



Canso Credit Opportunities Fund

Financial Statements

December 31, 2016

CANSO CREDIT OPPORTUNITIES FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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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, 2016 and December 31, 2015 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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015 and the results of its operations, its cash flows and the changes in its net assets for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Hennick Herman, LLP

Richmond Hill, Canada

**CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS**

CANSO CREDIT OPPORTUNITIES FUND

Statement of Financial Position

As at December 31, 2016

	December 31, 2016	December 31, 2015
ASSETS		
Assets		
Financial assets at fair value through profit or loss*	\$ 9,629,464	\$ 8,780,659
Cash and cash equivalents	116,139	61,354
Accrued interest	85,140	80,978
Dividend receivable	2,069	1,627
Accounts receivable	953	-
Subscriptions receivable	860,000	-
	<u> </u>	<u> </u>
Total Assets	\$ 10,693,765	\$ 8,924,618
LIABILITIES		
Liabilities		
Financial liabilities at fair value through profit or loss	\$ 1,814,576	\$ 1,701,920
Payable on foreign currency forward contracts	7,485	9,416
Accrued expenses	8,753	7,762
	<u> </u>	<u> </u>
Total Liabilities	\$ 1,830,814	\$ 1,719,098
Net Assets Attributable to Holders of Redeemable Units	\$ 8,862,951	\$ 7,205,520
Net Assets Attributable to Holders of Redeemable Units, By Series		
Series C	\$ 844,334	\$ 1,131,207
Series F	8,018,617	6,074,313
	<u> </u>	<u> </u>
	\$ 8,862,951	\$ 7,205,520
Number of Redeemable Units Outstanding (Note 5)		
Series C	67,872	98,803
Series F	845,218	690,504
	<u> </u>	<u> </u>
	913,090	789,307
Net Assets Per Redeemable Unit		
Series C	\$ 12.44	\$ 11.45
Series F	\$ 9.49	\$ 8.80
	<u> </u>	<u> </u>
*Financial Assets at Fair Value Through Profit or Loss at Cost	\$ 9,271,274	\$ 8,951,628
Proceeds of Investments Sold Short	\$ 1,740,667	\$ 1,561,400

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

Richard Alden Jones

Brenda Burns

Director

Director

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Statement of Comprehensive Income

Year Ended December 31, 2016

	December 31, 2016	December 31, 2015
Income		
Interest income for distribution purposes	\$ 362,693	\$ 308,070
Dividend income	14,343	8,395
Realized and unrealized gain (loss) on investments:		
Net realized gain on investments sold	17,773	112,339
Net realized gain (loss) on foreign currency	91,914	(75,423)
Change in unrealized appreciation (depreciation) on investments	530,475	(453,053)
Change in unrealized appreciation on currency	3	63
Change in unrealized appreciation (depreciation) on securities sold short	66,611	(41,174)
Change in unrealized appreciation (depreciation) on foreign currency forward contracts	1,931	(9,416)
	<u>1,085,743</u>	<u>(150,199)</u>
Expenses (Note 4)		
Management fees (Note 6)	79,167	58,802
Fund administration fees	4,645	4,053
Professional fees	1,571	-
Audit fees	1,270	975
Custodial fees	6,441	6,367
Transaction cost	1,316	4,813
Independent Review Committee fees	93	47
Bank charges	845	2,746
	<u>95,348</u>	<u>77,803</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	<u>\$ 990,395</u>	<u>\$ (228,002)</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units Per Series		
Series C	\$ 124,892	\$ (37,814)
Series F	865,503	(190,188)
	<u>\$ 990,395</u>	<u>\$ (228,002)</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units Per Unit		
Series C	\$ 1.60	\$ (0.39)
Series F	\$ 1.20	\$ (0.39)

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUNDStatement of Changes in Net Assets Attributable to Holders of Redeemable Units
Year Ended December 31, 2016

	December 31, 2016	December 31, 2015
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	\$ 990,395	\$ (228,002)
Distributions to Unitholders of Redeemable Units:		
From net investment income	(281,236)	(244,016)
From management fee rebate income	(2,087)	(6)
From net capital gain	(109,687)	(36,917)
	(393,010)	(280,939)
Redeemable Unit Transactions:		
Proceeds from redeemable units issued Series F	1,378,579	2,711,100
Cost of units redeemed Series C	(411,765)	-
Series F	(299,778)	(374,034)
	(711,543)	(374,034)
Reinvested distributions Series C	44,200	46,372
Series F	348,810	234,567
	393,010	280,939
Increase in Net Assets Attributable to Holders of Redeemable Units for the Year	1,657,431	2,109,064
Net Assets Attributable to Holders of Redeemable Units, Beginning of Year	7,205,520	5,096,456
Net Assets Attributable to Holders of Redeemable Units, End of Year	\$ 8,862,951	\$ 7,205,520

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUNDStatement of Changes in Net Assets Attributable to Holders of Redeemable Units
Year Ended December 31, 2016

	December 31, 2016	December 31, 2015
Series C		
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	<u>\$ 124,892</u>	<u>\$ (37,814)</u>
Distributions to Unitholders of Redeemable Units:		
From net investment income	(32,630)	(40,576)
From net capital gain	<u>(11,570)</u>	<u>(5,796)</u>
	<u>(44,200)</u>	<u>(46,372)</u>
Redeemable Unit Transactions:		
Cost of units redeemed	(411,765)	-
Reinvested distributions	<u>44,200</u>	<u>46,372</u>
	<u>(367,565)</u>	<u>46,372</u>
Decrease in Net Assets Attributable to Holders of Redeemable Units for the Year	(286,873)	(37,814)
Net Assets Attributable to Holders of Redeemable Units, Beginning of Year	<u>1,131,207</u>	<u>1,169,021</u>
Net Assets Attributable to Holders of Redeemable Units, End of Year	<u>\$ 844,334</u>	<u>\$ 1,131,207</u>

