Connor, Clark & Lunn
CAPITAL MARKETS INC.

2005

ROC Pref III Corp.

Semi-Annual Report

December 31, 2005

ROC Pref III Corp Message to Shareholders

February 20th, 2006

Dear Investor,

We welcome the opportunity to provide you with the financial statements for ROC Pref III Corp (the "Company") for the six months period from July 1st, 2005 to December 31st, 2005, along with an update on the Company's performance.

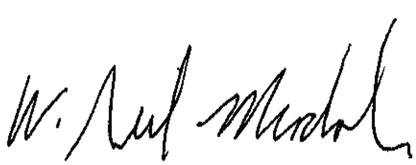
ROC Pref III Corp was launched on March 8th, 2005. The Company was created to invest, in a tax-efficient manner, in an A- rated credit-linked note structured to provide an enhanced return relative to comparably rated debt securities. The return on the credit-linked note ("CLN") is linked to the credit performance of a globally diversified, equally weighted portfolio of 125 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 December 31st, 2005 the NAV of the Company was $21.93, down from $23.66 at June 30th, 2005. The share's closing price on the TSX was $22.55 and they have traded in a range from $21.80 to $24.65 over the six months from July 1st to December 31st, 2005. The Company preferred shares continue to be rated P-1 Low by Standard & Poors, a division of The McGraw Hill Companies Inc. ("S&P").

The 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 Company. shareholders will continue to be met.

ROC Pref III Corp paid cash distribution of $0.3443 per preferred share on June 30th and of $0.275 on each of September 30th and December 31st. The distributions were 100% return of capital. The Company remains on track to provide shareholders with quarterly fixed cumulative preferential distributions yielding 4.40% on the subscription price of $25.00.

Yours truly,



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

Management Report of Fund Performance

This semi annual management report of fund performance contains financial highlights but does not contain the complete semi-annual financial statements of the investment fund. **The semi-annual financial statements and accompanying notes are attached to this report.**

Investment Objectives and Strategy

The Company's investment objectives are: i) to pay holders of preferred shares an amount per preferred share equal to the original subscription price of $25.00 on or about March 23, 2012; and ii) to pay quarterly, fixed cumulative distributions of $0.275 per preferred share to yield 4.40% 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 The Toronto-Dominion Bank ("TD Bank") in March, 2005, matures in March, 2012, 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 125 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 March 8th, 2005 at an aggregate cost of $255.944 million; and

(ii) Entered into a forward purchase and sale agreement (the "Forward Agreement") with TD Global Finance ("TDGF"), under which the Company agreed to sell the portfolio of common shares on or prior to March 23, 2012 in exchange for the value of Credit Trust III, a vehicle formed to purchase a credit linked note ("CLN") from TD Bank. 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 III. A fee of 0.45% per annum, calculated with reference to the net asset value of Credit Trust III, is payable to TDGF under the Forward Agreement together with, in certain circumstances, a variable fee representing hedging costs.

Risk

The risks associated with an investment in the Company's preferred shares (the "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 & Poors ("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. Changes to the ratings of companies in the Reference Portfolio could affect the rating of the CLN. In particular, downgrades of Reference Portfolio companies will, if experienced in sufficient numbers or to a sufficient degree, result in a reduced credit rating for the CLN and the Preferred Shares.

Results of Operations

Investments of the Company

The common share portfolio

The value of the common share portfolio increased from $223.008 million on June 30, 2005 to $233.784 million on December 31, 2005. This increase resulted from the combination of:

(i.) an increase in the market value of the portfolio of $20.389 million, (ii.) the delivery of shares with an aggregate cost of \$6.850 million in order to partially settle under the Forward Agreement

(iii.) and a realized loss (with proceeds reinvested) on dispositions of \$2.763 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 5.416% annual coupon on the CLN and the repayment of principal at maturity in March 2012 accrue to Credit Trust III. The Company partially settles the Forward Agreement from time to time, thus receiving some of the value that has built up in Credit Trust III, 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 \$7.070 million to TDGF in exchange for \$6.850 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 \$541,774 in cash and short-term investments on a non-consolidated basis. In order to return the full principal amount per preferred share on March 23, 2012 the Company must have accumulated at least \$1,140,000 in cash and short-term investments by that time. On a consolidated basis, the Company had \$710,066 in cash and short-term investments on December 31, 2005.

