

ROC Pref III Corp. Update

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CAPITAL MARKETS INC.

In light of recent trading weakness in ROC Pref III Corp. ("ROC III" or "the Company"), we thought an update on the Company's status would be timely. ROC III has made all its scheduled distributions and is on track to pay back the \$25.00 per preferred share upon maturity. With 6 years left until maturity, ROC III has a very attractive yield of 6.76% and pre-tax interest equivalent of 12.61% based on today's trading price, and many advisors having been adding to their position. We believe (which is consistent with the expected P-2 rating discussed below) that investors can have a high degree of certainty of getting back their \$25 upon maturity and receiving all scheduled distributions. The majority of our management fee is deferred until after maturity, and will only be paid if clients have received the \$25 par value per preferred share and all scheduled distributions had been paid, so our interests are firmly aligned with those of shareholders in this regard.

As anticipated in our press release of March 3, ROC III is currently on CreditWatch with negative implications. We expect that this situation will be resolved with a one-notch downgrade to P-2 (high) and possibly a two-notch downgrade to P-2 by Standard & Poors. The revised rating for ROC III will reflect the recent default by Dana Corp., which we announced in the March 3 press release, as well as the ratings of the remaining companies in the Reference Portfolio. The Reference Portfolio's most significant recent ratings news was the three-notch downgrade of Lear Corp. to B+ on March 29. Subsequent to the downgrade, Lear secured a re-financing on \$800 million of loans and suspended its dividend. The investment management team remains confident in Lear, whose debt has been trading well following these developments. Adding to the stability of the Reference Portfolio is the recent announcement of the sale of GMAC by GM. GMAC is in the Reference Portfolio but GM is not. We expect that the result of the sale will be to improve GMAC's credit rating.

The Net Asset Value ("NAV") of the Company is currently down about 12% from inception, and 7.25% from the initial NAV. NAV weakness is caused by rising interest rates and increasing yields on the debt of a number of Reference Portfolio companies, with NAV reacting similarly to the way a zero-coupon corporate bond's price would behave under the same circumstances. ROC III's NAV will go to \$25 by maturity and all coupons will be paid provided the Reference Portfolio has not had 8 defaults.

While the higher yield on a credit-linked note ("CLN") compared to similarly rated corporate bonds may come at the expense of NAV volatility, it is important to recognize that NAV is subject to numerous issuer-specific biases including the issuer's own credit exposure and proprietary assumptions concerning correlation, recovery rates, the potential for corporate actions such as mergers and LBOs among the Reference Portfolio companies, the CLN issuer's desired mark-up on the trade and other factors.

The investment management team has been actively trading the Reference Portfolio and building the trading reserve account. Since inception, the team has made sixteen substitutions in the Reference Portfolio, thirteen of which were upgrades and three were moves to another name of the same rating. The average trade resulted in a 2.25 ratings notch upgrade (a single notch is a change of one rating modifier, i.e. A- to A). These substitutions in aggregate have significantly improved the overall credit quality of the portfolio. At the same time, the trading reserve account has grown from \$2,149,132 at inception to \$4,049,338, significantly enhancing the investment manager's flexibility going forward. The team considered trading out of Dana Corp. prior to default but felt that the trade was overpriced from the Company's perspective and that the Reference Portfolio would be better positioned for the long term with a robust trading reserve account applied to a strategy of opportunistically increasing overall credit quality.

Following the default by Dana Corp., the ROC III preferred shares benefit from the protection of a first loss tranche equal to 3.32% of the Reference Portfolio. Therefore, Preferred Shareholders' entitlement to receive \$25.00 per preferred share on March 23, 2012 and payment of coupon at a rate of 4.40% per annum has not been affected by this first default on ROC III. The Company will be able to sustain 7 further defaults in the Reference Portfolio before there is any impact on coupon or principal payments. Seven defaults represents approximately 2.5 times the average default rate and 1.6 times the worst default rate experienced in a portfolio of the same credit quality as the Reference Portfolio in any six-year period since 1981. This compares to coverage levels of 2.5 times average and 1.7 times worst at inception. The average rating of the Reference Portfolio companies remains at BBB+, the same as at inception.

Although there are a number of factors that affect S&P's rating of the Preferred Shares, we believe that, if the credit quality of the reference portfolio remains strong, ROC Pref III Corp. will be eligible for an upgrade back to P-1 (low) approximately one year from now.

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