

**CANSO CREDIT OPPORTUNITIES FUND**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2014**

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## 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 financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable units and statement of cash flows for the years ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards principles, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 comply with ethical requirements and plan and perform the 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 the auditor's 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, the auditor considers 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 management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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, 2014, December 31, 2013 and January 1, 2013 and the results of its operations, its cash flows and the changes in its net assets for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

***Hennick Herman, LLP***

**Richmond Hill, Canada**  
March 12, 2015

**CHARTERED ACCOUNTANTS**  
**LICENSED PUBLIC ACCOUNTANTS**

**CANSO CREDIT OPPORTUNITIES FUND**

## Statement of Financial Position

As at December 31, 2014, December 31, 2013 and January 1, 2013

	December 31, 2014	December 31, 2013	January 1, 2013
<b>ASSETS</b>			
<b>Assets</b>			
Financial assets at fair value through profit or loss*	\$ 6,647,627	\$ 1,524,707	\$ 1,173,675
Cash and cash equivalents	-	8,485	615
Accrued interest and dividends	56,281	10,797	9,594
<b>Total Assets</b>	<b>\$ 6,703,908</b>	<b>\$ 1,543,989</b>	<b>\$ 1,183,884</b>
<b>LIABILITIES</b>			
<b>Liabilities</b>			
Bank indebtedness	\$ 27,016	\$ -	\$ -
Financial liabilities at fair value through profit or loss	1,575,900	639,150	633,932
Payable on foreign currency forward contracts	-	70	-
Accrued expenses	4,536	514	431
<b>Total Liabilities</b>	<b>\$ 1,607,452</b>	<b>\$ 639,734</b>	<b>\$ 634,363</b>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<b>\$ 5,096,456</b>	<b>\$ 904,255</b>	<b>\$ 549,521</b>
<b>Net Assets Attributable to Holders of Redeemable Units, By Class</b>			
Class C	\$ 1,169,021	\$ 904,255	\$ 549,521
Class F	3,927,435	-	-
	<b>\$ 5,096,456</b>	<b>\$ 904,255</b>	<b>\$ 549,521</b>
<b>Number of Redeemable Units Outstanding</b>			
Class C	94,942	77,264	55,777
Class F	409,019	-	-
	<b>503,961</b>	<b>77,264</b>	<b>55,777</b>
<b>Net Assets Per Redeemable Unit</b>			
Class C	\$ 12.31	\$ 11.70	\$ 9.85
Class F	\$ 9.60	\$ -	\$ -
<b>*Financial Assets at Fair Value Through Profit or Loss at Cost</b>	<b>\$ 6,360,730</b>	<b>\$ 1,278,473</b>	<b>\$ 1,003,756</b>
<b>Proceeds of Investments Sold Short</b>	<b>\$ 1,476,554</b>	<b>\$ 633,719</b>	<b>\$ 572,866</b>

SIGNED ON BEHALF OF CANSO FUND MANAGEMENT LTD., AS MANAGER AND TRUSTEE



Director



Director

(See Accompanying Notes to Financial Statements)

**CANSO CREDIT OPPORTUNITIES FUND**  
Statement of Comprehensive Income  
Year Ended December 31, 2014 and December 31, 2013

	December 31, 2014	December 31, 2013
<b>Income</b>		
Interest income	\$ 156,058	\$ 38,791
Dividend income	437	14
Realized and unrealized gain (loss) on investments:		
Net realized gain on investments sold	58,688	16,378
Net realized loss on foreign currency	(3,715)	(5,659)
Change in unrealized appreciation on investments	42,115	75,872
Change in unrealized (depreciation) appreciation on currency	(145)	175
Change in unrealized (depreciation) appreciation on securities sold short	(93,915)	55,635
Change in unrealized appreciation on foreign exchange forward contracts	70	369
	<u>159,593</u>	<u>181,575</u>
<b>Expenses</b>		
Management fees (notes 4 and 10)	27,596	4,052
Fund administration fees	1,810	811
Foreign taxes withheld	168	-
Audit fees	384	152
Custodial fees	4,996	2,554
Transaction cost	1,053	259
Miscellaneous expenses	129	-
Independent Review Committee fees	30	14
Bank charges	2,464	-
	<u>38,630</u>	<u>7,842</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units</b>	<u>\$ 120,963</u>	<u>\$ 173,733</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units Per Class</b>		
Class C	\$ 84,766	\$ 173,733
Class F	36,197	-
	<u>\$ 120,963</u>	<u>\$ 173,733</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units Per Unit</b>		
Class C	\$ 0.94	\$ 2.44
Class F	\$ 0.14	-

(See Accompanying Notes to Financial Statements)

**CANSO CREDIT OPPORTUNITIES FUND****Statement of Changes in Net Assets Attributable to Holders of Redeemable Units**

Year Ended December 31, 2014 and December 31, 2013

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units</b>	<b><u>\$ 120,963</u></b>	<b><u>\$ 173,733</u></b>
<b>Distributions to Unitholders of Redeemable Units:</b>		
From net investment income	(122,699)	(31,221)
From net capital gain	<u>(54,972)</u>	<u>(10,719)</u>
	<u>(177,671)</u>	<u>(41,940)</u>
<b>Redeemable Unit Transactions:</b>		
Proceeds from redeemable units issued		
Class C	180,000	181,000
Class F	<u>4,191,250</u>	<u>-</u>
	4,371,250	181,000
Cost of units redeemed		
Class F	<u>(300,012)</u>	<u>-</u>
Reinvested distributions	<u>177,671</u>	<u>41,941</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units for the Year</b>	<b>4,192,201</b>	<b>354,734</b>
<b>Net Assets Attributable to Holders of Redeemable Units, Beginning of Year</b>	<b><u>904,255</u></b>	<b><u>549,521</u></b>
<b>Net Assets Attributable to Holders of Redeemable Units, End of Year</b>	<b><u>\$ 5,096,456</u></b>	<b><u>\$ 904,255</u></b>

