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**ROC Pref III Corp.**  
Annual Report

## ROC Pref III Corp Message to Shareholders

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

Dear Investor,

We welcome the opportunity to provide you with the financial statements for ROC Pref III Corp for the period from March 8<sup>th</sup>, 2005 (inception date) to June 30<sup>th</sup>, 2005, along with an update on the company's performance.

ROC Pref III Corp was launched on March 8<sup>th</sup>, 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 June 30<sup>th</sup>, 2005 the NAV of ROC Pref III Corp was \$23.66, down from the initial NAV of \$24.15. The share's closing price on the TSX was \$24.45 and they have traded in a range from \$23.80 to \$24.80 since inception. ROC Pref III Corp preferred shares continue to be rated P-1 Low by Standard & Poors, a division of The McGraw Hill Companies, Inc ("S&P").

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

On June 30<sup>th</sup>, ROC Pref III Corp paid cash distribution of \$0.3443 per preferred share. The distribution was 100% return of capital. ROC Pref III Corp 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 annual management report of fund performance for ROC Pref III Corp. (“the Company”) contains financial highlights but does not contain the complete annual financial statements. **It should be read in conjunction with the attached consolidated financial statements and accompanying notes, together with the prospectus dated February 28, 2005 qualifying the public offering of the preferred shares of the Company (“the Prospectus”).**

### *Investment Objectives and Strategy*

The Company’s investment objectives are: to pay holders of preferred shares an amount per preferred share equal to the original subscription price of \$25.00 on or about March 23, 2012; and 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”) (refer to the Supplementary Financial Information - CLN Portfolio Schedule as of June 30, 2005 for listing of the reference portfolio), all of which were rated investment grade at the time the CLN was issued. The Reference Portfolio is actively managed by Connor, Clark & Lunn Investment Management.

In order to provide exposure to the CLN, the Company:

- (i) Purchased a portfolio of the common shares of 12 publicly traded Canadian companies on March 8<sup>th</sup>, 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.

### *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 & 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.

## ***Results of Operations***

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

#### *The common share portfolio*

The value of the common share portfolio decreased from \$255.944 million at inception to \$223.008 million at June 30, 2005. This decline resulted from the combination of a decline in the market value of the portfolio of \$28.768 million and the delivery of shares with an aggregate cost of \$4.168 million in order to partially settle under the Forward Agreement. The details of the common share portfolio at June 30, 2005 are set out in the Consolidated Statement of Investments in the accompanying financial statements.

#### *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 \$4.168 million to TDGF in exchange for \$4.080 million in cash.

#### *Other investments of the Company*

The Company has no other investments apart from cash and equivalents which are held in order to fund near-term operating expenses. As at June 30, 2005 the Company held \$620,560 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 \$686,208 in cash and short-term investments on June 30, 2005.

### ***Investments of Credit Trust III***

#### *The CLN*

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 credit linked note's reference portfolio (the "Reference Portfolio"). Based on the Reference Portfolio's credit quality, the rating agency assigns a minimum level of subordination, which reflects the degree of net losses that a portfolio must be able to absorb without impacting cash flows to shareholders. In order to achieve an A- credit rating, the Company's required level of subordination is currently 3.80%. 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 1.7x the worst level of defaults experienced among a mix of credits comparable to that of the Reference Portfolio in any seven-year period since 1973, the earliest date from which reliable studies are available.

The CLN features an embedded trading reserve account, initially in an amount of \$2.150 million, which stood at \$3.817 million on June 30, 2005. The trading reserve account is available to absorb net losses that might be incurred when the investment manager makes substitutions in the reference portfolio. The trading reserve account can also be used to purchase additional subordination from TD Bank. At June 30, the trading reserve account would have purchased an additional 0.29% of subordination, bringing total percentage loss that could be absorbed in the Reference Portfolio without affecting payments of interest or principal to 4.09%.

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 June 30, 2005 (Unaudited). *Please refer to the Prospectus for a detailed discussion of the CLN.*

*Credit quality of the Reference Portfolio*

The following table describes the Reference Portfolio's ratings characteristics on the date of issuance on March 8th, 2005, the end of the first quarter on March 31, 2005 and on June 30th, 2005:

Rating	Number of Issuers			Rating	Number of Issuers		
	March 8, 2005	March 31, 2005	June 30, 2005		March 8, 2005	March 31, 2005	June 30, 2005
AAA	6	6	6	BBB+	28	28	26
AA+	0	0	0	BBB	21	21	21
AA	1	1	1	BBB-	11	11	9
AA-	3	3	3	BB+	0	0	1
A+	11	11	11	BB	0	0	1
A	19	19	20	BB-	0	0	0
A-	25	25	26	N/R	0	0	0
Total					125	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 June 30, 2005 five companies in the Reference Portfolio had their debt downgraded by S&P while two companies were upgraded. The portfolio substitutions described below have helped to keep the weighted average ratings distribution of the portfolio approximately constant since inception.

