

Financial Statements of
CANSO CREDIT OPPORTUNITIES FUND
December 31, 2015

CANSO CREDIT OPPORTUNITIES FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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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, 2015 and December 31, 2014 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, 2015 and December 31, 2014, 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, 2015 and December 31, 2014 and the results of its operations, its cash flows and the changes in its net assets for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

Hennick Herman, LLP

Richmond Hill, Canada
March 18, 2016

**CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS**

CANSO CREDIT OPPORTUNITIES FUND

Statement of Financial Position

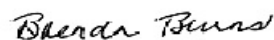
As at December 31, 2015

	December 31, 2015	December 31, 2014
ASSETS		
Assets		
Financial assets at fair value through profit or loss*	\$ 8,780,659	\$ 6,647,627
Cash and cash equivalents	61,354	-
Accrued interest and dividends	82,605	56,281
	<u>8,924,618</u>	<u>6,703,908</u>
Total Assets	\$ 8,924,618	\$ 6,703,908
LIABILITIES		
Liabilities		
Bank indebtedness	\$ -	\$ 27,016
Financial liabilities at fair value through profit or loss	1,701,920	1,575,900
Payable on foreign currency forward contracts	9,416	-
Accrued expenses	7,762	4,536
	<u>1,719,098</u>	<u>1,607,452</u>
Total Liabilities	\$ 1,719,098	\$ 1,607,452
Net Assets Attributable to Holders of Redeemable Units	\$ 7,205,520	\$ 5,096,456
Net Assets Attributable to Holders of Redeemable Units, By Class		
Class C	\$ 1,131,207	\$ 1,169,021
Class F	6,074,313	3,927,435
	<u>7,205,520</u>	<u>5,096,456</u>
Number of Redeemable Units Outstanding		
Class C	98,803	94,942
Class F	690,504	409,019
	<u>789,307</u>	<u>503,961</u>
Net Assets Per Redeemable Unit		
Class C	\$ 11.45	\$ 12.31
Class F	\$ 8.80	\$ 9.60
	<u>8,951,628</u>	<u>6,360,730</u>
*Financial Assets at Fair Value Through Profit or Loss at Cost	\$ 8,951,628	\$ 6,360,730
Proceeds of Investments Sold Short	\$ 1,561,400	\$ 1,476,554

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, 2015

	December 31, 2015	December 31, 2014
Income		
Interest income for distribution purposes	\$ 308,070	\$ 156,058
Dividend income	8,395	437
Realized and unrealized gain (loss) on investments:		
Net realized gain on investments sold	112,339	58,688
Net realized loss on foreign currency	(75,423)	(3,715)
Change in unrealized (depreciation) appreciation on investments	(453,053)	42,115
Change in unrealized appreciation (depreciation) on currency	63	(145)
Change in unrealized depreciation on securities sold short	(41,174)	(93,915)
Change in unrealized (depreciation) appreciation on foreign exchange forward contracts	(9,416)	70
	<u>(150,199)</u>	<u>159,593</u>
Expenses		
Management fees (Notes 3 and 9)	58,802	27,596
Fund administration fees	4,053	1,810
Foreign taxes withheld (Note 6)	-	168
Audit fees	975	384
Custodial fees	6,367	4,996
Transaction cost	4,813	1,053
Miscellaneous expenses	-	129
Independent Review Committee fees	47	30
Bank charges	2,746	2,464
	<u>77,803</u>	<u>38,630</u>
(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units	<u>\$ (228,002)</u>	<u>\$ 120,963</u>
(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units Per Class		
Class C	\$ (37,814)	\$ 84,766
Class F	(190,188)	36,197
	<u>\$ (228,002)</u>	<u>\$ 120,963</u>
(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units Per Unit		
Class C	\$ (0.39)	\$ 0.94
Class F	\$ (0.39)	\$ 0.14