(See Accompanying Notes to Financial Statements)

**CANSO CREDIT OPPORTUNITIES FUND**

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units  
Year Ended December 31, 2014 and December 31, 2013

	<b>December 31, 2014</b>	December 31, 2013
<b>Class C</b>		
<b>Increase in Net Assets Attributable to Holders of Redeemable Units</b>	<b>\$ 84,766</b>	<b>\$ 173,733</b>
<b>Distributions to Unitholders of Redeemable Units:</b>		
From net investment income	(27,395)	(31,221)
From net capital gain	(12,609)	(10,719)
	<u>(40,004)</u>	<u>(41,940)</u>
<b>Redeemable Unit Transactions:</b>		
Proceeds from redeemable units issued	180,000	181,000
Reinvested distributions	40,004	41,940
	<u>220,004</u>	<u>222,940</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units for the Year</b>	<b>264,766</b>	<b>354,733</b>
<b>Net Assets Attributable to Holders of Redeemable Units, Beginning of Year</b>	<b>904,255</b>	<b>549,522</b>
<b>Net Assets Attributable to Holders of Redeemable Units, End of Year</b>	<b>\$ 1,169,021</b>	<b>\$ 904,255</b>

(See Accompanying Notes to Financial Statements)

**CANSO CREDIT OPPORTUNITIES FUND**

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units  
Year Ended December 31, 2014 and December 31, 2013

	<b>December 31, 2014</b>	December 31, 2013
<b>Class F</b>		
<b>Increase in Net Assets Attributable to Holders of Redeemable Units</b>	<b>\$ 36,197</b>	<b>\$ -</b>
<b>Distributions to Unitholders of Redeemable Units:</b>		
From net investment income	(95,304)	-
From net capital gain	(42,363)	-
	<u>(137,667)</u>	<u>-</u>
<b>Redeemable Unit Transactions:</b>		
Proceeds from redeemable units issued	4,191,250	-
Cost of units redeemed	(300,012)	-
Reinvested distributions	137,667	-
	<u>4,028,905</u>	<u>-</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units for the Year</b>	<b>3,927,435</b>	<b>-</b>
<b>Net Assets Attributable to Holders of Redeemable Units, Beginning of Year</b>	<b>-</b>	<b>-</b>
<b>Net Assets Attributable to Holders of Redeemable Units, End of Year</b>	<b>\$ 3,927,435</b>	<b>\$ -</b>

(See Accompanying Notes to Financial Statements)

**CANSO CREDIT OPPORTUNITIES FUND**

## Statement of Cash Flows

Year Ended December 31, 2014 and December 31, 2013

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Cash Flows Used in Operating Activities</b>		
Increase in net assets attributable to holders of redeemable units	\$ 120,963	\$ 173,733
Adjustments for:		
Foreign exchange gain on cash and cash equivalents	(175)	-
Net realized gain on sales of investments	(58,688)	(16,378)
Change in unrealized depreciation (appreciation) of currency	145	(175)
Change in unrealized appreciation of investments	(40,693)	(76,489)
Change in unrealized depreciation of investments sold short	936,750	5,218
Purchases of investments	(7,609,438)	(826,616)
Proceeds from sale and maturity of investments	2,585,869	568,277
Accrued interest and dividends	(45,484)	(1,203)
Accrued expenses	4,022	83
Payable on foreign currency forward contracts	(70)	70
<b>Net Cash Used in Operating Activities</b>	<b>(4,106,799)</b>	<b>(173,480)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuances of redeemable units	4,371,250	181,000
Amounts paid on redemption of redeemable units	(300,012)	-
<b>Net Cash From Financing Activities</b>	<b>4,071,238</b>	<b>181,000</b>
<b>Foreign Exchange Loss on Cash and Cash Equivalents</b>	<b>30</b>	<b>175</b>
<b>(Decrease) Increase in Cash and Cash Equivalents During the Year</b>	<b>(35,531)</b>	<b>7,695</b>
<b>Balance of Cash and Cash Equivalents, Beginning of Year</b>	<b>8,485</b>	<b>615</b>
<b>(Bank Indebtedness) Cash and Cash Equivalents - End of Year</b>	<b>\$ (27,016)</b>	<b>\$ 8,485</b>

(See Accompanying Notes to Financial Statements)