### *Substitutions in the Reference Portfolio*

The Reference Portfolio is managed by Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”). The Investment Manager’s goal is to reduce the likelihood of having exposure to companies that default on their senior obligations. To that end, the Investment Manager can add or remove companies through a substitution process executed in accordance with the terms of the CLN. If the Investment Manager decides to remove a company that, in its judgment, has increased in risk, and to replace it with a lower risk company, there may be a net cost to the 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 four substitutions in the Reference Portfolio since inception.

### *Value of the CLN*

The CLN is valued on the 10<sup>th</sup> and last business day of each month by 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 June 30, 2005, the CLN value was \$251.039 million, down from \$255.944 million at inception.

### *Other investments of the Credit Trust*

The Credit Trust held \$65,647 in cash on June 30, 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 June 30, 2005, the value of the common share portfolio was \$223.008 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 June 30, 2005 value of the Forward Agreement was \$28.351 million. Other net assets in ROC Pref III Corp. prior to consolidation totalled \$(524,735) leaving a net asset value of \$250.834 million or \$23.66 per Preferred Share.

The net asset value per Preferred Share was \$24.15 (\$25.00 per share offering price less \$0.85 per share issue expenses) as at March 8, 2005. The decrease in net asset value over the period is attributable to a decrease in the value of the CLN due to decreasing values of corporate debt in relation to government debt.

### *Liquidity and Capital Resources*

The obligations of the Company include operating expenses and declared distributions to preferred shareholders. The funding of these obligations will be satisfied primarily through partial settlements under the Forward Agreement as described above. As at June 30, 2005, the Company had current assets of \$1,058,879 and current liabilities of \$934,395 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 period from March 8, 2005 (inception date) to June 30, 2005 was approximately 1.39%.

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 period from March 8, 2005 (inception date) to June 30, 2005 was approximately 0.96%.

### ***Distributions***

A distribution of \$0.3443 per share was paid on June 30 2005 in respect of the period from March 8<sup>th</sup>, 2005 to June 30, 2005.

### ***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 accrued during the period from March 8, 2005 (inception date) to June 30, 2005 were \$287,191 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 period from March 8, 2005 (inception date) to June 30, 2005 were \$328,547.

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 help understand the Company's financial performance since inception. This information is derived from the fund's audited annual financial statements.

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

	June 30, 2005 <sup>(1)</sup>
<b>Net Asset Value, beginning of period</b>	<b>25.00</b>
<b>Increase (decrease) from operations:</b>	
Total revenues	0.43
Total expenses	(0.10)
Share issue expense <sup>(2)</sup>	(0.85)
Realized gains (losses) for the period	(0.05)
Unrealized gains (losses) for the period	<u>(0.43)</u>
<b>Total decrease from operations <sup>(3)</sup></b>	<b><u>(1.00)</u></b>
<b>Distributions:</b>	
From income (excluding dividends)	—
From dividends	—
From capital gains	—
Return of capital	<u>(0.34)</u>
<b>Total Annual Distributions <sup>(4)</sup></b>	<b><u>(0.34)</u></b>
<b>Net Asset Value, end of period</b>	<b><u>23.66</u></b>

<sup>(1)</sup> Results for the period March 8, 2005 (Inception date) to June 30, 2005.

<sup>(2)</sup> Issue expense of \$9,055,800 incurred in connection with the share issuance, which has been charged to retained earnings.

<sup>(3)</sup> 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.

<sup>(4)</sup> Distributions were paid in cash.

**Ratios and Supplemental Data:**

	<b>June 30, 2005 <sup>(1)</sup></b>
Net assets (000's) <sup>(2)</sup>	250,834
Number of Preferred shares outstanding <sup>(2)</sup>	10,600,000
Management expense ratio <sup>(3)</sup>	1.39%
Management expense ratio before waivers or absorptions (3)	1.39%
Management expense ratio excluding deferred management fees <sup>(4)</sup>	0.96%
Portfolio turnover rate <sup>(5)</sup>	91.74%
Trading expense ratio <sup>(6)</sup>	0.00%
Closing market price (TSX)	24.45

<sup>(1)</sup> Results for the period March 8, 2005 (Inception date) to June 30, 2005.