(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, 2015

	December 31, 2015	December 31, 2014
(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units	\$ (228,002)	\$ 120,963
Distributions to Unitholders of Redeemable Units:		
From net investment income	(244,016)	(122,699)
From management fee rebate income	(6)	-
From net capital gain	(36,917)	(54,972)
	<u>(280,939)</u>	<u>(177,671)</u>
Redeemable Unit Transactions:		
Proceeds from redeemable units issued		
Class C	-	180,000
Class F	2,711,100	4,191,250
	<u>2,711,100</u>	<u>4,371,250</u>
Cost of units redeemed		
Class F	(374,034)	(300,012)
	<u>(374,034)</u>	<u>(300,012)</u>
Reinvested distributions		
Class C	46,372	40,004
Class F	234,567	137,667
	<u>280,939</u>	<u>177,671</u>
Increase in Net Assets Attributable to Holders of Redeemable Units for the Year	2,109,064	4,192,201
Net Assets Attributable to Holders of Redeemable Units, Beginning of Year	5,096,456	904,255
Net Assets Attributable to Holders of Redeemable Units, End of Year	\$ 7,205,520	\$ 5,096,456

(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, 2015

	December 31, 2015	December 31, 2014
Class C		
(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units	\$ (37,814)	\$ 84,766
Distributions to Unitholders of Redeemable Units:		
From net investment income	(40,576)	(27,395)
From net capital gain	(5,796)	(12,609)
	(46,372)	(40,004)
Redeemable Unit Transactions:		
Proceeds from redeemable units issued	-	180,000
Reinvested distributions	46,372	40,004
	46,372	220,004
(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units for the Year	(37,814)	264,766
Net Assets Attributable to Holders of Redeemable Units, Beginning of Year	1,169,021	904,255
Net Assets Attributable to Holders of Redeemable Units, End of Year	\$ 1,131,207	\$ 1,169,021

(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, 2015

	December 31, 2015	December 31, 2014
Class F		
(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units	\$ (190,188)	\$ 36,197
Distributions to Unitholders of Redeemable Units:		
From net investment income	(203,440)	(95,304)
From management fee rebate income	(6)	-
From net capital gain	(31,121)	(42,363)
	<u>(234,567)</u>	<u>(137,667)</u>
Redeemable Unit Transactions:		
Proceeds from redeemable units issued	2,711,100	4,191,250
Cost of units redeemed	(374,034)	(300,012)
Reinvested distributions	234,567	137,667
	<u>2,571,633</u>	<u>4,028,905</u>
Increase in Net Assets Attributable to Holders of Redeemable Units for the Year	2,146,878	3,927,435
Net Assets Attributable to Holders of Redeemable Units, Beginning of Year	<u>3,927,435</u>	-
Net Assets Attributable to Holders of Redeemable Units, End of Year	<u>\$ 6,074,313</u>	<u>\$ 3,927,435</u>

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Statement of Cash Flows

Year Ended December 31, 2015

	December 31, 2015	December 31, 2014
Cash Flows Used in Operating Activities		
(Decrease) Increase in net assets attributable to holders of redeemable units	\$ (228,002)	\$ 120,963
Adjustments for:		
Foreign exchange gain on cash and cash equivalents	(123)	(175)
Net realized gain on sales of investments	(112,339)	(58,688)
Change in unrealized (appreciation) depreciation of currency	(63)	145
Change in unrealized depreciation (appreciation) of investments	457,866	(40,693)
Change in unrealized depreciation of investments sold short	126,020	936,750
Purchases of investments	(5,982,507)	(7,609,438)
Proceeds from sale and maturity of investments	3,503,948	2,585,869
Accrued interest and dividends	(26,324)	(45,484)
Accrued expenses	3,226	4,022
Payable on foreign currency forward contracts	9,416	(70)
	<u>(2,248,882)</u>	<u>(4,106,799)</u>
Net Cash Used in Operating Activities		
Cash Flows From Financing Activities		
Proceeds from issuances of redeemable units	2,711,100	4,371,250
Amounts paid on redemption of redeemable units	(374,034)	(300,012)
	<u>2,337,066</u>	<u>4,071,238</u>
Net Cash From Financing Activities		
Foreign Exchange Gain on Cash and Cash Equivalents	<u>93</u>	<u>30</u>
Increase (Decrease) in Cash and Cash Equivalents During the Year	88,277	(35,531)
Balance of (Bank Indebtedness) Cash and Cash Equivalents, Beginning of Year	<u>(27,016)</u>	<u>8,485</u>
Cash and Cash Equivalents (Bank Indebtedness), End of Year	<u>\$ 61,354</u>	<u>\$ (27,016)</u>
Supplemental Information on Cash Flows from Operating Activities:		
Interest received	\$ 276,710	\$ 190,633
Dividends received	\$ 9,798	\$ 549
Interest paid	\$ 2,746	\$ 2,464

