

7 Distributions

Targeted quarterly distributions are \$0.290625 per Preferred Share. During the year ended December 31, 2005, the Company met its targeted quarterly distribution and paid total distributions of \$13,950,000, or \$1.1625 per unit (\$0.290625 per quarter), representing return of capital to holders of Preferred Shares (\$3,487,500, or \$0.290625 per unit for the period from October 1, 2004 to December 31, 2004).

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.

ROC Pref II Corp.
Notes to Consolidated Financial Statements
December 31, 2005

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

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

9 Income taxes

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

10 Reclassification

Certain of the 2004 comparative figures have been reclassified from the statements previously presented to conform to the presentation of the 2005 financial statements.