Investments of Credit Trust III

The Credit Linked Note

Credit Trust III purchased the CLN issued by TD Bank on March 8th, 2005 for \$255,944,200, in a principal amount of \$263,860,000. The note matures on March 22, 2012, pays a coupon of 5.416% 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 125 reference companies in the CLN’s 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 3.80%. The actual level of subordination structured into the CLN is 3.80%. If losses due to cumulative defaults, net of the CLN’s fixed recovery rate on defaults of 40%, do not exceed a total of 3.80% of the initial value of the Reference Portfolio during the term of the CLN, Credit Trust III 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 III on maturity would decline. **To the extent that cumulative losses due to defaults, net of recoveries, exceeded 4.80% there would be no amount paid to Credit Trust III and the value of the Preferred Shares would decline to the level of net current assets per share, possibly zero.** Losses of 3.80% due to defaults net of recoveries (using the CLN’s fixed recovery rate of 40%) would represent approximately 2.0x the worst level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any six-year period since 1981.

The CLN features an embedded trading reserve account, initially in an amount of \$2.150 million, which stood at \$3.836 million 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 TD Bank. At December 31, 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 without affecting payments of interest or principal to 3.94% if the trading reserve account had been applied in full to increasing the subordination level.

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, 2005 (Unaudited). **Please refer to the Prospectus dated February 28, 2005, the Annual Information Form for the year ended June 30, 2005 and other documents available at www.sedar.com and www.cclcapitalmarkets.com 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 June 30, 2005 and December 31 2005:

	Number of Issuers			Number of Issuers	
Rating (1)	**June 30, 2005**	**December 31, 2005**	**Rating** (1)	**June 30, 2005**	**December 31, 2005**
AAA	6	6	BBB	21	17
AA+	0	0	BBB-	9	7
AA	1	2	BB+	1	2
AA-	3	6	BB	1	2
A+	11	11	BB-	0	1
A	20	22	B+	0	1
A-	26	27	N/R	0	0
BBB+	26	21			
			Total	**125**	**125**

(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 December 31, 2005 as a result of ratings changes and trading activity, the Reference Portfolio experienced 16 reference company upgrades averaging 2.25 rating categories, or notches, per upgrade for a total 36 notch increase and 19 reference company downgrades averaging 1.32 notches per downgrade for a total 25 notch decrease. The weighted average credit rating of the Reference Portfolio is BBB+. The companies in the Reference Portfolio are listed in the Supplementary Financial Information as at September 30, 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 probability of experiencing enough defaults to impact the par value or coupon of the Preferred Shares,. 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 14 substitutions in the Reference Portfolio since inception.

Value of the CLN

The CLN is valued on the 10th and last business day of each month by TD Bank. 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 December 31, 2005, the CLN value was $232.953 million, down from $251.039 million at June 30, 2005.

Other investments of the Credit Trust III

The Credit Trust III held $168,293 in cash and short-term notes as of December 31, 2005.

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 $233.784 million. Since the Company can deliver the value of the common share portfolio to TD Bank in exchange for the value of Credit Trust III, the value of the Forward Agreement to the Company is equal to the value of Credit Trust III less the value of the common share portfolio. On December 31, 2005 value of the Forward Agreement was $(343,967). Other net assets in ROC Pref III Corp. prior to consolidation totalled $(1,008,850) leaving a net asset value of $232.431 million or $21.93 per Preferred Share.

The net asset value per Preferred Share was $23.66 as at June 30, 2005. The decrease in net asset value over the period is attributable to a decrease in the value of the CLN due to increases in the credit spreads, or yield in excess of the yield on government securities, at which the companies in the Reference Portfolio trade and to an increase in interest rates of about 0.35% at the seven-year term. In general, increasing interest rates and widening credit spreads both negatively affect the value of fixed income securities such as the CLN.

Liquidity and Capital Resources

The obligations of the Company include operating expenses and declared distributions to holders of the Preferred Shares. 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 $1,062,438 and current liabilities of $741,463 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 months period ended December 31, 2005 was approximately 1.38%. 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 months period ended December 31, 2005 was approximately 0.95%. Please refer to the Financial Highlights section of this document for more information.

Distributions

Targeted quarterly distributions are $0.275 per Preferred Share. During the six months period ended on December 31, 2005, the Company met its targeted quarterly distribution and paid total distributions of $5,830,000, or $0.55 per share ($3,649,580, or $0.3443 per share, from March 8, 2005 to June 30, 2005) representing return of capital to holders of Preferred Shares.