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUNDStatement of Changes in Net Assets Attributable to Holders of Redeemable Units
Year Ended December 31, 2016

	December 31, 2016	December 31, 2015
Series F		
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	<u>\$ 865,503</u>	<u>\$ (190,188)</u>
Distributions to Unitholders of Redeemable Units:		
From net investment income	(248,606)	(203,440)
From management fee rebate income	(2,087)	(6)
From net capital gain	<u>(98,117)</u>	<u>(31,121)</u>
	<u>(348,810)</u>	<u>(234,567)</u>
Redeemable Unit Transactions:		
Proceeds from redeemable units issued	1,378,579	2,711,100
Cost of units redeemed	(299,778)	(374,034)
Reinvested distributions	<u>348,810</u>	<u>234,567</u>
	<u>1,427,611</u>	<u>2,571,633</u>
Increase in Net Assets Attributable to Holders of Redeemable Units for the Year	1,944,304	2,146,878
Net Assets Attributable to Holders of Redeemable Units, Beginning of Year	<u>6,074,313</u>	<u>3,927,435</u>
Net Assets Attributable to Holders of Redeemable Units, End of Year	<u>\$ 8,018,617</u>	<u>\$ 6,074,313</u>

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Statement of Cash Flows

Year Ended December 31, 2016

	December 31, 2016	December 31, 2015
Cash Flows Used in Operating Activities		
Increase (Decrease) in net assets attributable to holders of redeemable units	\$ 990,395	\$ (228,002)
Adjustments for:		
Foreign exchange gain on cash and cash equivalents	(93)	(123)
Net realized gain on sales of investments	(17,773)	(112,339)
Change in unrealized appreciation of currency	(3)	(63)
Change in unrealized (appreciation) depreciation of investments	(529,159)	457,866
Change in unrealized depreciation of investments sold short	112,656	126,020
Purchases of investments	(3,608,838)	(5,982,507)
Proceeds from sale and maturity of investments	3,306,965	3,503,948
Accrued interest	(4,162)	(24,809)
Dividend receivable	(442)	(1,515)
Accounts receivable	(953)	-
Subscription receivable	(860,000)	-
Accrued expenses	991	3,226
Payable on foreign currency forward contracts	(1,931)	9,416
Net Cash Used in Operating Activities	<u>(612,347)</u>	<u>(2,248,882)</u>
Cash Flows From Financing Activities		
Proceeds from issuances of redeemable units	1,378,579	2,711,100
Amounts paid on redemption of redeemable units	<u>(711,543)</u>	<u>(374,034)</u>
Net Cash From Financing Activities	<u>667,036</u>	<u>2,337,066</u>
Foreign Exchange Gain on Cash and Cash Equivalents	<u>96</u>	<u>93</u>
Increase in Cash and Cash Equivalents During the Year	54,785	88,277
Balance of Cash and Cash Equivalents (Bank Indebtedness), Beginning of Year	<u>61,354</u>	<u>(27,016)</u>
Cash and Cash Equivalents, End of Year	<u>\$ 116,139</u>	<u>\$ 61,354</u>
Supplemental Information on Cash Flows from Operating Activities:		
Interest received	\$ 356,853	\$ 276,710
Dividends received	\$ 13,902	\$ 9,798
Interest paid	\$ 845	\$ 2,746

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As at December 31, 2016

Par Value/# of Shares	Description	Average Cost	Fair Value
Bonds (71.29%)			
38,000	Bell Canada 7.85% Apr 2, 2031	\$ 44,954	\$ 51,915
247,000	BMO Dep Notes 1.61% Oct 28, 2021	241,052	242,407
2,900	BMO FRN March 29, 2018 (3M CDOR+60)	29,101	29,139
130,000	BNS Dep Notes 1.33% May 1, 2018	130,080	130,155
55,000	BNS FRN Apr 20, 2018 (Q CDOR +60)	55,180	55,254
50,000	BNS FRN Aug 31, 2085 (USD) (SA LIBOR +12.5)	40,669	46,994
76,000	Bombardier Inc. 6.00% Oct 15, 2022 (USD) 144A	90,422	96,433
111,000	Bombardier Inc. 6.125% Jan 15, 2023 (USD) 144A	134,261	142,840
146,000	Bombardier Inc. 7.50% March 15, 2025 (USD) 144A	168,208	194,666
51,000	CIBC Dep Notes. 1.7% Oct 9, 2018	51,429	51,297
30,000	CIBC FRN Aug 31, 2085 (USD) (S/A US LIB +12.5)	23,862	28,197
82,000	CIBC FRN Feb 8, 2018 (Q CDOR +66)	82,345	82,439
307,000	CIBC FRN Feb 9, 2018 (Q CDOR +40)	307,056	307,738
38,000	CIBC FRN Jun 1, 2018 (Q CDOR +48)	38,084	38,127
28,000	ClearStream Energy Services Inc. 10% Mar 23, 2026	28,000	24,500
197,000	ClearStream Energy Services Inc. 8% Mar 23, 2026	197,000	195,030
725,000	Enbridge Inc. 4.50% Jun 10, 2044 (USD)	794,691	904,493
102,000	Loblaws 6.45% Mar, 1, 2039	121,555	129,948
179,000	Manufacturers Life Insurance FF 2.811% Feb.21 2019/2024	181,166	181,963
366,000	NBF FRN Jun 14, 2018 (Q CDOR + 50)	366,000	367,244
159,914	Postmedia Network Inc. 8.25% Jul 15, 2021	162,638	157,515
607,000	RBC CB FRN Mar 23, 2020 (3M CDOR + 36)	602,231	607,450
50,000	RBC FRN June 29, 2085(USD) (Q LIMEAN+25)	37,002	45,652
279,000	Shaw Communications Inc 6.75% Nov 9, 2039	325,393	334,418
112,000	Sobeys Inc. 6.64% Jun 7, 2040	116,310	110,308
203,000	TD Dep Note 1.824% Apr 3, 2017	203,605	203,020
248,000	TD Bank FRN Mar 28, 2018 (3M CDOR + 60)	249,032	249,215
4,000	Teck Resources Ltd. 5.2% Mar 1, 2042 (USD)	2,736	4,753
15,000	Teck Resources Ltd. 6.125% Oct 1, 2035 (USD)	11,148	19,687
75,000	Teck Resources Ltd. 6.25% Jul 15, 2041 (USD)	59,409	97,548
220,000	TransCanada Pipeline 7.625% Jan 15, 2039 (USD)	345,769	423,694

