

Financial Statements of

**Canso Credit Opportunities  
Fund**

December 31, 2013 (Audited)



## INDEPENDENT AUDITORS' REPORT

### To the Unitholders of Canso Credit Opportunities Fund

We have audited the accompanying financial statements of Canso Credit Opportunities Fund which comprise the statement of net assets as at December 31, 2013 and 2012 and the statements of investment operations and changes in net assets for the years then ended, and the statement of investment portfolio as at December 31, 2013, and the related notes which comprise a summary of significant accounting policies and other explanatory information.

### The Fund Manager's Responsibility for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Fund Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canso Credit Opportunities Fund as at December 31, 2013 and 2012 its investments as at December 31, 2013 and its results of operations and its changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*Hennick Herman, LLP*

Richmond Hill, Canada  
March 12, 2014

CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS

# **Canso Credit Opportunities Fund**

December 31, 2013 (Audited)

## Table of Contents

	Page
Statement of Net Assets .....	1
Statement of Investment Operations .....	2
Statement of Changes in Net Assets .....	3
Statement of Investment Portfolio .....	4-5
Notes to the Financial Statements .....	6-14

# Canso Credit Opportunities Fund

## Statement of Net Assets

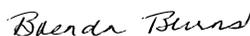
As at December 31st

	2013	2012
	\$	\$
<b>Assets</b>		
Investments at fair value (cost - \$1,278,473; 2012 - \$1,003,756) (Proceeds of Investments sold short - \$633,719; 2012 - \$572,866)	1,520,857	1,170,363
Cash and cash equivalents	8,485	615
Accrued interest and dividends	10,797	9,593
	<u>1,540,139</u>	<u>1,180,572</u>
<b>Liabilities</b>		
Market Value of Investments sold short	639,149	633,932
Accrued expenses	514	431
	<u>639,664</u>	<u>634,363</u>
<b>Total net assets</b>	<u>900,475</u>	<u>546,209</u>
<b>Number of Units Outstanding (Note 7)</b>		
	77,264	55,777
<b>Net assets per unit</b>		
	11.65	9.79

Signed on behalf of Canso Fund Management Ltd., as Manager and Trustee



Director



Director

*The accompanying notes form an integral part of the financial statements*

# Canso Credit Opportunities Fund

## Statement of Investment Operations

For the year ended December 31st

	2013	2012
	\$	\$
<b>Investment income</b>		
Interest	38,791	31,476
Dividend	14	-
	<u>38,805</u>	<u>31,476</u>
<b>Expenses</b>		
Audit fees	152	95
Management fees (Note 3)	4,052	2,646
Fund-administration fees	811	529
Transaction costs	259	-
IRC fees	14	18
Custodial fees	2,554	2,391
	<u>7,843</u>	<u>5,680</u>
Net investment income (loss)	<u>30,962</u>	<u>25,797</u>
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on investments sold	16,378	4,107
Net realized gain (loss) on foreign currency	(5,659)	4,051
Change in unrealized appreciation (depreciation) on investments	131,585	90,395
	<u>142,305</u>	<u>98,553</u>
<b>Increase (decrease) in net assets from operations</b>	<u>173,267</u>	<u>124,350</u>
<b>Increase (decrease) in net assets from operations per unit</b>	<u>2.24</u>	<u>2.23</u>

*The accompanying notes form an integral part of the financial statements*

# Canso Credit Opportunities Fund

## Statement of Changes in Net Assets

For the year ended December 31st

	2013	2012
	\$	\$
<b>Increase (decrease) in net assets from operations</b>	173,267	124,350
Distributions to unitholders from:		
Net investment income	(31,221)	(25,797)
Net capital gains	(10,719)	(7,076)
	(41,941)	(32,873)
Fund unit transactions:		
Proceeds from the sale of units	181,000	25,000
Cost of units redeemed	-	(24,337)
Net assets issued to unitholders on reinvestments in distribution:	41,941	32,873
	222,941	33,536
Increase (decrease) in net assets for the period	354,267	125,013
Net assets, beginning of period	546,209	421,196
<b>Net assets, end of period</b>	<b>900,475</b>	<b>546,209</b>