Related Party Transactions

Management Fees

Pursuant to a management agreement ("the Management Agreement") the Company and Credit Trust III have retained Connor, Clark & Lunn Capital Markets Inc. ("the Manager") to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Company and Credit Trust III, the Manager receives an annual management fee in an amount equal to the lesser of (a) 0.25% per annum of the net asset value of the Company and (b) 0.25% of the Company's initial net asset value, to be calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to Credit Trust III, the Manager will also receive an annual management fee in an amount equal to the lesser of (a) 0.10% per annum of the net asset value of the Credit Trust III and (b) 0.10% of the Credit Trust III's initial net asset value, to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees paid during the six months period ended on December 31 2005 were $452,722 ($287,191 during the period from March 8, 2005 to June 30, 2005) 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 during the six months period ended on December 31 2005 were $513,989 ($328,547 during the period from March 8, 2005 to June 30, 2005).

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

Financial Highlights:

The following tables show selected key financial information about the company and are intended to assist in the understanding of the Company's financial performance since inception. This information is derived from the Company's audited annual and unaudited semi annual financial statements.

The Company's Net Asset Value per unit:

	December 31, 2005 [2]	June 30, 2005 [1]
Net Asset Value, beginning of period	**23.66**	**25.00**
Increase (decrease) from operations:		
Total revenues	0.68	0.43
Total expenses	(0.16)	(0.10)
Share issue expense [3]	–	(0.85)
Realized gains (losses) for the period	(0.26)	(0.05)
Unrealized gains (losses) for the period	(1.44)	(0.43)
Total increase (decrease) from operations [4]	**(1.18)**	**(1.00)**
Distributions:		
From income (excluding dividends)	–	–
From dividends	–	–
From capital gains	–	–
Return of capital	(0.55)	(0.34)
Total Annual Distributions [5]	**(0.55)**	**(0.34)**
Net Asset Value, end of period	**21.93**	**23.66**

(1) Results for the period March 8, 2005 (Inception date) to June 30, 2005.
(2) Results for the six months period ended on December 31, 2005.
(3) Issue expense of $9,055,800 incurred in connection with the share issuance, principally consisting of Agents' fees and other offering expenses, which has been charged to retained earnings prior to calculating the opening Net Asset Value of $24.15.
(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:

	December 31, 2005 [2]	June 30, 2005 [1]
Net assets (000's) [3]	232,431	250,834
Number of Units outstanding [3]	10,600,000	10,600,000
Management expense ratio [4]	1.38%	5.12%
Management expense ratio before waivers or absorptions [5]	1.38%	5.12%
Management expense ratio excluding deferred management fees and share issue expense	0.95%	0.96%
Portfolio turnover rate [6]	31.56%	91.74%
Trading expense ratio [7]	0.00%	0.00%
Closing market price (TSX)	22.55	24.45

(1) Results for the period March 8, 2005 (Inception date) to June 30, 2005.
(2) Results for the six months period ended on December 31, 2005.
(3) This information is provided as at June 30 and December 31, 2005.
(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. The MER for the period ending June 30, 2005 annualizes expenses incurred from inception date on March 8, 2005 to June 30, 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. The Management expense ratio is based on all the ongoing expenses, the Deferred Management Fee portion and any share issue expenses.
(5) A separate management expense ratio has been presented above excluding deferred management fees and share issue expenses.
(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

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 December 31, 2005:

	Maturity date	Number of shares or par value	Average cost $	Market value $	% of NAV
Short-term investments					
Bearer Deposit Notes					
Toronto Dominion Bank	January 30, 2006	500,000	498,545	498,681	0.2%
Bank of Montreal	January 23, 2006	150,000	149,567	149,702	0.0%
			648,112	648,383	0.2%
Total short-term investments					
Investments					
Credit-linked notes					
Toronto-Dominion Bank 5.416% Bond	March 22, 2012	263,860,000	255,944,200	232,952,640	100.1%
Total credit-linked notes			255,944,200	232,952,640	100.1%
Energy					
First Calgary Petroleums Ltd.		905,810	19,529,264	7,717,501	3.3%
Western Oil Sands Inc.		1,029,600	21,329,880	28,633,176	12.3%
			40,859,144	36,350,677	15.6%
Materials					
Ivanhoe Mines Ltd.		1,851,079	19,528,883	15,456,510	6.6%
Kinross Gold Corp.		3,042,200	25,302,264	32,673,228	14.1%
Sino-Forest Corporation - Class A		2,096,000	8,300,160	10,354,240	4.5%
			53,131,307	58,483,978	25.2%

Summary of investment portfolio as of December 31, 2005:

