

CANSO CREDIT OPPORTUNITIES FUND
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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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 are comprised of the statements of net assets and investment portfolio as at December 31, 2010 and the statements of investment operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as 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, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian auditing standards for private enterprises.

Hennick Herman, LLP

Richmond Hill, Canada
March 24, 2011

LICENSED PUBLIC ACCOUNTANTS

**Canso Credit Opportunities Fund
Statement of Net Assets**

	31-Dec-10	31-Dec-09
ASSETS		
Investments at market value*	\$ 414,686	\$ 166,612
Cash	1,781	30,581
Accrued dividends and interest	<u>2,766</u>	<u>1,503</u>
Total Assets	<u>419,232</u>	<u>198,697</u>
LIABILITIES		
Accrued expenses	<u>325</u>	<u>331</u>
Net Assets Representing Unitholders' Equity	<u>\$ 418,907</u>	<u>\$ 198,366</u>
Total units outstanding	<u>45,666</u>	<u>24,888</u>
Net asset value per unit - SCDN	<u>\$ 9.17</u>	<u>\$ 7.97</u>
*Investments at cost	<u>\$ 347,868</u>	<u>\$ 129,493</u>

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

Brenda Burns

Director

[Signature]

Director

The accompanying notes form an integral part of the financial statements

**Canso Credit Opportunities Fund
Statement of Investment Operations**

	31-Dec-10	31-Dec-09
INVESTMENT INCOME		
Interest	\$ 9,740	\$ 3,962
Dividends	1,042	-
	<u>10,782</u>	<u>3,962</u>
Net gain (loss) on short sales	-	-
Foreign taxes withheld	-	-
	<u>10,782</u>	<u>3,962</u>
EXPENSES		
Management fees	1,492	580
Custodial fees	760	1,055
Audit fees	75	36
Systems fees	298	99
Transaction costs	6	-
	<u>2,631</u>	<u>1,771</u>
Net investment income (loss)	<u>\$ 8,151</u>	<u>\$ 2,191</u>
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain (loss) on:		
Investments sold	\$ 10,958	\$ 9,783
Foreign currency	366	(733)
Net unrealized appreciation (depreciation) of investments during the period	<u>29,567</u>	<u>33,481</u>
Net gain (loss) on investments	<u>40,891</u>	<u>42,530</u>
Total Results of Operations	<u>\$ 49,042</u>	<u>\$ 44,722</u>

The accompanying notes form an integral part of the financial statements

**Canso Credit Opportunities Fund
Statement of Changes in Net Assets**

	31-Dec-10	31-Dec-09
INCREASE (DECREASE) IN NET ASSETS		
Operations		
Net investment income (loss)	\$ 8,151	\$ 2,191
Net realized gain (loss) on:		
Investments sold	10,958	9,783
Foreign currency	366	(733)
Net unrealized appreciation (depreciation) on investments	<u>29,567</u>	<u>33,481</u>
	<u>49,042</u>	<u>44,722</u>
Distributions to unitholders from:		
Net investment income	(7,116)	(1,459)
Net capital gains	<u>(11,324)</u>	<u>(9,783)</u>
	<u>(18,440)</u>	<u>(11,241)</u>
Fund unit transactions:		
Proceeds from the sale of units	171,500	125,000
Cost of units redeemed	-	(10,000)
Net assets issued to unitholders on reinvestments in distributions	<u>18,440</u>	<u>11,241</u>
	<u>189,940</u>	<u>126,241</u>
Increase (decrease) in net assets	220,542	159,722
Net assets at beginning of the period	<u>198,366</u>	<u>38,644</u>
Net assets at end of period	<u>\$ 418,907</u>	<u>\$ 198,366</u>

The accompanying notes form an integral part of the financial statements

Canso Credit Opportunities Fund
Statement of Investment Portfolio as at December 31, 2010