*The accompanying notes form an integral part of the financial statements*

# Canso Credit Opportunities Fund

## Statement of Investment Portfolio

As at December 31st, 2013

Par Value / # of Shares	Average Cost (\$)	Fair Value (\$)
<b>CURRENCY FORWARDS</b>		
(145,000) FX Forward - Buy CA Sell US (USCA140312AG)	-	(70)
<b>Total Currency Forwards</b>	<b>-</b>	<b>(70)</b>
<b>BONDS</b>		
38,000 Bell Canada 7.85% Apr 2, 2031	44,954	49,177
76,000 Blackberry Ltd. 6% Nov 13, 2020	79,359	81,642
84,000 Cogeco Cable Inc. 4.175 % May 26, 2023	79,519	80,557
44,000 Loblaw's 6.45% Mar, 1, 2039	45,223	48,918
18,000 Manulife Bank of Canada FRN Mar 14, 2016 (Q CDOR +55)	18,000	18,043
27,000 Nortel Networks Ltd 10.75% July 15, 2016 (USD)	16,037	33,599
19,000 Postmedia Network Inc. 8.25% Aug 16, 2017	17,734	18,200
46,000 Rogers Communication Inc. 6.56% Mar 22, 2041	46,000	52,859
30,000 Royal Bank of Canada FRN June 29, 2085(USD)(Q LIMEAN+25)	20,899	21,378
60,000 Shaw Communications Inc 6.75% Nov 9, 2039	62,294	66,950
3,000 Trans-Canada Pipelines FF 6.35% May 15, 2017/67 (USD)	1,866	3,333
1,001 Tuckamore Capital Management Inc. 3.624% Mar 23 2014	-	190
6,000 Tuckamore Capital Management Inc. 8% Mar 23 2016	1,928	4,929
22,000 Videotron Ltee Sr Notes 7.125% Jan 15, 2020	23,250	23,650
6,931 YPG Financing Inc. 8.0% Nov 30, 2022	5,796	7,624
21,416 YPG Financing Inc. 9.25% Nov 30, 2018	21,195	22,326
<b>Total Bonds</b>	<b>484,052</b>	<b>533,376</b>
<b>SECURITIES SOLD SHORT</b>		
(28,000) Canada 1.5% Sep 1, 2017	(27,906)	(27,866)
(41,000) Canada 1.50% Jun 1, 2023	(37,242)	(36,725)
(65,000) Canada 2.5% Jun 1, 2015	(65,281)	(66,332)
(69,000) Canada 3.75% June 1, 2019	(72,632)	(74,929)
(54,000) Canada 4% Jun 1, 2041	(58,055)	(61,484)
(79,000) Canada 4.0% June 1, 2016	(86,592)	(84,357)
(17,000) Canada 4.0% June 1, 2017	(18,241)	(18,430)
(23,000) Canada 4.25% Jun 1, 2018	(25,006)	(25,359)
(18,000) Canada 5.0% Jun 1, 2037	(21,881)	(23,295)
(39,000) Canada 5.75% Jun 1, 2029	(49,031)	(51,873)
(34,000) Canada 8% Jun 1, 2027	(51,996)	(52,813)
(26,000) Canada 8.0% Jun 1, 2023	(38,758)	(37,447)
(13,000) Genworth MI Canada 5.68% Jun 15, 2020	(13,008)	(14,276)
(42,000) US Treasury 1.75% May 15, 2023 (USD)	(42,016)	(40,271)
(26,000) US Treasury 3.125% Feb 15, 2043 (USD)	(26,075)	(23,694)
<b>Total Securities Sold Short</b>	<b>(633,719)</b>	<b>(639,149)</b>
<b>ASSET-BACKED SECURITIES</b>		
9,000 Score Trust 5.629% Feb 20, 2014	8,734	9,029
<b>Total Asset-Backed Securities</b>	<b>8,734</b>	<b>9,029</b>
<b>PRIVATE PLACEMENTS</b>		
37,000 Black Press Group Ltd. Series B 10.0% Dec 28, 2018	37,000	37,833
14,000 Health Montreal Collective LP(CHUM) 6.721% Sep 30, 2049	14,000	16,784
24,000 Honda Canada Finance Inc FRN Dec 3, 2018(Q CDOR +65)	24,000	24,024
29,000 Penske Truck Leasing Canada Inc. 3.65% Feb 1, 2018	29,225	29,316
15,868 Strait Crossing Dev.(SINK) Inc. 6.17% Sept 15, 2031	15,904	14,959
16 Xplornet Comm Inc. Warrants May 15, 2017 144A	-	0
30 Xplornet Comm Inc. Warrants Oct 25, 2023 Restricted	-	0
7 Xplornet Comm Inc. Warrants Series B May 15, 2017 144A	-	0
17,657 Xplornet Communications Inc. 144A 13.0% May 15, 2017	15,981	18,893
30,000 Xplornet Communications Inc. 13% Oct 25, 2020	30,000	30,375
7,406 Xplornet Communications Inc. 144A Series B 13.0% May 15, 2017	7,000	7,850
2 Xplornet Communications Pfd Class F	2,000	2,000
<b>Total Private Placements</b>	<b>175,110</b>	<b>182,034</b>