	Maturity date	Number of shares or par value	Average cost $	Market value $	% of NAV
Information Technology					
CGI Group Class A		3,206,000	25,301,885	29,815,800	12.8%
ATI Technologies Inc.		1,176,240	25,302,645	23,289,552	10.0%
Celestica Inc.		1,491,500	21,999,625	18,405,110	7.9%
JDS Uniphase Inc.		606,600	1,649,952	1,674,216	0.7%
Nortel Networks Corp.		6,825,404	25,305,333	24,230,184	10.4%
Research In Motion		327,599	24,409,640	25,143,223	10.8%
			123,969,080	122,558,085	52.6%
Consumer Discretionary					
CanWest Global Communications Sub Voting		1,466,900	21,328,726	14,140,916	6.1%
Rona Inc.		104,900	2,400,112	2,250,105	1.0%
			23,728,838	16,391,021	7.1%
Total Canadian common stocks			241,688,369	233,783,761	100.5%
			(241,688,369)	(233,783,761)	-100.5%
Total investments			255,944,200	232,952,640	100.1%
Liabilities net of other assets				(521,661)	-0.3%
Net asset value				232,430,979	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
Accor	BBB	Lodging & casinos	France
Acuity Brands Inc.	BBB-	Electronics/electrical	USA
Alltel Corporation	A	Telecommunications	USA
Altria Group Inc.	BBB+	Beverage & Tobacco	USA
AMBAC Assurance Corp.	AAA	Insurance	USA
Amgen Inc.	A+	Drugs	USA
Axis Capital Holdings Ltd	BBB+	Insurance	Bermuda
Bank Of America Corp.	AA-	Financial intermediaries	USA
Bard (C.R.) Inc.	A	Health care	USA
Baxter International Inc.	A-	Health care	USA
Boeing Capital Corporation	A	Air transport	USA
Boston Scientific Corporation	A	Health care	USA
Brascan Corporation	A-	Conglomerates	Canada
Bristol-Myers Squibb Company	A+	Drugs	USA
British American Tobacco p.l.c.	BBB+	Beverage & Tobacco	Britain
Canadian Oil Sands Limited	BBB+	Oil & gas	Canada
Cardinal Health Inc.	BBB	Food/drug retailers	USA
Carrefour Sa	A+	Food/drug retailers	France
Casino Guichard-Perrachon	BBB-	Food/drug retailers	France
Caterpillar Financial Services Corp	A	Industrial equipment	USA
Centurytel Inc.	BBB+	Telecommunications	USA
Chiron Corporation	BBB+	Drugs	USA
CIT Group Inc.	A	Financial intermediaries	USA
Clear Channel Communications Inc.	BBB-	Radio & Television	USA
COMPASS GROUP PLC	BBB+	Food service	Britain
Computer Sciences Corporation	A	Electronics/electrical	USA
Convergys Corp.	BBB	Business equipment & services	USA
Countrywide Home Loans Inc.	A	Financial intermediaries	USA
DaimlerChrysler AG	BBB	Automotive	Germany
Dana Corp.	B+	Automotive	USA
Deluxe Corporation	BBB+	Publishing	USA
Deutsche Lufthansa AG	AA-	Financial intermediaries	Germany
Deutsche Lufthansa AG	BBB	Air transport	Germany
Deutsche Telekom AG	A-	Telecommunications	Germany
Diageo Capital Plc	A-	Beverage & Tobacco	Britain
Electrolux AB	BBB+	Home furnishings	Sweden
Enbridge Inc	A-	Utilities	Canada
Encana Corporation	A-	Oil & gas	Canada
Eop Operating Limited Partnership	BBB+	REITs and REOCs	USA
Essent Nv	A+	Utilities	Netherlands
Federal Home Loan Mortgage Corporation	AAA	U.S. Agency (Explicity Guaranteed)	USA
Federal National Mortgage Association	AAA	U.S. Agency (Explicity Guaranteed)	USA
Federal Realty Investment Trust	BBB	REITs and REOCs	USA
Financial Security Assurance Inc	AAA	Insurance	USA
First Industrial Lp	BBB	REITs and REOCs	USA
Ford Motor Credit Company	BB-	Automotive	USA
Fortis Nv	A+	Financial intermediaries	Netherlands