Par Value/# of Shares		Average Cost \$	Fair Value \$
PRIVATE PLACEMENTS			
1,000	Videotron Ltee Sr Notes 7.125% Jan 15, 2020	1,000	1,052
		<u>1,000</u>	<u>1,052</u>
BONDS			
12,000	Ally Credit Canada Ltd. 7.125% Sep 13, 2011(AUD)	12,077	11,972
95,000	CIBC Dep. Notes 5.0% Sep 10, 2012	99,636	99,457
6,000	Newport Partners 7.5% Dec 31, 2049	1,928	4,081
27,000	Nortel Networks Ltd 10.75% July 15, 2016 (USD)	16,037	22,692
30,000	Royal Bank of Canada FRN June 29, 2085(USD)	20,899	24,393
3,000	Trans-Canada Pipelines FF 6.35% May 15, 2067(USD)	1,866	2,969
		<u>152,443</u>	<u>165,563</u>
ASSET-BACKED SECURITIES			
30,000	Claregold Trust 2007-2A A1 5.067% Jun 15, 2016	25,888	26,635
32,000	MLFA 2007-CA21 A2 4.745% Jan 12, 2017/2040	29,629	32,406
21,000	MLFA 2007-CA22 A2 4.711% Oct 12, 2016	21,158	21,369
7,000	REALT 2004-1 E1 6.1475% Oct 12, 2014	6,090	6,685
9,000	Score Trust 5.629% Feb 20, 2014	8,734	8,702
		<u>91,499</u>	<u>95,798</u>
FOREIGN BONDS			
1,762	CIT Group Inc. 7.00% May 1, 2013	1,201	1,788
2,643	CIT Group Inc. 7.00% May 1, 2014	1,772	2,655
2,643	CIT Group Inc. 7.00% May 1, 2015	1,713	2,635
4,405	CIT Group Inc. 7.00% May 1, 2016	2,758	4,398
6,167	CIT Group Inc. 7.00% May 1, 2017	3,815	6,149
8,000	HBOS PLC FF 5.109% Jun 21, 2012/2017	6,800	6,780
90,000	Kaupthing Bank 4.7% Feb 15, 2010	5,500	20,700
44,000	Lehman Bros Hldg Inc 4.85% Sep 3, 2013	4,708	8,433
30,000	Royal Bank of Scotland 5.37% May 12, 2016	13,958	23,850
33,000	Royal Bank of Scotland Tier 1 6.666% Oct 5, 2017	10,707	24,693
		<u>52,932</u>	<u>102,080</u>
INCOME TRUSTS			
5,000	Canso Credit Income Fund Class F	50,000	49,449
		<u>50,000</u>	<u>49,449</u>

Canso Credit Opportunities Fund
Statement of Investment Portfolio as at December 31, 2010

Par Value/# of Shares	Average Cost	Fair Value
	\$	\$
CURRENCY FORWARDS		
(12,000) FX Forward - Buy CA Sell AU (AUCA110121AH)	0	-296
(42,000) FX Forward - Buy CA Sell US (USCA110321AI)	0	1,039
	<u>0</u>	<u>743</u>
TOTAL INVESTMENT PORTFOLIO	<u>347,874</u>	<u>414,686</u>
TRANSACTION COSTS	(6)	
OTHER ASSETS LESS LIABILITIES		4,013
TOTAL PORTFOLIO	<u>347,868</u>	<u>418,699</u>

Canso Credit Opportunities Fund
Notes to Financial Statements
December 31, 2010

1. Formation of Funds

The 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.

Canso Fund Management Ltd. (the "Manager") is the Manager and Trustee, and Canso Investment Counsel Ltd. is the Principal Distributor of the Fund.

2. Significant Accounting Policies

These financial statements have been prepared within the framework of the significant accounting policies summarized below:

Adoption of new accounting standards

In June 2009, the Canadian Accounting Standards Board ("AcSB") issued Amendments to Section 3862 Financial Instruments – Disclosures intended to improve disclosures about fair value and liquidity risks. The amendments require classification of the Funds' assets and liabilities into three levels based on the method used to value the asset or liability. For the purpose of these expanded disclosures, the three-level hierarchy in the table below has been introduced:

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

The amendments are applicable for fiscal years ending after September 30, 2009. These changes have no impact on the Fund's results of operations or financial position.

These expanded disclosures are included in Note 10.