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As At December 31, 2015

Par Value/# of Shares	Description	Average Cost	Fair Value
Bonds (67.97%)			
38,000	Bell Canada 7.85% Apr 2, 2031	\$ 44,954	\$ 51,040
396,000	Blackberry Ltd. 6% Nov 13, 2020	591,802	668,638
50,000	BNS FRN Aug 31, 2085 (USD) 6M US LIB +12.5	40,669	48,007
76,000	Bombardier Inc. 6.00% Oct 15, 2022 (USD) 144A	90,422	74,260
111,000	Bombardier Inc. 6.125% Jan 15, 2023 (USD) 144A	134,261	106,769
738,000	Bombardier Inc. 7.50% March 15, 2025 (USD) 144A	850,254	720,081
362,000	Cantral 1 Credit Union FRN Nov 24, 2016 (3M CDOR +40)	362,116	362,389
30,000	CIBC FRN Aug 31, 2085 (USD) (S/A US LIB +12.5)	23,862	30,102
725,000	Enbridge Inc. 4.50% Jun 10, 2044 (USD)	794,691	692,055
102,000	Loblaws 6.45% Mar, 1, 2039	121,555	127,933
268,488	Postmedia Network Inc. (amort) 8.25% Aug 16, 2017	225,902	214,243
350,000	Royal Bank of Canada CB FRN Mar 23, 2020 (3M CDOR +36)	346,434	347,775
50,000	Royal Bank of Canada FRN June 29, 2085(USD)(Q LIMEAN+25)	37,002	50,245
279,000	Shaw Communications Inc 6.75% Nov 9, 2039	325,393	321,392
230,000	TD Dep Note 1.824% Apr 3, 2017	231,842	231,914
63,000	Trans-Canada Pipelines FF 6.35% May 15, 2017/67 (USD)	72,444	66,091
99,000	Tuckamore Capital Management Inc. 8% Mar 23 2016	86,633	95,040
307,000	Videotron Ltee Sr Notes 5.625% June 15, 2025	307,661	307,131
40,000	Videotron Ltee Sr Notes 6.875% Jul 15, 2021	44,400	42,175
67,000	VW Credit Canada Inc. FRN (3M CDOR +35) Apr 3, 2017	64,846	65,310
6,931	Yellow Pages Digital & Media Solutions Ltd. 8.0% Nov 30, 2022	5,796	7,278
256,017	Yellow Pages Digital & Media Solutions Ltd. 9.25% Nov 30, 2018	270,721	267,431
Total Bonds		5,073,660	4,897,299

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As At December 31, 2015

Par Value/# of Shares	Description	Average Cost	Fair Value
Canadian Equities (8.77%)			
798	BBD CN 01/15/2016 C3	24,674	798
280,000	Bombardier Inc.	490,696	375,200
180,501	Postmedia Network Canada	148,486	36,100
320	Tuckamore Capital Management Inc.	-	52
14,414	Yellow Media Ltd.	207,576	220,102
Total Canadian Equities		871,432	632,252
Canadian Equities Short (3.51%)			
300	MIC CN 01/20/17 P31.57	187,068	252,750
Total Canadian Equities Short		187,068	252,750
Foreign Fixed Income (28.63%)			
20,000	Caisse Francaise de Financement Local 5.0% Mar 9, 2020	19,410	22,353
519,000	Commerzbank AG Sub-debt FRN Dec 15, 2016 (Q CDOR +88)	505,154	512,512
23,000	Depfa ACS Bank 5.25% Mar 31, 2025	22,779	27,805
14,000	Heathrow Funding Limited 4.0% Jul 3, 2019	14,120	14,968
90,000	Kaupthing Bank 4.7% Feb 15, 2010	5,500	13,500
44,000	Lehman Bros Hldg Inc 4.85% Sep 3, 2013	(11,520)	4,290
143,000	Lloyds Bank PLC 10.125% December 16, 2016/2021	162,688	153,556
11,000	Met Life FRN Sep 25, 2017 (Q CDOR +102)	11,015	11,059
147,000	Navient Corp 4.875% Jun 17, 2019 (USD)	163,652	187,681
11,000	Navient Corp 5.5% Jan 15, 2019 (USD)	12,541	14,273
258,000	Navient Corp 5.5% Jan 25, 2023 (USD)	275,609	286,997
118,000	Navient Corp 5.625% Aug 1, 2033 (USD)	104,874	110,236
108,000	Navient Corp 5.875% Mar 25, 2021 (USD)	122,338	133,591
47,000	Royal Bank of Scotland Group Tier 1 6.666% Oct 5, 2017	25,078	52,993
30,000	Royal Bank of Scotland PLC 5.37% May 12, 2016	13,958	29,579
226,000	Royal Bank of Scotland PLC Sub 10.50% Mar 16, 2017/22	267,882	246,332
109,000	Royal Bank of Scotland Sub 9.5% Mar 16, 2017/22 (USD) REGS	139,165	163,090
77,000	Unicredit FRN May 29, 2018 (Q CDOR +217)	77,000	78,378
Total Foreign Fixed Income		1,931,243	2,063,193