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As at December 31, 2016

Par Value/# of Shares	Description	Average Cost	Fair Value
Bonds (Cont'd)			
63,000	TransCanada Pipelines FF 6.35% May 15, 2017/67 (USD)*	72,444	70,844
307,000	Videotron Ltee Sr Notes 5.625% June 15, 2025	307,661	316,850
40,000	Videotron Ltee Sr Notes 6.875% Jul 15, 2021	44,400	41,488
67,000	VW Credit Canada Inc. FRN (3M CDOR +35) Apr 3, 2017	64,846	66,968
6,931	Yellow Pages Digital & Media Solutions Ltd. 8.0% Nov 30, 2022	5,795	7,745
252,022	Yellow Pages Digital & Media Solutions Ltd. 9.25% Nov 30, 2018	265,644	260,843
Total Bonds		6,001,178	6,318,777
Canadian Equities (6.52%)			
149,200	Bombardier Inc.	261,471	322,272
320	Clearstream Energy Services Inc.	-	54
1,203	Postmedia Network Canada	148,486	782
14,414	Yellow Pages Limited	207,576	254,984
Total Canadian Equities		617,533	578,092
Canadian Equities Short (0.10%)			
300	MIC CN 01/20/17 P31.57	187,068	9,000
Total Canadian Equities Short		187,068	9,000
Domestic Bank Loans (1.69%)			
111,000	Telesat TLB (L+375) Nov 10, 2023	148,077	150,158
Total Domestic Bank Loans		148,077	150,158
Foreign Fixed Income (15.95%)			
20,000	Caisse Francaise de Financement Local 5.0% Mar 9, 2020	19,410	21,828
14,000	Heathrow Funding Limited 4.0% Jul 3, 2019	14,121	14,730
44,000	Lehman Bros Hldg Inc 4.85% Sep 3, 2013	(13,332)	4,283
11,000	Met Life FRN Sep 25, 2017 (Q CDOR +102)	11,015	11,044
147,000	Navient Corp 4.875% Jun 17, 2019 (USD)	163,652	204,779
11,000	Navient Corp 5.5% Jan 15, 2019 (USD)	12,541	15,360
258,000	Navient Corp 5.5% Jan 25, 2023 (USD)	275,609	337,323
118,000	Navient Corp 5.625% Aug 1, 2033 (USD)	104,874	131,504
108,000	Navient Corp 5.875% Mar 25, 2021 (USD)	122,338	150,993

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As at December 31, 2016

Par Value/# of Shares	Description	Average Cost	Fair Value
Foreign Fixed Income (Cont'd)			
63,000	Royal Bank of Scotland Group Tier 1 6.666% Oct 5, 2017	41,558	67,047
226,000	Royal Bank of Scotland PLC Sub 10.50% Mar 16, 2017/22	267,882	229,727
109,000	Royal Bank of Scotland Sub 9.5% Mar 16, 2017/22 (USD) REGS	139,165	148,513
77,000	Unicredit FRN May 29, 2018 (Q CDOR +217)	77,000	76,645
Total Foreign Fixed Income		1,235,833	1,413,776
Mortgage Backed Securities (2.44%)			
65,111	Merrill Lynch NHA MBS FRN (98001103) Mar 1, 2020 (M CDOR+13)	64,881	64,598
148,705	Merrill Lynch NHA MBS FRN (98001703) Jul 1, 2021 (M CDOR+35)	148,501	148,260
2,838	MLFA 2002-BC2P A 6.673% May 7, 2021	3,147	3,084
Total Mortgage Backed Securities		216,529	215,942
Preferreds (6.20%)			
9,000	BCE Inc. Prime Flat Feb 1, 2020 Cum Pfd Series AE	135,106	137,070
1,700	BMO Dec 31, 2049 NC Class B Pfd Series 26	40,015	33,864
4,300	BNS FRN Feb 2, 2021 Series 33 90CTB+134	102,173	87,935
26,600	Purch Series C Preferred Share	146,408	164,650
7,700	Thompson Reuters Prime * 0,7 Oct 7, 2013 Cum Pfd Series B	99,631	94,710
3,800	US Financial 15 Split Corp Pfd.	21,855	31,179
Total Preferreds		545,188	549,408
Private Placements (4.45%)			
37,000	Black Press Group Ltd. Series B 10.0% Dec 28, 2018	37,000	36,723
120,000	Honda Canada Finance Inc. FRN Jun 7, 2019(Q CDOR +58)	120,000	120,235
14,627	Strait Crossing Dev. Inc. (amort) 6.17% Sep 15, 2031	14,865	16,198