# Canso Credit Opportunities Fund

## Statement of Investment Portfolio

As at December 31st, 2013

Par Value / # of Shares	Average Cost (\$)	Fair Value (\$)
<b>FOREIGN FIXED INCOME</b>		
20,000 Caisse Francaise de Financement Local 5.0% Mar 9, 2020	19,410	20,307
42,000 Commerzbank AG Sub-debt FRN Dec 15, 2016 (Q CDOR +88)	34,980	39,480
28,000 Depfa ACS Bank 4.90% Aug 24, 2035	19,936	19,225
3,000 Depfa ACS Bank 5.25% Mar 31, 2025	2,433	2,510
36,000 Goldman Sachs 5.0% May 3, 2018	33,840	38,556
14,000 Heathrow Funding Limited FF 4.0% Jul 3, 2019/2021	14,120	14,423
90,000 Kaupthing Bank 4.7% Feb 15, 2010	5,500	21,600
13,000 Kimco North Trust III 5.99% April 13, 2018	14,026	14,391
44,000 Lehman Bros Hldg Inc 4.85% Sep 3, 2013	(3,808)	9,601
30,000 Lloyds Bank PLC 10.125% December 16, 2016/2021	28,500	35,025
11,000 Met Life FRN Sep 25, 2017 (Q CDOR +102)	11,015	11,126
40,000 Morgan Stanley 4.90% Feb 23, 2017	40,116	42,819
33,000 Royal Bank of Scotland Group Tier 1 6.666% Oct 5, 2017	10,707	33,007
19,000 Royal Bank of Scotland PLC 10.50% Mar 16, 2017	22,294	22,420
30,000 Royal Bank of Scotland PLC 5.37% May 12, 2016	13,958	25,610
89,000 Sallie Mae 5.625% Aug 1, 2033 (USD)	77,218	78,450
77,000 Unicredit FRN May 29, 2018 (Q CDOR +217)	77,000	79,464
<b>Total Foreign Fixed Income</b>	<b>421,244</b>	<b>508,014</b>
<b>MORTGAGE BACKED SECURITIES</b>		
8,000 MLFA 2002-BC2P A 6.673% May 7, 2021	4,803	4,694
4,000 MLFA 2006-CA19 B 5.06% Jun 12, 2016/39	3,930	4,256
22,000 REALT 2004-1 D1 6.1475% Oct 12, 2014	22,856	22,391
22,000 REALT 2004-1 E1 6.1475% Oct 12, 2014	21,552	22,314
<b>Total Mortgage Backed Securities</b>	<b>53,142</b>	<b>53,656</b>
<b>CANADIAN EQUITIES</b>		
3,714 Yellow Media Ltd.	29,961	76,323
<b>Total Income Trusts</b>	<b>29,961</b>	<b>76,323</b>
<b>FOREIGN EQUITIES</b>		
5,960 Commerzbank AG - ORD	59,901	102,131
<b>Total Income Trusts</b>	<b>59,901</b>	<b>102,131</b>
<b>CANADIAN EQUITIES SHORT</b>		
5 MIC CN 01/18/14 P16	695	-
2 MIC CN 01/18/14 P17	279	-
3 MIC CN 01/18/14 P18	536	-
3 MIC CN 01/18/14 P19	547	-
4 MIC CN 01/18/14 P20	688	-
10 MIC CN 01/18/14 P23	1,820	-
1 MIC CN 04/18/14 P26	361	20
<b>Total Mortgage Backed Securities</b>	<b>4,926</b>	<b>20</b>
<b>INCOME TRUSTS</b>		
5,000 Canso Credit Income Fund Class F	41,668	56,345
<b>Total Income Trusts</b>	<b>41,668</b>	<b>56,345</b>
<b>Transaction Costs</b>	<b>(266)</b>	<b>-</b>
<b>Total Investments</b>	<b>644,754</b>	<b>881,708</b>
Other assets, less liabilities		18,768
<b>Total Net Assets</b>		<b>900,475</b>