**CANSO CREDIT OPPORTUNITIES FUND**

## Schedule of Investment Portfolio

As At December 31, 2014

Par Value/# of Shares	Description	Average Cost	Fair Value
<b>Bonds (36.71%)</b>			
38,000	Bell Canada 7.85% Apr 2, 2031	\$ 44,952	\$ 52,543
120,000	Blackberry Ltd. 6% Nov 13, 2020	146,615	183,273
50,000	BNS FRN Aug 31, 2085 (USD) 6M US LIB +12.5	40,669	41,184
30,000	CIBC FRN Aug 31, 2085 (USD) (S/A US LIB +12.5)	23,862	26,102
102,000	Loblaws 6.45% Mar, 1, 2039	121,555	127,989
96,565	Postmedia Network Inc. (amort) 8.25% Aug 16, 2017	88,076	88,153
151,000	Postmedia-Sun Media Subs Receipts 8.25% Aug 16, 2017	151,755	151,755
50,000	Royal Bank of Canada FRN June 29, 2085(USD)(Q LIMEAN+25)	37,002	42,657
279,000	Shaw Communications Inc 6.75% Nov 9, 2039	325,393	346,341
3,000	Trans-Canada Pipelines FF 6.35% May 15, 2017/67 (USD)	1,866	3,603
92,000	Tuckamore Capital Management Inc. 8% Mar 23 2016	81,024	83,306
307,000	Videotron Ltee Sr Notes 5.625% June 15, 2025	307,661	306,488
40,000	Videotron Ltee Sr Notes 6.875% Jul 15, 2021	44,400	42,958
22,000	Videotron Ltee Sr Notes 7.125% Jan 15, 2020	23,250	22,972
6,931	YPG Financing Inc. 8.0% Nov 30, 2022	5,796	7,625
319,139	YPG Financing Inc. 9.25% Nov 30, 2018	337,469	335,096
<b>Total Bonds</b>		1,781,345	1,862,045
<b>Canadian Equities (5.22%)</b>			
13,300	Postmedia Network Canada	26,905	21,612
320	Tuckamore Capital Management Inc.	-	202
12,414	Yellow Media Ltd.	174,800	243,066
<b>Total Canadian Equities</b>		201,705	264,880
<b>Canadaian Equities Short (0.96%)</b>			
101	MIC CN 01/20/17 P31.57	49,229	48,733
<b>Total Canadian Equities Short</b>		49,229	48,733

(See Accompanying Notes to Financial Statements)

**CANSO CREDIT OPPORTUNITIES FUND**

## Statement of Investment Portfolio

As At December 31, 2014

Par Value/# of Shares	Description	Average Cost	Fair Value
<b>Foreign Fixed Income (64.93%)</b>			
138,000	Caisse Francaise de Financement Local 4.625% May 30, 2017	148,867	147,150
20,000	Caisse Francaise de Financement Local 5.0% Mar 9, 2020	19,410	22,769
411,000	Commerzbank AG Sub-debt FRN Dec 15, 2016 (Q CDOR +88)	398,639	401,753
85,000	Depfa ACS Bank 4.90% Aug 24, 2035	71,293	99,700
23,000	Depfa ACS Bank 5.25% Mar 31, 2025	22,779	27,536
186,000	Depfa Bank PLC FRN Dec 15, 2015 (Q EURIBOR +70)	260,018	249,044
268,000	Goldman Sachs 5.0% May 3, 2018	286,690	290,599
14,000	Heathrow Funding Limited 4.0% Jul 3, 2019	14,120	15,017
90,000	Kaupthing Bank 4.7% Feb 15, 2010	5,500	16,425
290,000	KFW 5.05% Feb 4, 2025	340,538	345,568
125,000	Kimco North Trust III 3.855% Aug 04, 2020	130,713	131,539
13,000	Kimco North Trust III 5.99% April 13, 2018	14,026	14,479
44,000	Lehman Bros Hldg Inc 4.85% Sep 3, 2013	(8,571)	5,720
143,000	Lloyds Bank PLC 10.125% December 16, 2016/2021	162,688	163,284
11,000	Met Life FRN Sep 25, 2017 (Q CDOR +102)	11,015	11,144
277,000	Met Life Global Funding I 2.682% Apr 16, 2019	278,660	282,439
66,000	Morgan Stanley 4.90% Feb 23, 2017	69,994	69,952
11,000	Navient Corp 5.5% Jan 15, 2019 (USD)	12,541	13,080
258,000	Navient Corp 5.5% Jan 25, 2023 (USD)	275,609	287,334
118,000	Navient Corp 5.625% Aug 1, 2033 (USD)	104,874	103,696
18,000	Neder Waterschapsbank 4.55% Mar 16, 2029	18,710	20,132
9,000	Neder Waterschapsbank 5.20% Mar 31, 2025	10,054	10,401
47,000	Royal Bank of Scotland Group Tier 1 6.666% Oct 5, 2017	25,078	52,170
30,000	Royal Bank of Scotland PLC 5.37% May 12, 2016	13,958	29,100
226,000	Royal Bank of Scotland PLC Sub 10.50% Mar 16, 2017/22	267,882	259,518
109,000	Royal Bank of Scotland Sub 9.5% Mar 16, 2017/22 (USD) REGS	139,165	144,211
77,000	Unicredit FRN May 29, 2018 (Q CDOR +217)	77,000	79,194
<b>Total Foreign Fixed Income</b>		<b>3,171,250</b>	<b>3,292,954</b>

(See Accompanying Notes to Financial Statements)

**CANSO CREDIT OPPORTUNITIES FUND**

## Statement of Investment Portfolio

As At December 31, 2014

<b>Par Value/# of Shares</b>	<b>Description</b>	<b>Average Cost</b>	<b>Fair Value</b>
<b>Mortgage Backed Securities (10.45%)</b>			
268,000	First National NHA MBS (97501497) 2.29% Jul 1, 2018	246,667	246,808
216,000	Merrill Lynch NHA MBS (97501046) 2.05% Jun 1, 2018	189,052	189,579
87,000	Merrill Lynch NHA MBS (97503038) 1.79% May 01, 2019	84,858	85,396
8,000	MLFA 2002-BC2P A 6.673% May 7, 2021	4,288	4,181
4,000	MLFA 2006-CA20 A3 4.809% Oct 12, 2016/2039	3,930	4,144
<b>Total Mortgage Backed Securities</b>		528,795	530,108
<b>Preferreds (0.48%)</b>			
3,800	US Financial 15 Split Corp Pfd.	21,855	24,130
<b>Total Preferreds</b>		21,855	24,130
<b>Private Placements (12.32%)</b>			
162,781	Access Justice Durham (amort) 5.015% Aug 31, 2039	167,419	172,427
37,000	Black Press Group Ltd. Series B 10.0% Dec 28, 2018	37,000	37,740
97,000	Honda Canada Finance Inc FRN April 7, 2017 (Q CDOR +33)	97,022	97,054
79,000	ORNGE Issuer Trust (amort) 5.727% Jun 11, 2034	85,797	85,510
18,000	Strait Crossing Dev. Inc. (amort) 6.17% Sep 15, 2031	15,532	17,443
39,178	Xplornet Comm Inc. 144A Sr. Sec. Series A 13.0% May 15, 2017	37,204	40,941
34,027	Xplornet Comm Inc. Sr. Uns. 13% Oct 25, 2020	30,000	35,558
30	Xplornet Comm Inc. Warrants Oct 25, 2023 Restricted	-	-
34	Xplornet Comm Inc. Warrants Series A May 15, 2017 144A	2	-
18	Xplornet Comm Inc. Warrants Series B May 15, 2017 144A	1	-
19,149	Xplornet Comm Inc. 144A Sr. Sec. Series B 13.0% May 15, 2017	18,573	20,106
2	Xplornet Comm Pfd Class F	2,000	2,000
116,000	Xplornet Subs Receipts 13% Oct 25, 2020	116,000	116,000
<b>Total Private Placements</b>		606,550	624,779