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As at December 31, 2016

Par Value/# of Shares	Description	Average Cost	Fair Value
Private Placements (Cont'd)			
43,778	Xplornet Comm Inc. Sr. Uns. 13% Oct 25, 2020	30,000	47,981
147,342	Xplornet Comm Inc. Sr. Uns. 13% Oct 25, 2020 Series III	116,000	167,985
34	Xplornet Comm Inc. Warrants Series A May 15, 2017 144A	2	2,631
18	Xplornet Comm Inc. Warrants Series B May 15, 2017 144A	1	557
30	Xplornet Comm Inc. Warrants Series C Oct 25, 2023 Restricted	-	-
116	Xplornet Comm Inc. Warrants Series D Oct 25, 2023	-	1
2	Xplornet Comm Pfd Class F	2,000	2,000
Total Private Placements		319,868	394,311
Securities Sold Short (-20.47%)			
(96,000)	Canada 1.50% Jun 1, 2023	(89,637)	(96,611)
(172,000)	Canada 2.5% Jun 1, 2024	(176,024)	(183,818)
(513,000)	Canada 3.5% Dec 1, 2045	(638,776)	(637,774)
(31,000)	Canada 3.75% June 1, 2019	(32,632)	(33,171)
(26,000)	Canada 4% Jun 1, 2041	(28,698)	(33,975)
(7,000)	Canada 5.0% Jun 1, 2037	(9,243)	(10,064)
(39,000)	Canada 5.75% Jun 1, 2029	(53,054)	(55,031)
(34,000)	Canada 8% Jun 1, 2027	(51,996)	(53,833)
(12,000)	Canada 8.0% Jun 1, 2023	(17,888)	(16,840)
(13,000)	Genworth MI Canada 4.242% Apr 1, 2024	(13,295)	(13,123)
(148,000)	US Treasury 1.75% May 15, 2023 (USD)	(149,248)	(193,355)
(29,000)	US Treasury 2.5% May 15, 2024 (USD)	(31,421)	(39,478)
(147,000)	US Treasury 3.00% May 15, 2045 (USD)	(196,541)	(194,312)
(148,000)	US Treasury 3.0% Nov 15, 2045 (USD)	(209,453)	(195,590)
(26,000)	US Treasury 3.125% Feb 15, 2043 (USD)	(26,075)	(35,307)
(15,000)	US Treasury 3.625% Aug 15, 2043 (USD)	(16,686)	(22,294)
Total Securities Sold Short		(1,740,667)	(1,814,576)
Total Investment Portfolio (88.17%)		\$7,530,607	7,814,888
Net payable on foreign currency forward contracts (-0.08%)			(7,485)
Other assets less liabilities (11.91%)			1,055,548
Net Assets Attributable to Holders of Redeemable Units			\$8,862,951

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As at December 31, 2016

Foreign Currency Forward Contracts			Contract Amount			Unrealized
Type	Expiration Date	Currency	Foreign	CADS	Amount	Appreciation (Depreciation)
Sell	March 22, 2017	US Dollars	\$ 146,000	\$ -	\$ -	\$ -
		Canadian Dollars	-	1,950,677	1,958,162	(7,485)
Total Amount Payable on Foreign Currency Forward Contracts						\$ (7,485)

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

1. Formation of Fund

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

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 of the Fund is Canso Investment Counsel Ltd. ("Portfolio Manager"). Please refer to the Fund Specific Notes section (a) for further details about the Fund.

2. Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"). These financial statements should be read in conjunction with the Fund's financial statements and accompanying note disclosures.

Amendments to IAS 1 Disclosure Initiative

The Fund has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the Fund's financial position and financial performance. Regarding the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The application of these amendments has not resulted in any impact on the financial performance or the financial position of the Fund.

3. Summary of Significant Accounting Policies

The significant accounting policies of the Fund are as follows:

a) Cash and Cash Equivalents

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.

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

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

b) 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, investments at fair value through profit or loss, accrued interest and dividends, subscriptions receivable, redemption payable, due to/from investment dealers, receivable/payable from forward exchange contracts and accrued expenses. Accrued interest is 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 trade date basis. The Fund classifies its investment 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 re-purchasing 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 (fixed income and equity securities) 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 hierarchy has the following levels. Please refer to the Fund Specific Notes section (d) 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

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

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

b) Financial Instruments (cont'd)

If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified as Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is reclassified as Level 3. The manager assesses transfers at the time of an event that may cause reason for re-assessment of levelling. The classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes observable requires significant judgment by the Portfolio Manager of the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The classification of each Fund's financial instruments within the fair value hierarchy as at December 31, 2016 and December 31, 2015, as applicable, is disclosed in the Fund Specific Notes to the financial statements of each Fund. Significant transfers between levels will also be disclosed in the Fund Specific Notes to the financial statements of the applicable Fund, where applicable. The reconciliation of level 3 fair value measurements for the years ended December 31, 2016 and December 31, 2015, if applicable, are included in the Fund Specific Notes to the financial statements of the applicable Fund.

c) Fair Value Measurements

The securities in the Fund's Portfolio are measured at Fair Value Through Profit or Loss ("FVTPL"). 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 period-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.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques commonly used by market participants making the maximum use of observable inputs and relying as little as possible on unobservable inputs. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

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

c) Fair Value Measurements (cont'd)

Where available, valuation techniques use market observable assumptions and inputs. If such data is not available, inputs may be derived by reference to similar assets in active markets, from recent prices for comparable transactions or from other observable market data. When measuring fair value, the Fund selects the non-market-observable inputs to be used in its valuation techniques, based on a combination of historical experience, derivation of input levels based on similar products with observable price levels and knowledge of current market conditions and valuation approaches.