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**1. Formation of Fund**

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Canso Credit Opportunities Fund (the "Fund") is an open-end fund formed under the laws of the Province of Ontario by a declaration of trust dated August 14, 2008. The Fund is a no-load investment fund, which commenced operations on December 19, 2008.

The Fund seeks to achieve above average income returns through a diversified portfolio (the "Portfolio") composed primarily of debt and money market securities.

Canso Fund Management Ltd. (the "Manager") is the Investment Fund Manager and Trustee of the Fund and is responsible for providing or arranging the provision of all general management and administrative services required by the Fund in its day-to-day operations, including but not limited to, calculating and reporting the net asset value of the Fund and its series, preparing all offering documents, unitholder recordkeeping and other administrative services. The portfolio manager ("Portfolio Manager") of the Fund is Canso Investment Counsel Ltd.

**2. Significant Accounting Policies**

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These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The significant accounting policies of the Fund are as follows:

***Cash and cash equivalents***

Cash and cash equivalents consist of cash on deposit, and short-term investments, consisting of foreign currency forward contract with an initial term to maturity of less than 90 days.

***Financial Instruments***

The Fund's financial instruments include cash, investments (long and short), receivables for accrued interest, and accrued expenses. Cash and cash equivalents and investments (long and short) are classified as held for trading and carried at fair value with changes in fair value being presented in the statement of operations. Receivables for accrued interest are designated as loans and receivables and reported at amortized cost. Accrued expenses are designated as financial liabilities and reported at amortized cost. Due to their short term nature, the carrying value of these financial assets and liabilities approximates fair value.

The Fund classifies financial instruments carried at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy has the following levels (Refer to Note 9 for the Fair Value Measurements):

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**2. Significant Accounting Policies (cont'd)**

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***Investments***

The securities in the Fund's Portfolio are held for trading and are presented at fair value. The fair value of investments is determined as follows:

- (a) Investments held that are traded in an active market through recognized public stock exchanges or over-the-counter markets are valued at their bid prices for investments held long and at their ask prices for investments sold short. Bonds and short-term fixed income securities are valued at the bid quotation from recognized investment dealers. The difference between fair value and average cost of Portfolio securities is recorded as unrealized appreciation/depreciation of investments.
- (b) Investments for which reliable quotations are not readily available or for which there is no bid price are valued at its fair value determined by the Manager using appropriate and accepted industry valuation techniques and observable market inputs on such basis and such manner as established by the Manager.
- (c) Investments held in other investment funds are valued at the published Net Asset Value of those funds as these values reflect active and regularly occurring market transactions on a non-arm's length basis.