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As At December 31, 2015

Par Value/# of Shares	Description	Average Cost	Fair Value
Mortgage Backed Securities (1.20%)			
87,000	Merrill Lynch NHA MBS FRN (98001103) Mar 1, 2020 (M CDOR +13)	79,268	78,459
8,000	MLFA 2002-BC2P A 6.673% May 7, 2021	3,737	3,760
4,000	MLFA 2006-CA19 B 5.06% Jun 12, 2016/39	3,930	4,048
Total Mortgage Backed Securities		86,935	86,267
Preferreds (7.43%)			
1,700	Bank of Montreal 3.90% Aug 25, 2016 NC Pfd Series 25	40,015	37,094
4,300	Bank of Nova Scotia 3.70% Feb 2, 2016 Series 32	102,173	89,956
9,000	BCE Inc. Prime *50%-100% Dec 31, 2049 Cum Pfd Series AE	135,106	125,550
26,600	Purch Series C Preferred Share	146,408	166,077
7,700	Thompson Reuters Prime * 0,7 Oct 7, 2013 Cum Pfd Series B	99,631	90,398
3,800	US Financial 15 Split Corp Pfd.	21,855	26,011
Total Preferreds		545,188	535,086
Private Placements (4.35%)			
37,000	Black Press Group Ltd. Series B 10.0% Dec 28, 2018	37,000	37,278
18,000	Strait Crossing Dev. Inc. (amort) 6.17% Sep 15, 2031	15,322	16,248
39,955	Xplornet Comm Inc. 144A Sr. Sec. Series A 13.0% May 15, 2017	37,204	40,870
38,595	Xplornet Comm Inc. Sr. Uns. 13% Oct 25, 2020	30,000	44,384
30	Xplornet Comm Inc. Warrants Oct 25, 2023 Restricted	-	-
116	Xplornet Comm Inc. Warrants Series D Oct 25, 2023	-	1
34	Xplornet Comm Inc. Warrants Series A May 15, 2017 144A	2	-
18	Xplornet Comm Inc. Warrants Series B May 15, 2017 144A	1	-
19,529	Xplornet Comm Inc. 144A Sr. Sec. Series B 13.0% May 15, 2017	18,573	20,701
2	Xplornet Comm Pfd Class F	2,000	2,000
129,897	Xplornet Comm Inc. Sr. Uns. 13.00% Oct 25, 2020 Series III	116,000	152,330
Total Private Placements		256,102	313,812

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Schedule of Investment Portfolio