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

Entity Description	SP Rating	Industry	Country
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
George Weston Limited	A-	Food products	Canada
GKN Holdings Plc	BBB	Automotive	Britain
GlobalSantaFe Corporation	A-	Oil & gas	USA
Greater Toronto Airports Authority	A-	Air transport	Canada
Hannover Rueckversicherungs-AG	AA-	Insurance	Germany
Hartford Financial Services Group Inc. (The)	A-	Insurance	USA
Hellenic Telecommunications Organiz Sa	BBB+	Telecommunications	Greece
Hertz Corporation (The)	BB-	Equipment leasing	USA
Hrpt Properties Trust	BBB	REITs and REOCs	USA
Hutchison Whampoa Limited	A-	Conglomerates	Hong Kong
International Lease Finance Corporation	AA-	Equipment leasing	USA
Israel Electric Corp Ltd	BBB+	Utilities	Israel
J.P. Morgan Chase & Co.	A+	Brokers Dealers & Investment houses	USA
Keyspan Corp.	A	Utilities	USA
Koninklijke KPN NV	A-	Telecommunications	Netherlands
Koninklijke Philips Electronics N.V.	A-	Electronics/electrical	Netherlands
Korea Highway Corporation	A	Surface transport	South Korea
Korea Telecom	A-	Telecommunications	South Korea
Lear Corp.	BB+	Automotive	USA
Liberty Mutual Insurance Company	A	Insurance	USA
Loews Corporation	A	Conglomerates	USA
Magna International Inc.	A	Automotive	Canada
MBIA Inc.	AA	Insurance	USA
Merck & Co Inc	AA-	Drugs	USA
Merrill Lynch & Co. Inc.	A+	Brokers Dealers & Investment houses	USA
Methanex Corporation	BBB-	Chemicals & plastics	Canada
Metro AG	BBB	Retailers (except food & drug)	Germany
MGIC Investment Corporation	A	Insurance	USA
Morgan Stanley	A+	Brokers Dealers & Investment houses	USA
National Rural Utilities Coop Finance Corp	A	Electronics/electrical	USA
Norbord Inc	BBB	Forest products	Canada
Northeast Utilities	BBB	Utilities	USA
Northern Border Partners LP	BBB+	Oil & gas	USA
Odyssey Re Holdings Corp.	BBB-	Insurance	USA
Pfizer Inc.	AAA	Drugs	USA
Qantas Airways Limited	BBB+	Air transport	Australia
Quebecor World Inc.	BB	Publishing	Canada
RadioShack Corporation	BBB+	Retailers (except food & drug)	USA
Sabre Holdings Corporation	BBB	Business equipment & services	USA
SBC Communications Inc.	A	Telecommunications	USA
Schering-Plough Corporation	A-	Drugs	USA
SCOR	A-	Insurance	France
Seacor Holdings Inc	BBB-	Oil & gas	USA
Sempra Energy	BBB+	Utilities	USA
Siemens Aktiengesellschaft	AA-	Conglomerates	Germany
SLM Corporation	A	Financial intermediaries	USA
Sodexho Alliance Sa	BBB+	Food service	France

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

Entity Description	SP Rating	Industry	Country
Southwest Airlines Co.	A	Air transport	USA
Suncor Energy Inc	A-	Oil & gas	Canada
Swiss Reinsurance Co	AA	Insurance	Switzerland
Takefuji Corporation	BBB	Financial intermediaries	Japan
Teck Cominco Ltd	BBB	Nonferrous metals/minerals	Canada
Telecom Italia SpA	BBB+	Telecommunications	Italy
Telefonica S.A.	A-	Telecommunications	Spain
Telekom Malaysia Berhad	A-	Telecommunications	Malaysia
Telephone And Data Systems Inc	A-	Telecommunications	USA
The Export-Import Bank of Korea	A-	Uncorrelated (Corporate)	South Korea
The Goldman Sachs Group Inc.	A+	Brokers Dealers & Investment houses	USA
The May Department Stores Company	BBB	Retailers (except food & drug)	USA
Time Warner Inc.	BBB+	Leisure goods/activities/movies	USA
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
Vattenfall Aktiebolag	A-	Utilities	Sweden
Verizon Global Funding Corp.	A+	Telecommunications	USA
Viacom Inc	BBB+	Radio & Television	USA
Volkswagen Aktiengesellschaft	A-	Automotive	Germany
Vornado Realty LP	BBB+	REITs and REOCs	USA
Westfield Capital Corporation Ltd	A-	REITs and REOCs	Australia
Wyeth	A	Drugs	USA
XL Capital Ltd	A	Insurance	Bermuda
Zurich Insurance Company	A+	Insurance	Switzerland

Notice to Reader

These interim financial statements and related notes for the six month period ended December 31, 2005 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Company have not audited or reviewed these interim financial statements.

ROC Pref III Corp.