Unobservable Inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

Unlisted debt securities are valued based on observable inputs such as the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data and using standard market convention practices. Unlisted debt securities for which current quotations are not readily available are valued using another valuation technique as described below.

The Fund uses widely recognized valuation techniques for determining the fair value of financial and non-financial instruments that are not actively traded and quoted. The most frequently applied valuation techniques include: i) discounted value of expected cash flows, ii) relative value, iii) option pricing methodologies, iv) private placement financing techniques v) internally developed models.

Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. When using such valuation techniques, expected future cash flows are estimated using an observed or implied market price for the future cash flows or by using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models.

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

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

c) Fair Value Measurements (cont'd)

Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued.

Option pricing models incorporate assumptions regarding the behavior of future price movements of an underlying referenced asset or assets to generate a probability-weighted future expected payoff for the option. The resulting probability-weighted expected payoff is then discounted using discount factors generated from industry standard yield curve modeling techniques and models. The option pricing model may be implemented using a closed form analytical formula or other mathematical techniques (e.g., binomial tree or Monte Carlo simulation).

For more complex instruments and instruments for which there is no active market, fair values may be estimated using a combination of observed transaction prices, if any, consensus pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services.

Private placement financings are instances where a company raises capital through an offering of additional securities in the private markets. Pertinent details of such offering, including the terms of such offering, the issue price, and total capital raised are considered when assessing the reasonability that the issue price of such offering approximates fair value. In contrast to public offerings on a recognized exchange, private placement financings are not available to the general public. The Fund also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry. Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation.

Investments in other funds are valued at the net asset value per unit reported by each fund.

d) 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.

The interest income for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. The interest income for distribution purposes is the tax basis of calculating the interest received and which is subject to tax.

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

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

e) Recognition, Derecognition and Measurement

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 income 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.

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.

Investment transactions are accounted for on a trade date basis. Interest income is recorded on an accrual basis. 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 comprehensive income.

Realized gains and losses related to options are included in net realized gain/(loss) on options at fair value through profit or loss. Realized gains and losses relating to written options may arise from expiration of written options whereby realized gains are equivalent to the premium received and from the exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or losses from disposition of the related investments at the exercise price of the option.

f) Offsetting Financial Instruments

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.

g) 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.

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

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

g) Accounting Estimates (cont'd)

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.

h) Net Assets Attributable to Holders of Redeemable Units

Units issued and outstanding represent the capital of the Fund, with units in each series representing an equal and rateable share in the assets allocated to each series. The management fee rates are different for each of the series. Please refer to Note 6 for discussion of management fee rates. The redeemable units are classified as financial liabilities and are measured at the redemption amounts.

Units of the Fund may be purchased or redeemed at a price per unit equal to the net asset value (“NAV”) of a unit of the applicable series of the Fund on each Valuation Date.

i) Net Asset Value per Unit

The net asset value per unit of each series of units of the Fund is computed by dividing the NAV of a series of units by the total number of units of the series 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 NAV for transactions with holders of redeemable units.

There is no difference between NAV per Unit and Net Assets attributable to Holders of Redeemable Units per Unit for the Fund.

j) Foreign Currency Translation

Foreign currency amounts are translated into each Fund’s functional currency as follows: fair value of investments, forward currency contracts and other financial assets and liabilities, at the closing rate of exchange on each business day; income and expenses, and purchases, sales and settlements of investments, at the rate of exchange prevailing on the respective dates of such transactions.

k) 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 forwards in the statement of comprehensive income. Foreign currency forward contracts manage exposure to foreign currency gains and losses arising from short and long-term investments denominated in foreign currencies.

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

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

l) Taxation

The Fund is a unit trust within the meaning of the Income Tax Act (Canada). The Fund is subject to tax on its taxable income, including net taxable capital gains, for the calendar year which is not paid or payable to its unitholders as of the end of the calendar year. As well, the Fund may be subject to alternative minimum tax under Part I of the Income Tax Act (Canada), particularly if its expenses exceed its income other than taxable capital gains. It is the intention of the Fund to distribute sufficient of its net income and net realized capital gains so that the Fund will not be subject to tax under Part I of the Income Tax Act (Canada), other than alternative minimum tax. Therefore, no provision for income taxes has been made in these financial statements.

m) 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 distributions be made in cash. Redeemable unitholders may elect to receive distributions in cash by notifying the Manager in writing.

n) Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing its financial statements.

Determination of Functional Currency

'Functional currency' is the currency of the primary economic environment in which the Fund operates. If indicators of the primary economic environment are mixed, then management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events, and conditions. The Fund's subscriptions and redemptions are denominated in Canadian Dollars ("CAD"). Accordingly, management has determined that the functional currency of the Fund is CAD unless noted otherwise.

Fair Value Measurement of Derivatives and Securities Not Quoted in an Active Market

The Fund may hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined as disclosed in Fair Value Measurements section in Note 3.