As At December 31, 2015

Par Value/# of Shares	Description	Average Cost	Fair Value
Securities Sold Short (-23.62%)			
(96,000)	Canada 1.50% Jun 1, 2023	(89,637)	(98,236)
(172,000)	Canada 2.5% Jun 1, 2024	(176,025)	(188,662)
(463,000)	Canada 3.5% Dec 1, 2045	(569,400)	(600,494)
(31,000)	Canada 3.75% June 1, 2019	(32,632)	(34,334)
(26,000)	Canada 4% Jun 1, 2041	(28,698)	(35,320)
(79,000)	Canada 4.0% June 1, 2016	(86,592)	(80,125)
(7,000)	Canada 5.0% Jun 1, 2037	(9,243)	(10,443)
(39,000)	Canada 5.75% Jun 1, 2029	(53,054)	(57,364)
(34,000)	Canada 8% Jun 1, 2027	(51,996)	(56,585)
(12,000)	Canada 8.0% Jun 1, 2023	(17,888)	(17,834)
(13,000)	Genworth MI Canada 4.242% Apr 1, 2024	(13,295)	(12,936)
(200)	Genworth MI Canada Inc.	(7,798)	(5,320)
(29,000)	US Treasury 2.5% May 15, 2024 (USD)	(31,421)	(41,019)
(26,000)	US Treasury 3.125% Feb 15, 2043 (USD)	(26,075)	(36,893)
(15,000)	US Treasury 3.625% Aug 15, 2043 (USD)	(16,686)	(23,388)
(148,000)	US Treasury 1.75% May 15, 2023 (USD)	(149,248)	(199,599)
(147,000)	US Treasury 3.00% May 15, 2045 (USD)	(196,541)	(202,570)
(798)	BBD CN 01/15/2016 C4	(5,171)	(798)
Total Securities Sold Short		(1,561,400)	(1,701,920)
Total Investment Portfolio (98.24%)		\$7,390,228	7,078,739
Net payable on foreign exchange contracts (-0.13%)			(9,416)
Other assets less liabilities (1.89%)			136,197
Net Assets Attributable to Holders of Redeemable Units			\$7,205,520

(See Accompanying Notes to Financial Statements)

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

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. 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.

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, accrued 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. Receivables for interest and dividends 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.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

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

a) Financial Instruments (cont'd)

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.

The fair value hierarchy has the following levels (Refer to Note 11 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.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

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

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.

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. 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.

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.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

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

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 3 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.

g) Foreign Currency Translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars, 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.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

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

i) 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 Funds on January 1, 2018. The Funds are currently determining the impact of the amendments on its financial statements.

Presentation of Financial Statements:

The amendments to IAS 1 "Presentation of Financial Statements" (IAS 1), issued on December 18, 2014, and effective for annual periods beginning on or after January 1, 2016 with early application permitted, are designed to further encourage entities to apply professional judgement in determining what information to disclose in their financial statements. The amendments clarify that materiality applies to the whole of the financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The Funds are currently determining the impact of the amendments on its financial statements.

3. 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).

4. 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.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

5. 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 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 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.

6. Taxation

The Fund is a unit trust within the meaning of the Income Tax Act (Canada). 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 as a separate item in the statement of comprehensive income.

7. 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.

8. 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.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

8. Redeemable Units (cont'd)

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, 2015 and December 31, 2014, the number of units issued, redeemed and outstanding were as follows:

	December 31, 2015	December 31, 2014
Units outstanding at beginning of year	503,961	77,264
Redeemable units issued	294,632	440,204
Redeemable units redeemed	(38,862)	(31,003)
Redeemable units issued on reinvestments	29,576	17,496
	<hr/>	<hr/>
Units outstanding at end of year	789,307	503,961
 Class C:		
Units outstanding at beginning of year	94,942	77,264
Redeemable units issued	-	14,446
Redeemable units issued on reinvestments	3,861	3,232
	<hr/>	<hr/>
Units outstanding at end of year	98,803	94,942
 Class F:		
Units outstanding at beginning of year	409,019	-
Redeemable units issued	294,632	425,758
Redeemable units redeemed	(38,862)	(31,003)
Redeemable units issued on reinvestments	25,715	14,264
	<hr/>	<hr/>
Units outstanding at end of year	690,504	409,019

9. Related Party Transactions

At December 31, 2015, 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 15.02% Class C and 1.96% Class F (December 31, 2014: 21.94% Class C and 1.98% Class F).

The Manager paid the Portfolio Manager, an affiliate of the Manager, \$23,521 (December 31, 2014: \$11,039) for managing the investment portfolio of the Fund.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

10. Financial Instruments by Category

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

	Designated at inception	Total	Financial assets at amortized cost	Total
Designated as at fair value through profit or loss:				
Fixed income securities	\$ 7,358,571	\$ 7,358,571	\$ -	\$ 7,358,571
Preferreds	537,086	537,086	-	537,086
Equity securities	885,002	885,002	-	885,002
Financial assets at amortized cost:				
Cash and cash equivalents	-	-	61,354	61,354
Accrued interest and dividends	-	-	82,605	82,605
Total	\$ 8,780,659	\$ 8,780,659	\$ 143,959	\$ 8,924,618