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Emerging Issues Committee Abstract 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC 173"). EIC 173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities. The adoption of EIC 173 did not have any impact on the Fund's financial statements as the Manager determined that the fair value ascribed to the financial assets and financial liabilities in these financial statements already incorporate adjustments for the levels of counterparty credit risk.

Valuation of Investments

Investments are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it principally trades. Bonds and short-term fixed income securities are valued at the bid quotation from recognized investment dealers. Securities listed on public stock exchanges are valued at the last bid price on the valuation date. Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable, or not readily available, the security is valued at its fair value. Fair value is

Canso Credit Opportunities Fund
Notes to Financial Statements
December 31, 2010

2. Significant Accounting Policies (cont'd)

determined by the Manager on the basis of the most recently reported information for the security. Investments in other investment funds are valued at the published Net Asset Value of those funds as these values reflect active and regularly occurring market transactions on a non-arm's length basis.

Net Asset Value

For financial statement reporting, Canadian GAAP requires that the fair value of investments traded in active markets be measured using the closing bid price (the "Net Assets"). As a result of amendments made to National Instrument 81-106 by the Canadian Securities Administrators effective September 8, 2008, the Fund continues to use the close or mid or last trade price as fair value of investments to determine the daily transactional Net Asset Value for purchases and redemptions by its unitholders (the "Net Asset Value"). A reconciliation between the Fund's GAAP Net Assets and the Fund's Net Asset Value for purposes other than financial reporting is given in note 13.

Investment Transactions and Income Recognition

Investment transactions are accounted for on a trade date basis. Interest income is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Realized gains and losses on investments, and unrealized appreciation and depreciation on investments, are calculated on an average cost basis.

Foreign Currency

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

Forward Contracts

Forward Contracts are agreements to purchase or sell financial instruments at a specified future date. As they are not traded on the exchange, the agreements between counter parties are not standardized. Changes in value of forward contracts are settled only on termination of the contract. Open forward contracts are revalued to fair value in the statement of net assets, based on the difference between the contract rate and the applicable forward rate to close out the contract. Change in unrealized gains and losses associated with the revaluation of open forward contracts are recorded in the statement of operations as "unrealized gain (loss)".

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

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the amounts of income and expense during the period. Actual results could differ from these estimates.

Future Accounting Change

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with IFRS over a transitional period expected to end in 2011. Accordingly, the Fund will begin reporting the

Canso Credit Opportunities Fund
Notes to Financial Statements
December 31, 2010

2. Significant Accounting Policies (cont'd)

financial statements under IFRS in 2013. In January 2011, the Canadian Accounting Standards Board approved a one year extension to the optional one year deferral from International Financial Reporting Standards (IFRSs) adoption for investment companies applying Accounting Guideline AcG-18, Investment Companies, which includes the Fund. Investment companies will now be required to mandatorily adopt IFRS for interim and annual financial statements relating to annual periods beginning on or after January 1, 2013.

3. Issuance and Redemption of Units

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

Units of a Fund are issued and redeemed at the net asset value per unit, which is generally determined monthly. 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.

4. Management Fees

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

5. Expenses of the Fund

The Fund is responsible for the payment of all direct expenses related to its operations, such as audit fees, recordkeeping fees, administration fees, and custodian fees plus goods and services tax.

6. Taxation of the Fund

The Fund is a unit trust within the meaning of the Income Tax Act (Canada) (the "Act"). The Fund is subject to tax on its net taxable income, including net realized capital gains, for the calendar year which is not paid or payable to its unitholders as of the end of the calendar year. It is the intention of the Fund to pay all of its net taxable income and sufficient net realized capital gains so that the Fund will not be subject to income taxes other than foreign withholding taxes, if applicable.

Under the Act, the Fund may also be liable for alternative minimum tax. As at December 31, 2010 the Manager has estimated that this liability is not significant to the Fund.

7. Distributions of the Fund

Distributions of net income and net realized capital gains are made at least annually to unitholders of record as of the opening of business on the last valuation date of the period.

**Canso Credit Opportunities Fund
Notes to Financial Statements
December 31, 2010**

7. Distributions of the Fund (cont'd)

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

Distributions for the year are detailed in note 12.