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

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

n) Critical Accounting Estimates and Judgements (cont'd)

Classification and Measurement of Investments and Application of the Fair Value Option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for the financial assets under IAS 39, Financial Instruments-Recognition and Measurement. The most significant judgment made includes the determination that certain investments are held-for-trading and that the fair value at inception classification can be applied to those which are not.

o) Future Changes in Accounting Standards

IFRS 9, Financial Instruments:

In July 2014, the IASB issued the final version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. It introduces a forward-looking impairment model for financial assets which will be applicable for all financial instruments subject to impairment accounting and requires more timely recognition of expected credit losses. Finally, it introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with risk management. IFRS 9 will be effective for the Fund on January 1, 2018. The Fund is currently determining the impact of the amendments on its financial statements.

4. Expenses

The Fund is responsible for the payment of all expenses related to its operations, including but not limited to 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 an accrual basis.

Trailer commissions may be paid by the Manager from the management fees it receives from the Fund. Trailer commissions may be paid to brokers and dealers to compensate them for providing ongoing services to redeemable unitholders holding Series A units. Please refer to the Fund Specific Notes section (g).

5. Issuance and Redemption of Units

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

CANSO CREDIT OPPORTUNITIES FUND
Common Notes to the Financial Statements
December 31, 2016

5. Issuance and Redemption of Units (cont'd)

Units of a Fund are issued and redeemed at the series NAV per unit.

Please refer to the Fund Specific Notes section (b).

6. Related Party Transactions

Please refer to the Fund Specific Notes section (c) for Management Fees and related party transactions.

7. Fair Value Hierarchy

The fair value hierarchy table, in the Fund Specific Notes section (d), presents information about the Fund's assets measured at fair value, as described in Note 3.

8. Financial Instruments by Category

The Fund's financial instruments classified by category is found in the Fund Specific Notes section (e).

9. 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 investment dealers or subscriptions receivable. To manage this risk, the Portfolio Manager monitors the Fund's credit exposure and counterparty ratings. Please refer to the Fund Specific Notes section (f).

CANSO CREDIT OPPORTUNITIES FUND

Common Notes to the Financial Statements

December 31, 2016

9. 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 NAV 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. Please refer to the Fund Specific Notes section (f).

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 Portfolio Manager monitors exposures and maintains the portfolio duration within the limits specified in the investment policies and objectives of the fund. Please refer to the Fund Specific Notes section (f).

Currency Risk:

Currency risk arises when the value of investments denominated in currencies other than CAD fluctuate due to changes in exchange rates. The currency risk will typically be hedged by entering into foreign currency forward contracts if required, however some moderate currency exposure may be assumed if deemed to be beneficial to the Fund. Please refer to the Fund Specific Notes section (f).

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. Please refer to the Fund Specific Notes section (f).

10. 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.

11. Transactions in Underlying Funds

The Fund may invest a portion of its assets 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 may invest in units of the Underlying Funds to help achieve the Fund's objectives.

CANSO CREDIT OPPORTUNITIES FUND
Common Notes to the Financial Statements
December 31, 2016

12. Statement of Portfolio Transactions

The Statement of Portfolio Transactions 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

13. Exemption from Filing

The Fund is relying on the exemption obtained in National Instrument 81-106, Part 2.11 to not file its financial statements on SEDAR. Additional copies of the financial statements can be obtained directly from the Manager.

14. Statement of Corporate Governance Practices

The Manager has established appropriate policies, procedures and guidelines to ensure the proper management of the Fund. The systems implemented monitor and manage the business and sales practices, risks and internal conflicts of interest relating to the Fund while ensuring compliance with regulatory and corporate requirements.

The Manager has established an Independent Review Committee consisting of three members appointed to provide independent advice to approve cross trades and in-specie trades involving the Fund and related investment funds and managed accounts pursuant to relief granted by the Canadian securities regulatory authorities.

CANSO CREDIT OPPORTUNITIES FUND
Fund Specific Notes to the Financial Statements
December 31, 2016

(a) Formation of Fund

Canso Credit Opportunities Fund (the "Fund") is an open-end fund formed under the laws of the Province of Ontario by an amended and restated master declaration of trust dated November 30, 2016, as it may be amended from time to time. Effective November 30, 2016, each of the outstanding "classes" of units of the Fund were redesignated into "series" of units of the Fund. The Fund offers series of units on a private placement basis under an offering memorandum. 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 fixed income securities.

(b) Issuance and Redemption of Units

During the year ended December 31, 2016 and December 31, 2015, the number of units issued, redeemed and outstanding were as follows:

	December 31, 2016	December 31, 2015
Units outstanding at beginning of year	789,307	503,961
Redeemable units issued	150,308	294,632
Redeemable units redeemed	(67,980)	(38,862)
Redeemable units issued on reinvestments	41,455	29,576
	<u>913,090</u>	<u>789,307</u>
Series C:		
Units outstanding at beginning of year	98,803	94,942
Redeemable units redeemed	(34,628)	-
Redeemable units issued on reinvestments	3,697	3,861
	<u>67,872</u>	<u>98,803</u>
Series F:		
Units outstanding at beginning of year	690,504	409,019
Redeemable units issued	150,308	294,632
Redeemable units redeemed	(33,352)	(38,862)
Redeemable units issued on reinvestments	37,758	25,715
	<u>845,218</u>	<u>690,504</u>

CANSO CREDIT OPPORTUNITIES FUND

Fund Specific Notes to the Financial Statements

December 31, 2016

(c) Related Party Transactions

At December 31, 2016, 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 8.89% (Series C), 1.24% (Series F) (December 31, 2015: 15.02% (Series C) and 1.96% (Series F)).

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

The Manager paid the Portfolio Manager, an affiliate under common control, \$19,061 (December 31, 2015: \$23,521) for managing the investment portfolio of the Fund.