(See Accompanying Notes to Financial Statements)

**CANSO CREDIT OPPORTUNITIES FUND**

## Statement of Investment Portfolio

As At December 31, 2014

Par Value/# of Shares	Description	Average Cost	Fair Value
<b>Securities Sold Short (-31.07%)</b>			
(106,000)	Canada 1.50% Jun 1, 2023	(98,972)	(104,414)
(65,000)	Canada 2.5% Jun 1, 2015	(65,281)	(65,404)
(172,000)	Canada 2.5% Jun 1, 2024	(176,025)	(182,592)
(188,000)	Canada 3.5% Dec 1, 2045	(212,650)	(236,022)
(120,000)	Canada 3.50% Jun 1, 2020	(131,820)	(133,215)
(31,000)	Canada 3.75% June 1, 2019	(32,632)	(34,324)
(26,000)	Canada 4% Jun 1, 2041	(28,698)	(34,500)
(79,000)	Canada 4.0% June 1, 2016	(86,592)	(82,322)
(39,000)	Canada 5.0% Jun 1, 2037	(51,496)	(57,309)
(189,000)	Canada 5.75% Jun 1, 2029	(257,110)	(274,768)
(34,000)	Canada 8% Jun 1, 2027	(51,996)	(56,498)
(26,000)	Canada 8.0% Jun 1, 2023	(38,758)	(38,932)
(13,000)	Genworth MI Canada 4.242% Apr 1, 2024	(13,295)	(13,502)
(200)	Genworth MI Canada Inc.	(7,798)	(7,396)
(29,000)	US Treasury 2.5% May 15, 2024 (USD)	(31,421)	(34,660)
(26,000)	US Treasury 3.125% Feb 15, 2043 (USD)	(26,075)	(32,389)
(15,000)	US Treasury 3.625% Aug 15, 2043 (USD)	(16,686)	(20,467)
(148,000)	US Treasury 1.75% May 15, 2023 (USD)	(149,248)	(167,188)
<b>Total Securities Sold Short</b>		(1,476,553)	(1,575,902)
<b>Total Investments Portfolio (99.51%)</b>		\$4,884,176	5,071,727
Other assets less liabilities (0.49%)			24,729
<b>Net Assets Attributable to Holders of Redeemable Units</b>			\$5,096,456

(See Accompanying Notes to Financial Statements)

## **CANSO CREDIT OPPORTUNITIES FUND**

### **Notes to Financial Statements**

December 31, 2014

#### **1. Formation of Fund**

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 address of the Fund's registered office is 100 York Boulevard, Suite 550, Richmond Hill, Ontario.

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, preparing all offering documents, unitholder recordkeeping and other administrative services. The portfolio manager ("Portfolio Manager") of the Fund is Canso Investment Counsel Ltd.

The Fund has two Classes, Class C Units and Class F Units. Class C Units are available to clients of Canso Investment Counsel Ltd. who meet the qualifications applicable to Participants. The Class F Units are designed for fee-based and/or institutional accounts.

#### **2. Basis of Presentation and Adoption of IFRS**

These financial statements of the Fund as at December 31, 2014 has been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). These are the Fund's first IFRS financial statements issued after the date of transition, and accordingly IFRS 1, *First-Time Adoption of International Financial Reporting Standards* has been applied.

These financial statements are prepared using IFRS accounting policies, which were adopted by the Fund for the fiscal periods beginning on January 1, 2014, with an effective transition date of January 1, 2013. These accounting policies are based on IFRS and the interpretations of the *IFRS Interpretations Committee* that have been applied consistently to all periods presented throughout these financial statements.

The Fund's financial statements were previously prepared in accordance with previous Canadian generally accepted accounting principles - Part V of the Chartered Professional Accountants Handbook ("previous Canadian GAAP"), which differs in some areas from IFRS. Note 15 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the period ended December 31, 2013.

#### **3. Summary of Significant Accounting Policies**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Judgments made by management in the application of IFRS that have significant effects on the financial statements are disclosed, where applicable, in the relevant notes to the financial statements.

## CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2014

### 3. Summary of Significant Accounting Policies (cont'd)

The significant accounting policies followed in the preparation of these financial statements are summarized below:

#### a) Financial Instruments

The Fund accounts for its financial instruments in accordance with IAS 39, *Financial instruments: recognition and measurement* (IAS 39), which include cash and cash equivalents, financial assets/financial liabilities at fair value, interest and dividends receivable, bank indebtedness, payable on foreign currency forward contracts and accrued expenses. Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term investments in an active market with original maturities of three months or less, bank overdrafts and money market funds with daily liquidity and all highly liquid financial instruments that mature within three months of being purchased. Amounts due from brokers are receivables for securities sold that have been contracted for but not yet delivered on the reporting date. Amounts due to brokers are payables for securities purchased that have been contracted for but not yet delivered on the reporting date. Receivables for 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 recognizes financial instruments at fair value upon initial recognition on the trade date basis. The Fund classifies its investments in debt and equity securities and derivatives as financial assets or financial liabilities at fair value through profit or loss. These financial assets or financial liabilities are either held for trading or designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future or on initial recognition. They are part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking. All derivatives and short positions are included in this category. The Fund does not classify any derivatives as hedges in a hedging relationship.

Financial assets or financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's investment strategy as documented in its offering memorandum, and information about these financial assets and liabilities are evaluated by the management of the Fund on a fair value basis together with other relevant financial information.

All other financial assets and liabilities, including redeemable units, are measured at amortized cost. 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 fair value hierarchy of an instrument is determined considering the inputs that are significant to the entire measurement of such instrument and the level of the fair value hierarchy within which those inputs are categorized.

## **CANSO CREDIT OPPORTUNITIES FUND**

Notes to Financial Statements

December 31, 2014

### **3. Summary of Significant Accounting Policies (cont'd)**

#### **a) Financial Instruments (cont'd)**

The fair value hierarchy has the following levels (Refer to Note 12 for the Fair Value Hierarchy):

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### **b) Fair Value Measurements**

The securities in the Fund's Portfolio are measured at fair value through profit or loss. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and securities) are based on quoted market prices at the close of trading on the year-end date. The quoted market price used for financial assets and financial liabilities of the Fund is the last traded price provided such price is within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the points within the bid-ask spread that are most representative of the fair value.

#### **c) Investment Transactions and Income Recognition**

Dividend income is recognized when the Fund's right to receive the payment has been established, normally being the ex-dividend date. Dividend income is recognized gross of withholding tax, if any.

Interest on debt securities at fair value through profit or loss is accrued on a time-proportionate basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Interest income is recognized gross of withholding tax, if any.

At initial recognition, financial assets and liabilities are measured at fair value. Transaction costs on financial assets and liabilities at fair value through profit or loss are expensed as incurred in the statement of comprehensive income.

Subsequent to initial recognition, financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in their fair value are included in the statement of comprehensive income for the period in which they arise. Dividend or interest earned on financial assets at fair value through profit or loss and dividend or interest expense on the financial liabilities at fair value through profit or loss are disclosed in a separate line item in the statement of comprehensive income.

## **CANSO CREDIT OPPORTUNITIES FUND**

Notes to Financial Statements

December 31, 2014

### **3. Summary of Significant Accounting Policies (cont'd)**

#### **c) Investment Transactions and Income Recognition (cont'd)**

Financial assets are derecognized when the contractual rights to the cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership. Financial liabilities at fair value through profit or loss are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### **d) Accounting Estimates**

In the application of the Fund's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The most significant estimates relate to the valuation of investments. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### **e) Net Assets Attributable to Holders of Redeemable Units**

The Fund has two Classes of redeemable units: Class C Units and Class F Units, with Units in each Class representing an equal and rateable share in the assets allocated to each Class. The management fee rates are different for each of the classes. Please refer to Note 4 for discussion of management fee rates. The redeemable shares are classified as financial liabilities and are measured at the redemption amounts.

Units of the Fund may be purchased at a price per Unit equal to the net asset value of a Unit of the applicable Class of the Fund on each Valuation Date. Units of the Fund may be redeemed at a price per Unit equal to the net asset value of a Unit of the applicable Class of the Fund on each Valuation Date.

#### **f) Net Asset Value**

The net asset value per unit of each class of units of the Fund is computed by dividing the net asset value of a class of units by the total number of units of the class outstanding at the time. The Fund's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value ("NAV") for transactions with holders of redeemable units.



## CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2014

### 3. Summary of Significant Accounting Policies (cont'd)

#### g) Foreign Currency Translation

The Fund's subscriptions and redemptions are denominated in CAD, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the measurement date.

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, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. Foreign exchange gains and losses resulting from such transactions and from the translation at year-end exchange rates of assets and liabilities that are denominated in foreign currencies are recognized in profit or loss in the period in which they arise. Foreign exchange gains and losses on assets and liabilities at fair value through profit or loss are recognized together with other changes in the fair value. Net foreign exchange gains/losses on assets and liabilities other than those classified at fair value through profit or loss are included in the line item net foreign exchange gain (loss) in the statement of comprehensive income.

#### h) 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 comprehensive income. Forward currency contracts manage exposure to foreign currency gains and losses arising from short and long-term investments denominated in foreign currencies.

#### i) Future Changes in Accounting Standards

IFRS 9, *Financial Instruments*:

In November 2009, the IASB issued IFRS 9 which was amended in October 2010 and contains new classification and measurement requirements for financial assets. This standard addresses the classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 - Financial Instruments - Recognition and Measurement for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss.

IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

## **CANSO CREDIT OPPORTUNITIES FUND**

Notes to Financial Statements

December 31, 2014

### **3. Summary of Significant Accounting Policies (cont'd)**

#### **i) Future Changes in Accounting Standards (cont'd)**

Requirements for financial liabilities were added in October 2010 and largely carried forward the existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss). The Manager is currently evaluating the impact of IFRS 9 on the financial statements of the Fund.

The effective date for IFRS 9 as a whole is fiscal years beginning on or after January 1, 2018, at which point all elements of IFRS 9 must be adopted. The adoption of the standard may require additional disclosures in future financial statements and is not expected to affect the financial position of the Fund.