Consolidated Statement of Financial Position (Unaudited)

As at December 31 and June 30, 2005

	December 31, 2005 (Unaudited)	June 30, 2005 (Audited)
	$	$
Assets		
Cash	61,683	88,287
Short-term investments	648,383	597,921
Investments at market value (cost - $255,944,200)	232,952,640	251,038,581
Investments pledged to counter party under forward agreement	233,783,761	223,008,152
Interest receivable	352,372	352,920
Prepaid expenses	-	19,751
	467,798,839	475,105,612
Liabilities		
Payable to counterparty under forward agreement	233,783,761	223,008,152
Accounts payable and accrued liabilities	389,918	647,204
Management fees payable	351,545	287,191
Deferred management fees payable	842,536	328,547
Preferred share capital (note 5)	232,430,979	250,834,418
	467,798,739	475,105,512
Shareholders' Equity		
Share capital (note 5)	100	100
Retained earnings	-	-
	100	100
Total Liabilities and Shareholders' Equity	467,798,839	475,105,612
Number of Preferred Shares outstanding (note 5)	10,600,000	10,600,000
Value per Preferred Share outstanding	21.93	23.66

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

Director

Director

(See accompanying notes to financial statements)

ROC Pref III Corp.

Consolidated Statement of Operations and Retained Earnings (Unaudited)

For the six months ended December 31, 2005 and the period from March 8, 2005 (inception date) to June 30, 2005

	December 31, 2005 (Unaudited)	**June 30, 2005** (Audited)
	$	**$**
Revenue		
Interest	7,171,482	4,509,423
Expenses		
Forward fees	566,324	347,135
Deferred management fees	513,989	328,547
Management fees	452,722	287,191
Custodial fees	31,022	22,511
Audit fees	13,845	26,750
Sustaining fees	14,838	9,513
Rating agency fees	20,055	12,493
Insurance Premiums	6,027	-
Directors' fees	15,394	7,945
Printing and mailing charges	8,048	5,013
Transfer agent fees	5,880	6,401
Legal fees	9,657	6,199
Other	1,179	4,308
	1,658,980	1,064,006
Net investment income	5,512,502	3,445,417
Net realized gain (loss) on investments	(2,762,721)	(563,111)
Change in unrealized gain (loss) on Forward Agreement (notes 2 and 6)	2,762,721	563,111
Change in unrealized appreciation (depreciation) on investments	(18,085,941)	(4,905,619)
Increase (decrease) in net assets from operations	(12,573,439)	(1,460,202)
Total distributions paid per Preferred Share (Return of Capital)	0.55	0.34
Increase (decrease) in net assets from operations per preferred share	(1.19)	(0.14)

(See accompanying notes to financial statements)

ROC Pref III Corp.

Consolidated Statement of Changes in Shareholders' Equity and Retained Earnings (Unaudited)

For the six months ended December 31, 2005 and the period from March 8, 2005 (inception date) to June 30, 2005

	December 31, 2005 (Unaudited)	June 30, 2005 (Audited)
	$	$
Changes in shareholders' equity		
Share capital - beginning of year	100	-
Proceeds from issuance of class A shares	-	100
Share capital - end of year	100	100
Changes in Retained Earnings		
Retained earnings - beginning of period	-	-
Increase (decrease) in net assets from operations	(12,573,439)	(1,460,202)
Expenses of issue of preferred shares (note 5)	-	(9,055,800)
Distributions paid on Preferred Shares	(5,830,000)	(3,649,580)
(Surplus) deficit attributable to preferred shareholders (note 5)	18,403,439	14,165,582
Retained earnings - end of period	-	-

(See accompanying notes to financial statements)

ROC Pref III Corp.

Consolidated Statement of Cash Flow (Unaudited)

For the six months ended December 31, 2005 and the period from March 8, 2005 (inception date) to June 30, 2005