***Investment Transactions and Income Recognition***

Investment transactions are accounted for on a trade date basis. Interest income is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Realized gains and losses on the disposition of investments, and unrealized appreciation and depreciation of investments, are determined on an average cost basis and are included in the statement of operations. Distributions received from the underlying funds are recognized in the same form they are received, i.e. interest income, dividend income or realized gains (losses) on sale of investments, as appropriate.

Transaction costs related to purchases and sales of investments are expensed and included in the Statement of Operations as Transaction costs. Transactions costs are expenses that are directly attributable to investment transactions which include fees and commissions paid to brokers and dealers.

***Transactions in Underlying Funds***

The Fund may invest a portion of its assets in Canso Retirement & Savings Fund, Canso Corporate Securities Fund, Canso Corporate Value Fund, Canso Corporate Bond Fund, The Canso Fund, Canso Catalina Fund, Canso Reconnaissance Fund, Canso Inflation Linked Fund, Canso Income Fund, Canso Private Debt Fund, Canso Canadian Equity Fund, Canso Harrier Fund, Canso Preservation Fund, Canso Long Short Fund, Canso Hurricane Fund or in any other pooled funds or public mutual funds created and managed or advised by the Manager from time to time (the "Underlying Funds"). The Fund will invest in units of the Underlying Funds, to help achieve the Fund's objectives.

***Accounting Estimates***

The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. The most significant estimates relate to the valuation of investments. Actual results could differ from these estimates.

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**2. Significant Accounting Policies (cont'd)**

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*Net Asset Value*

The net asset value per unit of each series of units of each Fund is computed by dividing the net asset value of a series of units by the total number of units of the series outstanding at the time.

For financial statement reporting, Canadian GAAP requires that the fair value of investments traded in active markets be measured using the closing bid price (the "Net Assets"). The Fund continues to use the close or mid or last trade price as fair value of investments to determine the daily transactional Net Asset Value for purchases and redemptions by its unitholders (the "Net Asset Value"). A reconciliation between the Fund's GAAP Net Assets and the Fund's Net Asset Value for purposes other than financial reporting is given in Note 12.

*Foreign Exchange*

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments are translated at the rate of exchange prevailing on the respective dates of such transactions.

*Foreign Currency Forward Contracts*

The value of the foreign currency forward contracts is the gain or loss that would be realized if the position in the forward contract was closed out in accordance with its terms. The unrealized gains or losses on the forward contract are reported as part of the change in unrealized appreciation or depreciation on investments in the Statement of Operations. Forward currency contracts manage exposure to foreign currency gains and losses arising from short and long-term investments denominated in foreign currencies.

*Future Changes in Accounting Standards*

*International Financial Reporting Standards*

The Funds will be required to adopt the International Financial Reporting Standards ("IFRS") beginning in their fiscal 2014 year. In preparation to meet the requirements, Canso Fund Management Ltd. has taken the following steps in managing the transition to IFRS:

- a) Established a working group for the development and implementation of a transition plan and to provide oversight of the transition to IFRS;
- b) Will commence activities to identify key issues and the likely impacts resulting from the adoption of IFRS; and
- c) Will initiate analysis with the fund administrator to reconfigure accounting systems used by the Funds.

The key elements of the plan currently include the disclosures of the quantitative impact, if any, in the comparative 2013 financial statements and the preparation of the 2014 financial statements in accordance with IFRS.

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**2. Significant Accounting Policies (cont'd)**

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Since IFRS standards continue to evolve, the major qualitative impacts based on standards approved to date are the addition of a cash flow statement and the impact of classification of puttable instruments as a liability or as an equity.

Regardless of the financial statement impacts, Canso Fund Management Ltd. has presently determined that there will be no quantitative impact to the transactional NAV of each series as a result of the changeover to IFRS.

**3. Management Fees**

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In consideration for management and advisory services performed in its capacity as Manager of the Fund, the Manager is entitled to receive from the Fund a management fee which is payable monthly at an annualized rate of up to 0.50%, based on the net asset value of the Fund.