Performance Fees

All references to net asset value per Unit in this section titled "Performance Fee" relate to Series F Units only. The Manager will be entitled to received 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 Series F Units, be calculated and accrued 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 Series F Unit then outstanding equal to 20% of A x 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 Series 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 payment of the Performance Fee, in any fiscal year, the return of the Series F Units will not be negative.

CANSO CREDIT OPPORTUNITIES FUND

Fund Specific Notes to the Financial Statements

December 31, 2016

(d) Fair Value Hierarchy

The following tables present the carrying amounts of the Fund's financial instruments by category based upon a fair value hierarchy discussed in Note 3, as at December 31, 2016 and December 31, 2015:

Financial Assets at Fair Value as at December 31, 2016

	Level 1	Level 2	Level 3	Total
Equities	\$ 587,092	\$ -	\$ -	\$ 587,092
Fixed income	-	8,487,776	3,188	8,490,964
Preferreds	384,758	-	166,650	551,408
	<u>\$ 971,850</u>	<u>\$ 8,487,776</u>	<u>\$ 169,838</u>	<u>\$ 9,629,464</u>

Financial Liabilities at Fair Value as at December 31, 2016

	Level 1	Level 2	Level 3	Total
Payable on foreign currency forward contracts	\$ -	\$ 7,485	\$ -	\$ 7,485
Investments sold short	-	1,814,576	-	1,814,576
	<u>\$ -</u>	<u>\$ 1,822,061</u>	<u>\$ -</u>	<u>\$ 1,822,061</u>

Financial Assets at Fair Value as at December 31, 2015

	Level 1	Level 2	Level 3	Total
Equities	\$ 885,002	\$ -	\$ -	\$ 885,002
Fixed income	-	7,358,571	-	7,358,571
Preferreds	369,009	2,000	166,077	537,086
	<u>\$ 1,254,011</u>	<u>\$ 7,360,571</u>	<u>\$ 166,077</u>	<u>\$ 8,780,659</u>

Financial Liabilities at Fair Value as at December 31, 2015

	Level 1	Level 2	Level 3	Total
Payable on foreign currency forward contracts	\$ -	\$ 9,416	\$ -	\$ 9,416
Investments Sold Short	-	1,701,920	-	1,701,920
	<u>\$ -</u>	<u>\$ 1,711,336</u>	<u>\$ -</u>	<u>\$ 1,711,336</u>

CANSO CREDIT OPPORTUNITIES FUND
Fund Specific Notes to the Financial Statements
December 31, 2016

(d) Fair Value Hierarchy (cont'd)

We have retrospectively corrected a classification error relating to the leveling of our fixed income securities under the fair value hierarchy of IFRS 13. Fixed income securities were previously classified as level 1 in our previously issued financial statements as at December 31, 2015. These fixed income securities should have been classified as level 2 assets to reflect the nature of the inputs used to measure their fair value. As such, we have retrospectively corrected the presentation of these fixed income securities in this note to reflect the appropriate level 2 classification. There was no other impact to the Fund's financial statements.

The following table provides a summary of changes in investments categorized as Level 3 as at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Balance, beginning of year	\$ 166,077	\$ -
Purchases	-	146,408
Transfers in	2,000	-
Change in unrealized appreciation (depreciation)	1,761	19,669
	<u>169,838</u>	<u>166,077</u>
Balance, end of year	\$ 169,838	\$ 166,077

The Portfolio Manager's internal valuation team is comprised of individuals from across the functional areas of the firm (Trading, Settlements, Research, Portfolio Management, Compliance, and Fund Administration) who have broad and deep experience in the fair value techniques for debt and equity investments. The team reports directly to the Chief Investment Officer and the internal valuation team's valuation processes and results are reviewed by management on an ongoing basis. Security valuations are discussed on a case-by-case basis with a view to establishing the most suitable valuation method. There were no transfers out, from Level 3 to Level 2. There were transfers in, from Level 2 to Level 3, in the amount of \$ 2,000 due to the manager's rationale that there are unobservable inputs used in the valuation of these securities. There were no additional transfers between levels.

Valuation techniques, inputs used, and related quantitative information in respect of the fair value measurements categorized within Level 3 of the fair value hierarchy is given below:

Purch Series C Preferred Share

Price: \$4.61

Valuation Technique: Internal Model which uses a combination of three techniques: 1) discounted value of expected cash flows, 2) relative value and 3) option pricing methodologies. The output of the model is compared to recent private placement funding rounds to confirm its reasonability.

Unobservable Inputs: The primary unobservable inputs for this security include audited financial statement data, recent private offering valuation multiples of competitors, and liquidation preference rights.

Change in input values: A reasonably possible change in the key inputs to the model could result in an increase or decrease of 12%, or an increase or decrease in the security price of \$0.57.

CANSO CREDIT OPPORTUNITIES FUND

Fund Specific Notes to the Financial Statements

December 31, 2016

(d) Fair Value Hierarchy (cont'd)

Xplornet Comm Pfd Class F

Price: \$1,000

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The primary unobservable input for this security is the last price where the company raised capital in a private offering of additional securities and the exchange ratio of common shares for preferred shares.

Change in input Values: A reasonably possible change to the value of the next private placement financing could result in an increase or decrease of 30%, or an increase or decrease in the security price of \$300.00.

Xplornet Comm Inc. Warrants Series A May 15, 2017 144A

Price: \$77.37

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The primary unobservable input for this security is the last price where the company raised capital in a private offering of additional securities and the exchange ratio of warrants for shares.

Change in input Values: A reasonably possible change to the value of the next private placement financing could result in an increase or decrease of 30%, or an increase or decrease in the security price of \$23.21.