### **4. Management Fees**

In consideration for management and advisory services performed in its capacity as Manager of the Fund (Class C and Class F), the Manager is entitled to receive from the Fund (Class C and Class F) a management fee which is calculated daily and payable monthly at an annualized rate of up to 0.5% (Class C) and 1% (Class F), based on the net asset value of the Fund (Class C and Class F).

### **5. Expenses**

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. All expenses are recognized in the statement of comprehensive income on the accrual basis.

### **6. Performance Fees**

All references to net asset value per Unit in this section titled "Performance Fee" relate to class F Units only. The Manager will be entitled to receive a performance fee (the "Performance Fee") equal to 20% of the Fund's outperformance of the FTSE TMX Canada All Corporate Bond Index, after fees and expenses.

The Performance Fee shall be charged only to the Class F Units, be calculated and accrue monthly and be paid annually, if earned. The amount of the Performance Fee, if any, shall be determined as of December 31 of each year ("Determination Date").

The Performance Fee for a given Relevant Period will be an amount for each Class F Unit then outstanding equal to 20% of  $A \times B$ , where:

A = The amount by which the Canso Performance (defined below) exceeds the greater of (i) the Index Performance (defined below) during the Relevant Period, and (ii) zero; and

B = The net asset value per Class F Unit at the Determination Date; provided that no Performance Fee shall be payable if the Canso Performance is negative during the Relevant Period or during the fiscal year ending on the Determination Date, and further provided that after the payment of the Performance Fee, in any fiscal year, the return of the Class F Units will not be negative.

## CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2014

### 7. Taxation

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 redeemable 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. Withholding taxes, if any, are shown in a separate item in the statement of comprehensive income.

### 8. Distributions

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

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

### 9. Redeemable Units

#### 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 redeemable 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.

During the year ended December 31, 2014 and December 31, 2013, the number of units issued, redeemed and outstanding were as follows:

	<b>December 31, 2014</b>	December 31, 2013
<b>Units outstanding at beginning of year</b>	<b>77,264</b>	55,777
Redeemable units issued	<b>440,204</b>	17,903
Redeemable units redeemed	<b>(31,003)</b>	-
Redeemable units issued on reinvestments	<b>17,496</b>	3,584
<b>Units outstanding at end of year</b>	<b>503,961</b>	77,264

## CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2014

### 9. Redeemable Units (cont'd)

	<b>December 31, 2014</b>	December 31, 2013
<b>Class C:</b>		
<b>Units outstanding at beginning of year</b>	<b>77,264</b>	<b>55,777</b>
Redeemable units issued	<b>14,446</b>	17,903
Redeemable units issued on reinvestments	<b>3,232</b>	3,584
	<hr/>	<hr/>
<b>Units outstanding at end of year</b>	<b>94,942</b>	<b>77,264</b>
	<hr/>	<hr/>
<b>Class F:</b>		
<b>Units outstanding at beginning of year</b>	-	-
Redeemable units issued	<b>425,758</b>	-
Redeemable units redeemed	<b>(31,003)</b>	-
Redeemable units issued on reinvestments	<b>14,264</b>	-
	<hr/>	<hr/>
<b>Units outstanding at end of year</b>	<b>409,019</b>	-
	<hr/>	<hr/>

### 10. Related Party Transactions

At December 31, 2014, 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 21.94% Class C and 1.98% Class F (December 31, 2013: 100%; January 1, 2013: 100%) (Class C).

The Manager paid the Portfolio Manager, an affiliate of the Manager, \$11,039 (December 31, 2013: \$1,621) for managing the investment portfolio of the Fund.

**CANSO CREDIT OPPORTUNITIES FUND**

Notes to Financial Statements

December 31, 2014

**11. Financial Instruments by Category**

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2014:

Financial Assets at FVTPL as at December 31, 2014

	<u>Required</u>	<u>Designated at inception</u>	<u>Total</u>	<u>Financial assets at amortized cost</u>	<u>Total</u>
Designated as at fair value through profit or loss:					
Fixed income securities	\$ -	\$6,334,015	\$6,334,015	\$ -	\$6,334,015
Equity securities	-	313,613	313,613	-	313,613
Financial assets at amortized cost:					
Accrued interest and dividends	-	-	-	56,281	56,281
Total	<u>\$ -</u>	<u>\$6,647,628</u>	<u>\$6,647,628</u>	<u>\$ 56,281</u>	<u>\$6,703,909</u>

Financial Liabilities at FVTPL as at December 31, 2014

	<u>Required</u>	<u>Designated at inception</u>	<u>Total</u>	<u>Financial liabilities at amortized cost</u>	<u>Total</u>
Designated as at fair value through profit or loss::					
Investments sold short	\$ -	\$1,575,900	\$1,575,900	\$ -	\$1,575,900
Financial liabilities at amortized cost:					
Bank indebtedness	-	-	-	27,016	27,016
Accrued expenses	-	-	-	4,536	4,536
Total	<u>\$ -</u>	<u>\$1,575,900</u>	<u>\$1,575,900</u>	<u>\$ 31,552</u>	<u>\$1,607,452</u>

**CANSO CREDIT OPPORTUNITIES FUND**

Notes to Financial Statements

December 31, 2014

**11. Financial Instruments by Category (cont'd)**

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2013:

Financial Assets at FVTPL as at December 31, 2013

	<u>Required</u>	<u>Designated at inception</u>	<u>Total</u>	<u>Financial assets at amortized cost</u>	<u>Total</u>
Designated as at fair value through profit or loss:					
Fixed income securities	\$ -	\$1,289,310	\$1,289,310	\$ -	\$1,289,310
Equity securities	-	235,397	235,397	-	235,397
Financial assets at amortized cost:					
Cash and cash equivalents	-	-	-	8,485	8,485
Accrued interest and dividends	-	-	-	10,797	10,797
Total	<u>\$ -</u>	<u>\$1,524,707</u>	<u>\$1,524,707</u>	<u>\$ 19,282</u>	<u>\$1,543,989</u>