**4. Expenses of the Fund**

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The Fund is responsible for the payment of all direct expenses related to its operations, such as audit fees, Independent Review Committee fees, fund administration fees, and custodian fees plus harmonized sales tax.

**5. Taxation of the Fund**

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The Fund is a unit trust within the meaning of the Income Tax Act (Canada) (the "Act"). The Fund is subject to tax on its net taxable income, including net realized capital gains, for the calendar year which is not paid or payable to its unitholders as of the end of the calendar year. It is the intention of the Fund to pay all of its net taxable income and net realized capital gains so that the Fund will not be subject to income taxes other than foreign withholding taxes, if applicable. Therefore, no provision for income taxes has been made in these financial statements.

**6. Distributions of the Fund**

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Distributions of net income and net realized capital gains are made at least annually to unitholders on the last valuation date in the year.

Distributions are automatically reinvested in units of the Fund unless a unitholder has requested in writing that his or her distribution be made in cash. Unitholders may elect to receive distributions in cash by notifying the Manager in writing.

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**7. Unitholders' Equity**

*Issuance and Redemption of Units*

The Fund may issue an unlimited number of units. All units are fully paid when issued and are not transferable. Units are redeemable at the option of the unitholder.

Units of a Fund are issued and redeemed at the net asset value per unit. The net asset value per unit is calculated by dividing the total value of the net assets of the Fund by the total number of units outstanding for the Fund on such valuation date.

	<b>2013</b>	<b>2012</b>
<b>Units outstanding at beginning of period</b>	55,777	52,022
Units sold	17,903	2,782
Units redeemed	-	(2,364)
Units issued to unitholders on reinvestment of distributions	3,584	3,337
<b>Units outstanding at end of period</b>	<b>77,264</b>	<b>55,777</b>

**8. Related Party Transactions**

At December 31, 2013, the shareholders of the Manager and Portfolio Manager, together with certain immediate family members of such shareholders had an ownership interest in the Fund amounting to 100.00% (2012: 100%)

The Manager paid the Portfolio Manager, an affiliate of the Manager, \$1,621 (2012: \$1,058) for managing the investment portfolio of the fund.

**9. Fair Value Hierarchy**

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy as disclosed in Note 2. The following fair value hierarchy table presents information about the Fund's assets measured at fair value as at December 31, 2013. There have been no transfers between levels during the year.

<b>Financial Assets at Fair Value as at December 31, 2013</b>				
	<b>Level 1 (\$)</b>	<b>Level 2 (\$)</b>	<b>Level 3 (\$)</b>	<b>Total (\$)</b>
Equities	234,819	-	-	234,819
Short-Term				
Investments	-	(70)	-	(70)
Fixed Income	-	646,959	-	646,959
	<b>234,819</b>	<b>646,889</b>	<b>-</b>	<b>881,707</b>

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**9. Fair Value Hierarchy (cont'd)**

<b>Financial Assets at Fair Value as at December 31, 2012</b>				
	<b>Level 1 (\$)</b>	<b>Level 2 (\$)</b>	<b>Level 3 (\$)</b>	<b>Total (\$)</b>
Equities	53,705	-	-	53,705
Short-Term Investments	-	(439)	-	(439)
Fixed Income	-	483,166	-	483,166
	<u>53,705</u>	<u>482,727</u>	<u>-</u>	<u>536,432</u>

**10. Risk Management**

The Fund's activities expose it to a variety of financial risks in the normal course of operations. These include credit risk, liquidity risk, and market risk. The value of the investments in the Fund's portfolio can fluctuate as a result of changes in interest rates, general economic conditions, supply and demand conditions relating to specific securities, or news relating to a specific issuer. In order to manage risk, the Portfolio Manager will diversify the portfolio based on industry and credit rating category. Significant risks that are relevant to the fund are discussed below.