8. Related Party Transactions

At December 31, 2010, the shareholders of the Manager, certain immediate family members of such shareholders, together with certain Canso pooled funds had an ownership interest in the Funds amounting to 100.00%.

9. Statement of Portfolio Transactions

In accordance with Regulations under the Securities Act (Ontario), Statement of Portfolio Transactions for the period ended December 31, 2010 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

10. Fair Value Disclosure

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See Note 2 for a discussion of the Fund's policies regarding this hierarchy. The following fair value hierarchy table presents information about the Fund's assets measured at fair value as at December 31, 2010 and there have been no transfers between levels during the year.

Financial Assets at Fair Value as at December 31, 2010				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities	49,449			49,449
Short-Term Investments		743		743
Fixed Income		364,493		364,493
	<u>49,449</u>	<u>365,236</u>		<u>414,686</u>

11. Risk Management

The Fund's activities expose it to a variety of financial risks in the normal course of operations. These include credit risk, liquidity risk, and market risk. The value of the investments in the Fund's portfolio can

Canso Credit Opportunities Fund
Notes to Financial Statements
December 31, 2010

11. Risk Management (cont'd)

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, 2010 and 2009, the Fund had directly invested in debt instruments with the following credit ratings (the lowest of DBRS, Moody's, and Standard & Poor's is used):

	As a % of Net Assets	
	December 31, 2010	December 31, 2009
AAA	19.3%	24.5%
A	26.2%	
BBB	9.8%	12.5%
BB	6.0%	9.0%
B	7.2%	7.6%
CC		14.4%
C	5.9%	5.5%
D	12.4%	13.6%

The "D" rated assets are securities where the issuer has not met a scheduled payment of interest or principal, the issuer has made it clear that it will miss such a payment in the near future, or in certain cases, that there has been a distressed exchange. The "Unrated" assets are normally holdings in other pooled funds of the manager.

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.

Canso Credit Opportunities Fund
Notes to Financial Statements
December 31, 2010

11. Risk Management (cont'd)

Market Risk

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a fund asset will fluctuate because of changes in market interest rates. To manage interest rate risk, the Manager monitors exposures and maintains the portfolio duration within the limits specified in the investment policies and objectives of the fund.

		<u>Less than 1</u> <u>year (\$)</u>	<u>1-5 Years (\$)</u>	<u>More than</u> <u>5 years (\$)</u>	<u>Total (\$)</u>
Interest Rate Exposure	December 31,2010	29,133	122,017	63,111	214,261
	December 31,2009	58,305	24,574	49,087	131,966

Currency risk:

Currency risk arises when the value of investments denominated in currencies other than Canadian dollars fluctuate due to changes in exchange rates. This risk is low as, in practice, the Fund's holdings of foreign currency securities are relatively low. In addition, the Fund normally enters into a forward currency transaction that largely insulates the Fund from price changes due to changes in exchange rates.

Canso Credit Opportunities Fund
Notes to Financial Statements

12. Net Realized Gain (Loss) On Investments Sold

	31-Dec-10	31-Dec-09
Cost of investments at beginning of period	\$ 129,493	\$ 34,486
Purchase of investments during the period	319,707	162,200
	<u>449,199</u>	<u>196,686</u>
Cost of investments at end of period	347,868	129,493
Cost of investments sold	<u>101,332</u>	<u>67,193</u>
Proceeds on investments sold	<u>112,289</u>	<u>76,976</u>
Net realized gain (loss) on investments sold	<u>\$ 10,958</u>	<u>\$ 9,783</u>

INCREASE (DECREASE) IN FUND UNITS

Units outstanding at beginning of period	24,888	7,000
Units sold	18,771	18,107
Units redeemed	-	(1,627)
Units issued to unitholders on reinvestment of distributions	<u>2,007</u>	<u>1,408</u>
Units outstanding at end of period	<u>45,666</u>	<u>24,888</u>

13. Reconciliation of Transactional NAV to GAAP NAV

Net Asset Value per Unit (\$)			Net Asset Value (\$)		
Transactional NAV	Section 3855 Adj	GAAP NAV	Transactional NAV	Section 3855 Adj	GAAP NAV
9.188	(0.014)	9.173	419,568	(661)	418,907