<sup>(2)</sup> This information is provided as at June 30, 2005.

<sup>(3)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. To the extent that assets remain in the Company after the original issue price of the Preferred Shares together with any accrued and unpaid distributions have been paid to Shareholders, the Manager is entitled to: (a) an additional one-time management fee, the "Deferred Management Fee", payable on the Redemption Date and calculated on the quarterly net asset value of the Company on an effective basis of up to 0.65% per annum; and (b) to recover any fees and expenses funded by it on behalf of the Company, plus applicable taxes,. The Management expense ratio is based on all the ongoing expenses and the Deferred Management Fee portion.

<sup>(4)</sup> A separate management expense ratio has been presented above excluding deferred management fees.

<sup>(5)</sup> 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.

<sup>(6)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

**Summary of Investment Portfolio <sup>(\*)</sup>**

	<b>Maturity date</b>	<b>Number of shares or par value</b>	<b>Average Cost \$</b>	<b>Market Value \$</b>	<b>% Of Portfolio</b>
<b>Short-term investments</b>					
<b>Bearer Deposit Notes</b>					
Bank of Montreal	8/3/2005	450,000	448,884	448,977	75.0%
Bank of Montreal	8/18/2005	150,000	149,037	149,492	25.0%
<b>Total short-term investments</b>			<u>597,921</u>	<u>598,469</u>	<u>100.0%</u>
<b>Investments</b>					
<b>Canadian credit-linked notes</b>					
Toronto-Dominion Bank 5.416% Bond	3/22/2012	263,860,000	255,944,200	251,038,581	100.0%
<b>Total Canadian credit-linked notes</b>			<u>255,944,200</u>	<u>251,038,581</u>	<u>100.0%</u>
<b>Canadian common stocks (pledged to the Counterparty under the Forward Agreement)</b>					
<b>Energy</b>					
First Calgary Petroleums Limited		989,300	21,329,308	7,963,865	3.2%
Precision Drilling Corporation		438,160	21,129,108	21,158,746	8.4%
Western Oil Sands Inc.		1,029,600	21,329,880	24,494,184	9.8%
			<u>63,788,296</u>	<u>53,616,795</u>	<u>21.4%</u>
<b>Materials</b>					
Ivanhoe Mines Limited.		2,021,700	21,328,935	19,246,584	7.7%
Kinross Gold Corporation.		3,042,200	25,302,264	22,816,500	9.1%
			<u>46,631,199</u>	<u>42,063,084</u>	<u>16.8%</u>
<b>Consumer discretionary - Media</b>					
CanWest Global Communications Sub Voting		1,466,900	21,328,726	19,979,178	8.0%
<b>Healthcare - Pharmaceuticals &amp; Biotechnology</b>					
Biovail Corporation		1,082,169	21,643,380	20,463,816	8.1%
<b>Information Technology - Software &amp; Services</b>					
CGI Group Class A		3,206,000	25,301,885	23,596,160	9.3%

	<b>Number of Maturity shares or par date</b>	<b>Average Cost \$</b>	<b>Market Value \$</b>	<b>% Of Portfolio</b>
<b>Information Technology – Hardware &amp; Services</b>				
ATI Technologies	1,176,240	25,302,645	17,055,480	6.8%
Celestica Inc.	1,491,500	21,999,625	24,460,600	9.7%
Nortel Networks Corporation	6,825,404	25,305,333	21,773,039	8.7%
		<u>72,607,603</u>	<u>63,289,119</u>	<u>25.2%</u>
<b>Total Canadian common stocks</b>		251,301,089	223,008,152	88.8%
<b>Payable to the Counterparty under the Forward Agreement</b>		<u>(251,301,089)</u>	<u>(223,008,152)</u>	<u>(88.8%)</u>
<b>Total investments</b>		<u>255,944,200</u>	<u>251,038,581</u>	<u>100.0%</u>