Xplornet Comm Inc. Warrants Series B May 15, 2017 144A

Price: \$30.95

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The primary unobservable input for this security is the last price where the company raised capital in a private offering of additional securities and the exchange ratio of warrants for shares.

Change in input Values: A reasonably possible change to the value of the next private placement financing could result in an increase or decrease of 30%, or an increase or decrease in the security price of \$9.28.

CANSO CREDIT OPPORTUNITIES FUND
Fund Specific Notes to the Financial Statements
December 31, 2016

(e) Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2016:

Financial Assets at FVTPL as at December 31, 2016

	Financial assets at FVTPL at inception	Loans and receivables	Total
Fixed income securities	\$ 8,490,964	\$ -	\$8,490,964
Preferreds	551,408	-	551,408
Equity securities	587,092	-	587,092
Cash and cash equivalents	-	116,139	116,139
Subscriptions receivable	-	860,000	860,000
Accrued interest	-	85,140	85,140
Accrued dividends	-	2,069	2,069
Accounts receivable	-	953	953
Total	\$ 9,629,464	\$1,064,301	\$10,693,765

Financial Liabilities at FVTPL as at December 31, 2016

	Held for Trading	Financial liabilities at FVTPL at inception	Other financial liabilities	Total
Payable on foreign currency forward contracts	\$ 7,485	\$ -	\$ -	\$ 7,485
Investments sold short	-	1,814,576	-	1,814,576
Accrued expenses	-	-	8,753	8,753
Total	\$ 7,485	\$ 1,814,576	\$ 8,753	\$ 1,830,814

CANSO CREDIT OPPORTUNITIES FUND
Fund Specific Notes to the Financial Statements
December 31, 2016

(e) 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, 2015:

Financial Assets at FVTPL as at December 31, 2015			
	Financial assets at FVTPL at inception	Financial assets at amortized cost	Total
Fixed income securities	\$7,358,571	\$ -	\$7,358,571
Preferreds	537,086	-	537,086
Equity securities	885,002	-	885,002
Cash and cash equivalents	-	61,354	61,354
Accrued interest	-	80,978	80,978
Accrued dividends	-	1,627	1,627
Total	\$8,780,659	\$ 143,959	\$8,924,618

Financial Liabilities at FVTPL as at December 31, 2015				
	Held for Trading	Financial liabilities at FVTPL at inception	Other financial liabilities	Total
Payable on foreign currency forward contracts	\$ 9,416	\$ -	\$ -	\$ 9,416
Investments sold short	-	1,701,920	-	1,701,920
Accrued expenses	-	-	7,762	7,762
Total	\$ 9,416	\$1,701,920	\$ 7,762	\$1,719,098

(f) Risk Management

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. 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.

CANSO CREDIT OPPORTUNITIES FUND
Fund Specific Notes to the Financial Statements
December 31, 2016

(f) Risk Management (cont'd)

As at December 31, 2016 and December 31, 2015, the Fund had directly invested in debt instruments with the following credit ratings:

	As a percentage of net assets	
	December 31, 2016	December 31, 2015
AAA	-3.41 %	-17.50 %
AA+	(7.47)%	- %
AA	5.11 %	4.10 %
AA-	12.13 %	- %
A+	6.17 %	- %
A	- %	7.50 %
A-	6.12 %	- %
BBB+	11.85 %	- %
BBB	3.30 %	23.20 %
BBB-	5.18 %	- %
BB+	6.72 %	- %
BB	7.06 %	31.70 %
BB-	14.33 %	- %
B+	0.77 %	- %
B	1.80 %	20.40 %
B-	5.01 %	- %
CCC+	0.09 %	- %
CCC	- %	0.10 %
NR	7.70 %	17.80 %
Total	82.46 %	87.30 %

Liquidity Risk

The table below presents the Fund's financial liabilities:

December 31, 2016	Less than one month	1 - 3 months	3 months - 1 year
Accrued expenses	\$ -	\$ 8,753	\$ -
Payable on foreign currency forward contracts	\$ -	\$ 7,485	\$ -
<hr/>			
December 31, 2015	Less than one month	1 - 3 months	3 months - 1 year
Accrued expenses	\$ -	\$ 7,762	\$ -
Payable on foreign currency forward contracts	\$ -	\$ 9,416	\$ -

CANSO CREDIT OPPORTUNITIES FUND
Fund Specific Notes to the Financial Statements
December 31, 2016

(f) Risk Management (cont'd)

Market Risk

Interest Rate Risk:

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
December 31, 2016	\$ 530,769	\$ 4,045,323	\$ 2,100,296	\$ 6,676,388
December 31, 2015	\$ 1,077,000	\$ 2,992,216	\$ 1,575,760	\$ 5,644,976

If interest rates had increased or decreased by 1% at December 31, 2016, with all other variables remaining constant, net assets would have decreased or increased by approximately \$128,854 or 1.93% (December 31, 2015: \$81,288 or 1.44%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Currency Risk:

The table below summarizes the Fund's net exposure (after hedging, if any) to currency risk as at December 31, 2016 and December 31, 2015:

	As a % of Net Assets	
	December 31, 2016	December 31, 2015
U.S. Dollar	8.76 %	42.22 %

As at December 31, 2016, if the Canadian dollar had strengthened or weakened by 1% in relation to the above currencies, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by 0.1% (December 31, 2015: 0.4%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

Price Risk:

As at December 31, 2016, the Fund was not subject to significant price risk as the Fund's net assets were invested primarily in fixed income securities.

(g) Trailer Commissions

There are no trailer commissions to report for this fund.



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