Financial Liabilities at FVTPL as at December 31, 2013

	<u>Required</u>	<u>Designated at inception</u>	<u>Total</u>	<u>Financial liabilities at amortized cost</u>	<u>Total</u>
Held for trading:					
Payable on foreign currency forward contracts	\$ 70	\$ -	\$ 70	\$ -	\$ 70
Designated as at fair value through profit or loss:					
Investments sold short	-	639,150	639,150	-	639,150
Financial liabilities at amortized cost:					
Accrued expenses	-	-	-	514	514
Total	<u>\$ 70</u>	<u>\$ 639,150</u>	<u>\$ 639,220</u>	<u>\$ 514</u>	<u>\$ 639,734</u>

**CANSO CREDIT OPPORTUNITIES FUND**

Notes to Financial Statements

December 31, 2014

**11. Financial Instruments by Category (cont'd)**

The following tables present the carrying amounts of the Fund's financial instruments by category as at January 1, 2013:

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Financial Assets at FVTPL as at January 1, 2013

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	Required	Designated at inception	Total	Financial assets at amortized cost	Total
Designated as at fair value through profit or loss:					
Fixed income securities	\$ -	\$ 1,119,970	\$ 1,119,970	\$ -	\$ 1,119,970
Equity securities	-	53,705	53,705	-	53,705
Financial assets at amortized cost:					
Cash and cash equivalents	-	-	-	615	615
Accrued interest and dividends	-	-	-	9,594	9,594
Total	\$ -	\$ 1,173,675	\$ 1,173,675	\$ 10,209	\$ 1,183,884

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Financial Liabilities at FVTPL as at January 1, 2013

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	Required	Designated at inception	Total	Financial liabilities at amortized cost	Total
Designated as at fair value through profit or loss:					
Investments sold short	\$ -	\$ 633,932	\$ 633,932	\$ -	\$ 633,932
Financial liabilities at amortized cost:					
Accrued expenses	-	-	-	431	431
Total	\$ -	\$ 633,932	\$ 633,932	\$ 431	\$ 634,363

## CANSO CREDIT OPPORTUNITIES FUND

### Notes to Financial Statements

December 31, 2014

#### 11. Financial Instruments by Category (cont'd)

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the year ended December 31, 2014 and December 31, 2013:

	Net gains (losses)	
	December 31, 2014	December 31, 2013
Financial assets at FVTPL:		
Designated at inception	<u>\$ 58,688</u>	<u>\$ 16,378</u>
Total	<u>\$ 58,688</u>	<u>\$ 16,378</u>

#### 12. Fair Value Hierarchy

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy as disclosed in Note 3. The following fair value hierarchy table presents information about the Fund's assets measured at fair value as at December 31, 2014, December 31, 2013 and January 1, 2013. There have been no transfers between levels during the year.

Financial Assets at Fair Value as at December 31, 2014				
	Level 1	Level 2	Level 3	Total
Equities	\$ 313,612	\$ -	\$ -	\$ 313,612
Fixed income	5,446,382	887,633	-	6,334,015
	<u>\$ 5,759,994</u>	<u>\$ 887,633</u>	<u>\$ -</u>	<u>\$ 6,647,627</u>

Financial Liabilities at Fair Value as at December 31, 2014				
	Level 1	Level 2	Level 3	Total
Bank indebtedness	\$ 27,016	\$ -	\$ -	\$ 27,016
Investments sold short	-	1,575,900	-	1,575,900
	<u>\$ 27,016</u>	<u>\$ 1,575,900</u>	<u>\$ -</u>	<u>\$ 1,602,916</u>



**CANSO CREDIT OPPORTUNITIES FUND**

Notes to Financial Statements

December 31, 2014

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

Financial Assets at Fair Value as at December 31, 2013				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,485	\$ -	\$ -	\$ 8,485
Equities	235,397	-	-	235,397
Fixed income	-	1,289,310	-	1,289,310
	<u>\$ 243,882</u>	<u>\$ 1,289,310</u>	<u>\$ -</u>	<u>\$ 1,533,192</u>

Financial Liabilities at Fair Value as at December 31, 2013				
	Level 1	Level 2	Level 3	Total
Investments sold short	\$ -	\$ 639,150	\$ -	\$ 639,150
Payable for foreign currency forward contracts	-	70	-	70
	<u>\$ -</u>	<u>\$ 639,220</u>	<u>\$ -</u>	<u>\$ 639,220</u>

Financial Assets at Fair Value as at January 1, 2013				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 615	\$ -	\$ -	\$ 615
Equities	53,705	-	-	53,705
Fixed income	-	1,119,970	-	1,119,970
	<u>\$ 54,320</u>	<u>\$ 1,119,970</u>	<u>\$ -</u>	<u>\$ 1,174,290</u>

Financial Liabilities at Fair Value as at January 1, 2013				
	Level 1	Level 2	Level 3	Total
Investments sold short	\$ -	\$ 633,932	\$ -	\$ 633,932

## CANSO CREDIT OPPORTUNITIES FUND

### Notes to Financial Statements

December 31, 2014

#### 12. Fair Value Hierarchy (cont'd)

The manager decided to change leveling approach of fixed income securities. Fixed income securities that are publicly quoted in an actively traded market are now classified at level 1. This represents a change in accounting policy and was applied retrospectively. The December 31, 2013 and January 1, 2013 comparatives were restated.