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

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

<b>Entity Description</b>	<b>SP Rating</b>	<b>Industry</b>	<b>Country</b>
Accor	BBB	Lodging & casinos	France
Acuity Brands Inc.	BBB-	Electronics/electrical	USA
Aetna Inc.	BBB+	Insurance	USA
Alltel Corporation	A	Telecommunications	USA
Altria Group Inc.	BBB+	Beverage & Tobacco	USA
Ambac Financial Group Inc.	AAA	Insurance	USA
Amgen Inc.	A+	Drugs	USA
Aon Corporation	BBB+	Insurance	USA
Ashland Inc.	BBB	Chemicals & plastics	USA
Autozone Inc.	BBB+	Retailers (except food & drug)	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-	Building & Development	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
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.	BBB-	Automotive	USA
Deluxe Corporation	BBB+	Publishing	USA
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 (Explicitly Guaranteed)	USA
Federal National Mortgage Association	AAA	U.S. Agency (Explicitly 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

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**Supplementary Financial Information**  
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**(Unaudited)**

<b>Entity Description</b>	<b>SP Rating</b>	<b>Industry</b>	<b>Country</b>
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
Hartford Financial Services Group Inc. (The)	A-	Insurance	USA
Hellenic Telecommunications Organiz Sa	BBB+	Telecommunications	Greece
Hertz Corporation (The)	BBB-	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+	Financial intermediaries	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
Man Group Plc	N/R	Brokers Dealers & Investment houses	Britain
MBIA Inc.	AA	Insurance	USA
MBNA America Bank N.A.	BBB+	Financial intermediaries	USA
Mckesson Corporation	BBB	Health care	USA
Merck & Co Inc.	AA-	Drugs	USA
Merrill Lynch & Co. Inc.	A+	Financial intermediaries	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.	BBB-	Publishing	Canada
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

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

<b>Entity Description</b>	<b>SP Rating</b>	<b>Industry</b>	<b>Country</b>
SLM Corporation	A	Financial intermediaries	USA
Sodexo Alliance Sa	BBB+	Food service	France
Southwest Airlines Co.	A	Air transport	USA
Suncor Energy Inc.	A-	Oil & gas	Canada
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
The PMI Group Inc.	A	Insurance	USA
Time Warner Inc.	BBB+	Leisure goods/activities/movies	USA
Transocean Inc.	A-	Oil & gas	USA
TXU Corporation	BBB-	Utilities	USA
Tyson Foods Inc.	BBB	Food products	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

## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **ROC Pref III Corp.** and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors (the "Board").

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  
July 21, 2005

July 21, 2005

**Auditors' Report**

**To the Shareholders of  
ROC Pref III Corp.**

We have audited the consolidated statement of financial position of **ROC Pref III Corp.** as at June 30, 2005 and the consolidated statements of operations, cash flows and changes in shareholders' equity and retained earnings and investments for the period from March 8, 2005 (inception date) to June 30, 2005. 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 audit.

We conducted our audit 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 June 30, 2005 and the results of its operations, its cash flows and changes in shareholders' equity and retained earnings and investments for the period from March 8, 2005 (inception date) to June 30, 2005 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# ROC Pref III Corp.

## Consolidated Statement of Financial Position

As at June 30, 2005

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### Assets

Cash	\$	88,287
Short-term investments		597,921
Investments at market value (cost – 255,944,200)		251,038,581
Interest receivable		352,920
Prepaid expenses		19,751
	\$	<u>252,097,460</u>

### Liabilities

Accounts payable and accrued liabilities	\$	647,204
Deferred management fees payable		328,547
Management fees payable		287,191
Preferred share capital (note 5)		250,834,418
		<u>252,097,360</u>

### Shareholders' Equity

Share capital (note 5)		100
Retained earnings		—
		<u>100</u>

**Total Liabilities and Shareholders' Equity** \$ 252,097,460

**Number of Preferred Shares outstanding** (note 5) 10,600,000

**Value per Preferred Share outstanding** \$ 23.66

On behalf of the Board of Directors of ROC Pref Corp.:



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(See accompanying notes to the financial statements.)

# ROC Pref III Corp.

## Consolidated Statement of Operations

For the period from March 8, 2005 (inception date) to June 30, 2005

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	\$
<b>Revenue</b>	
Interest	4,509,423
<b>Expenses</b>	
Forward and hedging fees	347,135
Deferred management fees	328,547
Management fees	287,191
Audit fees	26,750
Custodial fees	22,511
Rating agency fees	12,493
Sustaining fees	9,513
Directors' fees	7,945
Transfer agent fees	6,401
Legal fees	6,199
Printing and mailing charges	5,013
Other	4,308
	<u>1,064,006</u>
<b>Net investment income</b>	3,445,417
Net realized loss on investments	(563,111)
Unrealized gain on Forward Agreement (notes 2 and 6)	563,111
Unrealized loss on investments	<u>(4,905,619)</u>
<b>Decrease in net assets from operations</b>	<u>(1,460,202)</u>
<b>Distributions paid per Preferred Share</b>	
Return of capital	<u>0.34</u>
<b>Decrease in net assets from operations per Preferred Share</b>	<u>(0.14)</u>

(See accompanying notes to the financial statements.)