	December 31, 2005 (Unaudited)	June 30, 2005 (Audited)
	$	$
Operating Activities		
Increase (decrease) in net assets from operations	(12,573,439)	(1,460,202)
Distributions paid on preferred shares	(5,830,000)	(3,649,580)
Items not affecting cash:		
Net realized (gain) loss on investments	2,762,721	563,111
Unrealized (gain) loss on Forward Agreement (notes 2 and 6)	(2,762,721)	(563,111)
Change in unrealized (gain) loss on investments	18,085,941	4,905,619
Changes in non-cash working capital		
(Increase) decrease in interest receivable	548	(352,920)
(Increase) decrease in prepaid expenses	19,751	(19,751)
Increase (decrease) in accounts payable and accrued liabilities	(257,286)	647,204
Increase (decrease) in management fees payable	64,354	287,191
Increase (decrease) in deferred management fees payable	513,989	328,547
Net cash flow provided by operating activities	23,858	686,108
Investing Activities		
Purchase of common stocks	(36,759,863)	(319,454,538)
Purchase of Credit-Linked Note	-	(255,944,200)
Proceeds on disposition of investments	36,759,863	63,510,338
Cash received from the Counterparty to fund the purchase of the credit-linked notes (note 2)	-	255,944,200
Net cash used in investing activities	-	(255,944,200)
Financing Activities		
Proceeds from issuance of preferred shares	-	265,000,000
Proceeds from issuance of Class A shares	-	100
Share issue costs	-	(9,055,800)
Net cash flow provided by financing activities	-	255,944,300
Net increase in cash and short-term investments	23,858	686,208
Cash and short-term investments - beginning of period	686,208	-
Cash and short-term investments - end of period	710,066	686,208

(See accompanying notes to financial statements)

ROC Pref III Corp.

Consolidated Statement of Changes in Investments (Unaudited)

For the six months ended December 31, 2005 and the period from March 8, 2005 (inception date) to June 30, 2005

	December 31, 2005 (Unaudited)	June 30, 2005 (Audited)
	$	$
Investments at average cost - Beginning of period	255,944,200	-
Cost of common stocks purchased	36,759,863	319,454,538
Cost of Credit-Linked Note purchased	-	255,944,200
Cost of investments sold	(46,372,583)	(68,153,449)
Cost of investments released by (pledged to) the Counterparty under the Forward Agreement (notes 2 and 6)	9,612,720	(251,301,089)
Investments at average cost - End of period	**255,944,200**	**255,944,200**
Unrealized appreciation (depreciation) of investments	(22,991,560)	(4,905,619)
Investments at market value	**232,952,640**	**251,038,580**
Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement	6,850,000	4,080,000
Cost of investments delivered on partial pre-settlement	(7,069,840)	(4,168,340)
Realized gain on partial pre-settlement	(219,840)	(88,340)
Proceeds on sale of investments (subsequently reinvested)	36,759,863	63,510,338
Cost of investments sold	(39,302,744)	(63,985,109)
Realized loss on sale of investments	(2,542,881)	(474,771)
Realized gain (loss) on investments	**(2,762,721)**	**(563,111)**
Liability to Counterparty under Forward Agreement - Beginning of period	251,301,089	255,944,200
Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement	(6,850,000)	(4,080,000)
Liability to Counterparty under Forward Agreement at period end, at cost	241,688,368	251,301,089
Unrealized gain (loss) on Forward Agreement	**2,762,721**	**563,111**

(See accompanying notes to financial statements)

ROC Pref III Corp.

Consolidated Statement of Investments (Unaudited)

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	January 30, 2006	500,000	498,545	498,681	76.9%
Bank of Montreal	January 23, 2006	150,000	149,567	149,702	23.1%
			648,112	648,383	100.0%
Total short-term investments					
Investments					
Credit-linked notes					
Toronto-Dominion Bank 5.416% Bond	March 22, 2012	263,860,000	255,944,200	232,952,640	100.0%
Total credit-linked notes			255,944,200	232,952,640	100.0%
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)					
Energy					
First Calgary Petroleums Ltd.		905,810	19,529,264	7,717,501	3.3%
Western Oil Sands Inc.		1,029,600	21,329,880	28,633,176	12.3%
			40,859,144	36,350,677	15.6%
Materials					
Ivanhoe Mines Ltd.		1,851,079	19,528,883	15,456,510	6.6%
Kinross Gold Corp.		3,042,200	25,302,263	32,673,228	14.0%
Sino-Forest Corporation - Class A		2,096,000	8,300,160	10,354,240	4.4%
			53,131,306	58,483,978	25.0%
Information Technology					
CGI Group Class A		3,206,000	25,301,885	29,815,800	12.8%
ATI Technologies Inc.		1,176,240	25,302,645	23,289,552	10.0%
Celestica Inc.		1,491,500	21,999,625	18,405,110	7.9%
JDS Uniphase Inc.		606,600	1,649,952	1,674,216	0.7%
Nortel Networks Corp.		6,825,404	25,305,333	24,230,184	10.4%
Research In Motion		327,599	24,409,640	25,143,223	10.8%
			123,969,080	122,558,085	52.6%

ROC Pref III Corp.