Financial Liabilities at FVTPL as at December 31, 2015

	Designated at inception	Total	Financial liabilities at amortized cost	Total
Held for trading:				
Payable on foreign currency forward contracts	\$ -	\$ -	\$ 9,416	\$ 9,416
Designated as at fair value through profit or loss:				
Investments sold short	1,701,920	1,701,920	-	1,701,920
Financial liabilities at amortized cost:				
Accrued expenses	-	-	7,762	7,762
Total	\$ 1,701,920	\$ 1,701,920	\$ 17,178	\$ 1,719,098

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

10. 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, 2014:

Financial Assets at FVTPL as at December 31, 2014

	<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	\$6,334,014	\$6,334,014	\$ -	\$6,334,014
Equity securities	313,613	313,613	-	313,613
Financial assets at amortized cost:				
Accrued interest and dividends	-	-	56,281	56,281
Total	\$6,647,627	\$6,647,627	\$ 56,281	\$6,703,908

Financial Liabilities at FVTPL as at December 31, 2014

	<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	\$1,575,900	\$1,575,900	\$ 31,552	\$1,607,452

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

11. Fair Value Hierarchy

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy as disclosed in Note 2. The following fair value hierarchy table presents information about the Fund's assets measured at fair value as at December 31, 2015 and December 31, 2014. There have been no transfers between levels during the year.

Financial Assets at Fair Value as at December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 61,354	\$ -	\$ -	\$ 61,354
Equities	885,002	-	-	885,002
Fixed income	7,052,393	306,178	-	7,358,571
Preferreds	369,009	2,000	166,077	537,086
	<u>\$ 8,367,758</u>	<u>\$ 308,178</u>	<u>\$ 166,077</u>	<u>\$ 8,842,013</u>

Financial Liabilities at Fair Value as at December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Payable for 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>

Financial Assets at Fair Value as at December 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

11. Fair Value Hierarchy (cont'd)

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>

12. 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 Manager monitors the Fund's credit exposure and counterparty ratings. As at December 31, 2015 and December 31, 2014, 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, 2015	December 31, 2014
AAA	-17.5 %	-13.4 %
AA	4.1 %	11.4 %
A	7.5 %	16.9 %
BBB	23.2 %	18.8 %
BB	31.7 %	32.1 %
B	20.4 %	12.5 %
CCC	0.1 %	5.0 %
NR	17.8 %	12.2 %
Total	<u>87.3 %</u>	<u>95.5 %</u>

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

12. 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
December 31, 2015	\$ 1,077,000	\$ 2,992,216	\$ 1,575,760	\$ 5,644,976
December 31, 2014	\$ 335,395	\$ 3,088,370	\$ 1,293,470	\$ 4,717,235

If interest rates had increased or decreased by 1% at December 31, 2015, with all other variables remaining constant, net assets would have decreased or increased by approximately \$81,288 or 1.44% (December 31, 2014 - \$125,950 or 2.67%). 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 US dollar denominated securities. The table below indicates the currencies to which the Trust had significant exposure as at December 31, 2015 and December 31, 2014 on its trading monetary and non-monetary assets and liabilities.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

12. Risk Management (cont'd)

Currency Risk: (cont'd)

As of December 31, 2015

	Holding Exposed to Currency Risk (Excluding derivatives) (\$)	Foreign Currency Contracts (\$)	Currency Exposure (\$)	As a % of Net Assets
U.S. Dollar	3,042,210	-	3,042,210	42.22 %

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	-	-	-	- %

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.

13. 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.

14. Transactions in Underlying Funds

The Fund may invest a portion of its assets in any 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.

15. 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.

CANSO CREDIT OPPORTUNITIES FUND

Notes to Financial Statements

December 31, 2015

16. Approval of the Audited Financial Statements

The financial statements of Canso Credit Opportunities Fund were authorized for issuance by the Board of Directors of Canso Fund Management Ltd. on March 18, 2016.

17. Statement of Portfolio Transactions

In accordance with Regulations under the Securities Act (Ontario), Statement of Portfolio Transactions for the year ended December 31, 2015 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 Fund's financial statements on SEDAR, the Ontario Securities Commission document website. Additional copies of the financial statements can be obtained directly from the Manager.



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