# ROC Pref III Corp.

Consolidated Statement of Changes in Shareholders' Equity and Retained Earnings  
For the period from March 8, 2005 (inception date) to June 30, 2005

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	\$
<b>Changes in Shareholders' Equity:</b>	
Share capital - Beginning of year	-
Proceeds from issuance of Class A share	100
	<hr/>
Share capital - End of year	100
	<hr/>
<b>Changes in Retained Earnings:</b>	
Retained Earnings, beginning of period	-
Decrease in net assets from operations	(1,460,202)
Expenses of issue of preferred shares (note 5)	(9,055,800)
Distributions paid on preferred shares	(3,649,580)
Plus deficit attributable to preferred shareholders (note 5)	14,165,582
	<hr/>
Retained Earnings, end of period	-
	<hr/>

(See accompanying notes to the financial statements.)

# ROC Pref III Corp.

## Consolidated Statement of Cash Flow

For the period from March 8, 2005 (inception date) to June 30, 2005

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	\$
<b>Operating Activities</b>	
Decrease in net assets from operations	(1,460,202)
Distributions paid on preferred shares	(3,649,580)
Items not affecting cash:	
Net realized loss on investments	563,111
Unrealized gain on Forward Agreement (notes 2 and 6)	(563,111)
Unrealized loss on investments	4,905,619
Changes in non-cash working capital	
Increase in interest receivable	(352,920)
Increase in prepaid expenses	(19,751)
Increase in accounts payable and accrued liabilities	647,204
Increase in Deferred management fees payable	328,547
Increase in Management fees payable	287,191
	<hr/>
<b>Net cash flow provided by operating activities</b>	<b>686,108</b>
<b>Investing Activities</b>	
Purchase of common stocks	(319,454,538)
Purchase of Credit-Linked Note	(255,944,200)
Proceeds on disposition of investments	63,510,338
Cash received from the Counterparty to fund the purchase of the Credit-Linked Note (note 2)	<hr/> 255,944,200
<b>Net cash used in investing activities</b>	<b>(255,944,200)</b>
<b>Financing Activities</b>	
Proceeds from issuance of preferred shares	265,000,000
Proceeds from issuance of Class A shares	100
Share issue costs	<hr/> (9,055,800)
<b>Net cash flow provided by financing activities</b>	<b>255,944,300</b>
<b>Net increase in cash and short-term investments</b>	<b>686,208</b>
<b>Cash and short-term investments - Beginning of period</b>	<hr/> —
<b>Cash and short-term investments - End of period</b>	<b>686,208</b>

(See accompanying notes to the financial statements.)

# ROC Pref III Corp.

## Consolidated Statement of Changes in Investments

For the period from March 8, 2005 (inception date) to June 30, 2005

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	\$
<b>Investments at average cost - Beginning of period</b>	–
Cost of common stocks purchased	319,454,538
Cost of Credit-Linked Note purchased	255,944,200
Cost of investments sold or delivered under the Forward Agreement	(68,153,449)
Cost of investments pledged to the Counterparty under the Forward Agreement (notes 2 and 6)	<u>(251,301,089)</u>
<b>Investments at average cost - End of period</b>	255,944,200
Unrealized loss on investments	<u>(4,905,619)</u>
<b>Investments at market value</b>	<u>251,038,581</u>
Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement	4,080,000
Cost of investments delivered on partial pre-settlement	<u>(4,168,340)</u>
Realized loss on partial pre-settlement	(88,340)
Proceeds on sale of investments (subsequently reinvested)	63,510,338
Cost of investments sold	<u>(63,985,109)</u>
Realized loss on sale of investments	<u>(474,771)</u>
<b>Realized loss on investments</b>	<u>(563,111)</u>
Original liability to Counterparty under Forward Agreement	255,944,200
Reduction in liability to the Counterparty under the Forward Agreement through partial pre-settlement	(4,080,000)
Liability to Counterparty under Forward Agreement at period end, at cost	<u>251,301,089</u>
<b>Unrealized gain on Forward Agreement</b>	<u>563,111</u>

(See accompanying notes to the financial statements.)