#### 13. 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 (including currency risk, interest rate risk and price 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, 2014, December 31, 2013 and January 1, 2013, the Fund had directly invested in debt instruments with the following credit ratings (bonds are classified based on information from Dominion Bond Rating Service, Standard and Poor's, and Moody's Investors Service using the same methodology as the FTSE/TMX Debt Market Indices):

As a percentage of net assets			
	December 31, 2014	December 31, 2013	January 1, 2013
AAA	-13.4 %	-69.3 %	-106.8 %
AA	11.4 %	4.0 %	9.0 %
A	16.9 %	17.3 %	62.6 %
BBB	18.8 %	61.2 %	74.7 %
BB	32.1 %	26.4 %	28.7 %
B	12.5 %	2.6 %	3.6 %
CCC	5.0 %	3.4 %	- %
NR	12.2 %	27.7 %	18.4 %
Total	95.5 %	73.3 %	90.2 %

## CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2014

### 13. Risk Management (cont'd)

#### 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. The Fund is exposed to interest rate risk as it invests in debt securities bearing interest at both fixed and floating interest rates and related derivative instruments. 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.

Interest Rate Exposure	Less than 1 year	1-5 Years	More than 5 years	Total
<b>December 31, 2014</b>	<b>\$ 335,395</b>	<b>\$ 3,088,370</b>	<b>\$ 1,293,470</b>	<b>\$ 4,717,235</b>
December 31, 2013	\$ 54,175	\$ 344,863	\$ 335,037	\$ 734,075
January 1, 2013	\$ -	\$ 344,637	\$ 145,179	\$ 489,816

If interest rates had increased or decreased by 1% at December 31, 2014, with all other variables remaining constant, net assets would have decreased or increased by approximately \$125,950 or 2.67% (December 31, 2013 - \$17,618 or 2.4%, January 1, 2013 - \$12,735 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. The Portfolio Securities of the Canso Credit Opportunities Fund, to which the Fund is exposed through the Forward Purchase Agreement, is comprised in part of US dollar denominated securities. The table below indicates the currencies to which the Trust had significant exposure as at December 31, 2014, December 31, 2013 and January 1, 2013 on its trading monetary and non-monetary assets and liabilities

#### As of December 31, 2014

	Holding Exposed to Currency Risk (Excluding derivatives) (\$)	Foreign Currency Contracts (\$)	Currency Exposure (\$)	As a % of Net Assets
U.S. Dollar	-	-	-	- %

## CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2014

### 13. Risk Management (cont'd)

Currency Risk: (cont'd)

As of December 31, 2013

	Holding Exposed to Currency Risk (Excluding derivatives) (\$)	Foreign Currency Contracts (\$)	Currency Exposure (\$)	As a % of Net Assets
U.S. Dollar	154,311	154,381	(70)	-0.01 %

As of January 1, 2013

	Holding Exposed to Currency Risk (Excluding derivatives) (\$)	Foreign Currency Contracts (\$)	Currency Exposure (\$)	As a % of Net Assets
U.S. Dollar	62,269	62,708	(439)	-0.08 %

As at December 31, 2014, the Canso Credit Opportunities Fund's sensitivity to foreign exchange was not significant as the fund was substantially hedged through forward currency contracts.

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.

### 14. Capital Management

The Fund's capital consists of the net assets attributable to holders of redeemable units. 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 holders of redeemable units.

### 15. Transition to IFRS

The effect of the Fund's transition to IFRS is summarized in this note as follows:

Transition elections

The Fund did not apply any transition exceptions or exemptions to full retrospective application of IFRS.

## CANSO CREDIT OPPORTUNITIES FUND

### Notes to Financial Statements

December 31, 2014

#### 15. Transition to IFRS (cont'd)

##### Statement of cash flows

Under Canadian GAAP, the Fund was exempt from providing a statement of cash flows. IAS 1 requires that a complete set of financial statements include a statement of cash flows for the current and comparative periods, without exception.

Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS:

	December 31, 2013	January 1, 2013
<b>Investments</b>		
Investments as reported under Canadian GAAP	\$ 900,475	\$ 546,209
Revaluation of investments at FVTPL	3,780	3,312
Net assets attributable to holders of redeemable units	<u>\$ 904,255</u>	<u>\$ 549,521</u>

	December 31, 2013
<b>Comprehensive Income</b>	
Comprehensive income as reported under Canadian GAAP	\$ 173,267
Revaluation of investments at FVTPL	466
Increase in net assets attributable to holders of redeemable units	<u>\$ 173,733</u>

##### Classification of redeemable units issued by the Fund

Under Canadian GAAP, the Fund accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as a financial liability. The Fund's units do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities on transition to IFRS.

##### Revaluation of investments at FVTPL

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, *Financial Instruments – Recognition and Measurement*, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, *Fair Value Measurement* (IFRS 13), which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, upon adoption of IFRS an adjustment was recognized to increase the carrying amount of the Fund's investments by \$3,312 at January 1, 2013 and \$3,780 as at December 31, 2013. The impact of this adjustment was to increase the Fund's net assets attributable to holders of redeemable units by \$3,780 for the year ended December 31, 2013.

## **CANSO CREDIT OPPORTUNITIES FUND**

Notes to Financial Statements

December 31, 2014

### **16. 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.

### **17. Events After Statement of Financial Position Date**

There has been no significant event after the Statement of Financial Position date which in the opinion of the Trustee and Board of Directors requires disclosure in the financial statements.

### **18. Approval of the Audited Financial Statements**

The financial statements of Canso Credit Opportunities Fund were authorized for issuance by the Board of Directors of the Canso Fund Management Ltd. on March 12, 2015.

### **19. Statement of Portfolio Transactions**

In accordance with Regulations under the Securities Act (Ontario), Statement of Portfolio Transactions for the year ended December 31, 2014 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.