Consolidated Statement of Investments (Unaudited) ....*continued*

As at December 31, 2005

	Number of shares or par value	Average cost	Market value	% of Portfolio
Consumer Discretionary				
CanWest Global Communications Sub Voting	1,466,900	21,328,726	14,140,916	6.1%
Rona Inc.	104,900	2,400,112	2,250,105	1.0%
		23,728,838	16,391,021	7.1%
Total Canadian common stocks		241,688,368	233,783,761	100.3%
Payable to the Counterparty under the Forward Agreement		(241,688,368)	(233,783,761)	-100.3%
Total investments		255,944,200	232,952,640	100.0%

(See accompanying notes to financial statements)

1 Corporate Activities

ROC Pref III Corp. (the "Company") was incorporated under the laws of the Province of Ontario on January 24, 2005, 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 III ("Credit Trust III"), which was established under the laws of Ontario as of February 28, 2005 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 III. Credit Trust III will terminate on or about March 23, 2012 (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 February 28, 2005 are (i) to pay to holders of Preferred Shares ("Shareholders"), on or about March 23, 2012 (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 $0.275 per Preferred Share ($1.10 per annum to yield 4.40% 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 the TD Global Finance, a member of the TD Bank Financial Group (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 III. The Credit-Linked Note has been issued by Toronto-Dominion Bank ("TD Bank"). The Credit-Linked Note is issued at 97%, will mature on March 22, 2012 and pays a Canadian dollar coupon of 5.416% per annum on the outstanding principle amount to yield 5.94% per annum. 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 125 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 March 22, 2005.

In the event TD Bank 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 TD Bank, 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 3.8% 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 III. Any excess received by Credit Trust III over what is paid out will be reinvested by Credit Trust III 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 III (note 1). The financial statements of the Company and Credit Trust III have been consolidated for financial reporting purposes by virtue of the fact that the activities of Credit Trust III are considered to be an extension of the operations of the Company and as such, Credit Trust III forms an integral part of the Company's business activities. Although not sharing common ownership, both the Company and Credit Trust III 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 III'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 TD Bank. 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.

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.

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 $0.275 per Preferred Share on the last business day of March, June, September and December in each year (each, a “Distribution Payment Date”).

Preferred Shares may be surrendered at any time for retraction to the Company’s registrar and transfer agent, but will be retracted only on the last day of the month (a “Valuation Date”). On retraction, holders will be entitled to receive a retraction price per share (“Preferred Share Retraction Price”) equal to 95% of the net asset value per Preferred Share determined as of the relevant Valuation Date less $0.25. Any declared and unpaid distributions payable to holders of record on or before a Valuation Date in respect of Preferred Shares tendered for retraction on such Valuation Date will also be paid on the retraction payment date.

For purposes of determining the Preferred Share Retraction Price, the net asset value per Preferred Share will be equal to the aggregate value of (i) the Forward Agreement, and (ii) any other assets of the Company, less liabilities of the Company (excluding preferred share capital) and less the amount paid for the Company’s Class A Shares, divided by the number of Preferred Shares outstanding.

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 March 8, 2005, the Company issued 10,600,000 Preferred Shares at a price of $25.00 per Preferred Share for aggregate gross proceeds of $265 million. Issue costs of $9,055,800 incurred in connection with the share issuance have been charged against retained earnings. No Preferred Shares were retracted or redeemed during the period from March 8, 2005 (inception date) 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 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 March 8, 2005, 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 III.

The payment obligations of the Counterparty to the Company under the Forward Agreement will be determined by reference to the performance of Credit Trust III. The Counterparty may hedge its exposure under the Forward Agreement to the economic performance of the Credit Trust III. 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 III, calculated and payable quarterly in arrears.

7 Distributions

Targeted quarterly distributions are $0.275 per Preferred Share. During the six months period ended on December 31, 2005, the Company met its targeted quarterly distribution and paid total distributions of $5,830,000, or $0.55 per share ($3,649,580, or $0.3443 per share, from March 8, 2005 to June 30, 2005) 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 the lesser of (a) 0.25% per annum of the net asset value of the Company and (b) 0.25% of the Company's initial net asset value, to be calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to Credit Trust III, the Manager will also receive an annual management fee in an amount equal to the lesser of (a) 0.10% per annum of the net asset value of the Credit Trust III and (b) 0.10% of the Credit Trust III's initial net asset value, 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 June 30, 2005 comparative figures have been reclassified from the statements previously presented to conform to the presentation of the December 31, 2005 financial statements.