# ROC Pref III Corp.

## Consolidated Statement of Investments

As at June 30, 2005

	Maturity date	Number of shares or par value	Average cost \$	Market value \$	% of Portfolio
<b>Short-term investments</b>					
<b>Bearer Deposit Notes</b>					
Bank of Montreal	8/3/2005	450,000	448,884	448,977	75.0%
Bank of Montreal	8/18/2005	150,000	149,037	149,492	25.0%
<b>Total short-term investments</b>			<u>597,921</u>	<u>598,469</u>	<u>100.0%</u>
<b>Investments</b>					
<b>Canadian credit-linked notes</b>					
Toronto-Dominion Bank 5.416% Bond	3/22/2012	263,860,000	<u>255,944,200</u>	<u>251,038,581</u>	<u>100.0%</u>
<b>Total Canadian credit-linked notes</b>			<u>255,944,200</u>	<u>251,038,581</u>	<u>100.0%</u>
<b>Canadian common stocks (pledged to the Counterparty under the Forward Agreement)</b>					
<b>Energy</b>					
First Calgary Petroleum Limited		989,300	21,329,308	7,963,865	3.2%
Precision Drilling Corporation		438,160	21,129,108	21,158,746	8.4%
Western Oil Sands Inc.		1,029,600	21,329,880	24,494,184	9.8%
			<u>63,788,296</u>	<u>53,616,795</u>	<u>21.4%</u>
<b>Materials</b>					
Ivanhoe Mines Limited.		2,021,700	21,328,935	19,246,584	7.7%
Kinross Gold Corporation.		3,042,200	25,302,264	22,816,500	9.1%
			<u>46,631,199</u>	<u>42,063,084</u>	<u>16.8%</u>
<b>Consumer discretionary - Media</b>					
CanWest Global Communications Sub Voting		1,466,900	<u>21,328,726</u>	<u>19,979,178</u>	<u>8.0%</u>
<b>Healthcare - Pharmaceuticals &amp; Biotechnology</b>					
Biovail Corporation		1,082,169	<u>21,643,380</u>	<u>20,463,816</u>	<u>8.1%</u>
<b>Information Technology - Software &amp; Services</b>					
CGI Group Class A		3,206,000	<u>25,301,885</u>	<u>23,596,160</u>	<u>9.3%</u>

(See accompanying notes to the financial statements.)

# ROC Pref III Corp.

Consolidated Statement of Investments ...*continued*

As at June 30, 2005

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	Number of shares or par value	Average cost \$	Market value \$	% of Portfolio
<b>Information Technology – Hardware &amp; Services</b>				
ATI Technologies	1,176,240	25,302,645	17,055,480	6.8%
Celestica Inc.	1,491,500	21,999,625	24,460,600	9.7%
Nortel Networks Corporation	6,825,404	25,305,333	21,773,039	8.7%
		<u>72,607,603</u>	<u>63,289,119</u>	<u>25.2%</u>
<b>Total Canadian common stocks</b>		251,301,089	223,008,152	88.8%
<b>Payable to the Counterparty under the Forward Agreement</b>		<u>(251,301,089)</u>	<u>(223,008,152)</u>	<u>(88.8%)</u>
<b>Total investments</b>		<u>255,944,200</u>	<u>251,038,581</u>	<u>100.0%</u>

(See accompanying notes to the financial statements.)

# ROC Pref III Corp.

## Notes to Consolidated Financial Statements

### June 30, 2005

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#### 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.

# ROC Pref III Corp.

## Notes to Consolidated Financial Statements

### June 30, 2005

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#### Foreign currency translation

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

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

#### Foreign currency forward contracts

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

#### Forward contracts

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

#### 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 June 30, 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.

# ROC Pref III Corp.

## Notes to Consolidated Financial Statements

### June 30, 2005

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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 period from March 8, 2005 (inception date) to June 30, 2005, the Company met its targeted quarterly distribution and paid total distributions of \$3,649,580, or \$0.3443 per unit, representing return of capital to holders of Preferred Shares.

#### 8 Management fees and other expenses

Pursuant to a management agreement ("the Management Agreement") the Company has retained Connor, Clark & Lunn Capital Markets Inc. ("the Manager") to act as manager. As compensation for management services rendered to the Company, the Manager will receive an annual management fee in an amount equal to 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.