***Credit Risk***

Credit risk is the risk of financial loss that could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The Fund's main exposure to credit risk consists of investments in debt instruments, such as bonds. The Fund is also exposed to counterparty risk from other assets, such as amounts due from brokers or subscriptions receivable. To manage this risk, the Manager monitors the Fund's credit exposure and counterparty ratings. As at December 31, 2013 and December 31, 2012, the Fund had directly invested in debt instruments with the following credit ratings (the lowest of DBRS, Moody's, and Standard & Poor's is used):

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**10. Risk Management (cont'd)**

	<b>As a % of Net Assets</b>	
	<b>December 31, 2013</b>	<b>December 31, 2012</b>
AAA	-69.3%	-106.8%
AA	4.0%	9.0%
A	17.3%	62.6%
BBB	61.2%	74.7%
BB	26.4%	28.7%
B	2.6%	3.6%
CCC	3.4%	-
C	-	4.0%
D	1.1%	-
NR	26.6%	-
<b>Total</b>	<b>73.1%</b>	<b>75.8%</b>

***Liquidity Risk***

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations, including any redemption of units for cash. The Fund is exposed to possible daily redemptions at the then current Net Asset Value per unit. Liquidity risk is managed by investing a significant portion of the Fund's assets in investments that are traded in an active market and that can be readily sold. All liabilities of the Fund are due within one year.

***Market Risk***

***Interest Rate Risk***

Interest rate risk is the risk that the fair value or future cash flows of a fund asset will fluctuate because of changes in market interest rates. To manage interest rate risk, the Manager monitors exposures and maintains the portfolio duration within the limits specified in the investment policies and objectives of the fund. The table below summarizes the Fund's exposure to interest rate risks based on the remaining term to maturity of the investments.

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**10. Risk Management (cont'd)**

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		Less than 1 year (\$)	1-5 Years (\$)	More than 5 years (\$)	Total (\$)
Interest Rate					
Exposure	<b>December 31,2013</b>	<b>53,924</b>	<b>342,159</b>	<b>219,675</b>	<b>615,758</b>
	December 31,2012	-	336,623	115,478	452,101

If interest rates had increased or decreased by 1% at December 31, 2013, with all other variables remaining constant, net assets would have decreased or increased by approximately \$14,778 or 2.4% (2012: \$11,755 or 2.6%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

***Currency Risk***

Currency risk arises when the value of investments denominated in currencies other than Canadian dollars fluctuate due to changes in exchange rates. The Fund normally enters into a forward currency transaction that largely insulates the Fund from price changes due to changes in exchange rates.

***Price Risk***

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or market segment. This risk is managed through a careful selection of securities and other financial instruments within the parameters of the investment strategy and by maintaining a well-diversified portfolio.

**11. Capital Management**

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The Fund's capital consists of the Unitholder's equity. The Manager is responsible for managing the Fund's Portfolio in line with its mandate and the affairs of the Fund, including the receipt of revenues and the payment of distributions to the Unitholders.

**Canso Credit Opportunities Fund**  
**Notes to Financial Statements**  
**December 31, 2013 (Audited)**

**12. Reconciliation of Transactional NAV to GAAP NAV**

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<b>December 31, 2013</b>			
Net Asset Value per Unit (\$)		Net Asset Value (\$)	
Transactional NAV	GAAP NAV	Transactional NAV	GAAP NAV
11.70	11.65	904,255	900,475

<b>December 31, 2012</b>			
Net Asset Value per Unit (\$)		Net Asset Value (\$)	
Transactional NAV	GAAP NAV	Transactional NAV	GAAP NAV
9.85	9.79	549,521	546,209

**13. Statement of Portfolio Transactions**

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In accordance with Regulations under the Securities Act (Ontario), Statement of Portfolio Transactions for the period ended December 31, 2013 will be provided without charge by writing to the Manager at:

Canso Fund Management Ltd.  
100 York Boulevard  
Suite 550  
Richmond Hill, Ontario  
L4B 1J8

The Manager has an exemption from the requirement to file the Pooled Fund financial statements on SEDAR, the Ontario Securities Commission document website. Additional copies of the financial statements can be obtained directly from the Manager.