



# **Canso Credit Opportunities Fund**

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Financial Statements

December 31, 2018

## INDEPENDENT AUDITOR'S REPORT

To the Unit holders of:

**Canso Credit Opportunities Fund**

### Opinion

We have audited the financial statements of **Canso Credit Opportunities Fund** (the "Fund") which comprise the statement of financial position as at December 31, 2018, 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 year ended December 31, 2018, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Canso Credit Opportunities Fund** as at December 31, 2018, and its financial performance and its cash flows for the year ended December 31, 2018 in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of **Canso Credit Opportunities Fund** in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing **Canso Credit Opportunities Fund's** ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## INDEPENDENT AUDITOR'S REPORT (cont'd)

### Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with Canadian Accounting Standards, we exercise professional judgment and maintain professional skepticism through the audit, We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to these risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Hennick Herman, LLP*

Richmond Hill, Canada  
March 22, 2019

CHARTERED PROFESSIONAL ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS

# Canso Credit Opportunities Fund

Financial statements for the year ended December 31, 2018

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# Canso Credit Opportunities Fund

## Statement of Financial Position

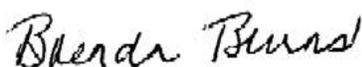
As at December 31, 2018

	31-Dec-18	31-Dec-17
<b>Assets</b>		
Financial assets at fair value through profit or loss*	\$ 13,197,569	\$ 10,978,721
Cash and cash equivalents	93,310	1,210,405
Accrued interest	92,196	56,777
Prepaid distributions	3,763	17,094
Dividends receivable	1,621	2,556
Receivable from foreign currency forward contracts	-	10,093
	\$ 13,388,459	\$ 12,275,646
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss	\$ 3,986,457	\$ 2,201,747
Payable on foreign currency forward contracts	22,090	-
Accrued expenses	11,836	11,165
Redemptions payable	-	3,500
	\$ 4,020,383	\$ 2,216,412
<b>Net assets attributable to holders of redeemable units</b>	<b>\$ 9,368,076</b>	<b>\$ 10,059,234</b>
<b>Net Assets Attributable to Holders of Redeemable Units per Series</b>		
Series C	\$ 969,891	\$ 945,706
Series F	8,398,185	9,113,528
	\$ 9,368,076	\$ 10,059,234
<b>Number of Redeemable Units Outstanding (Note 5)</b>		
Series C	84,451	76,107
Series F	953,768	960,688
	1,038,219	1,036,795
<b>Net Assets per Redeemable Unit (Note 3)</b>		
Series C	\$ 11.48	\$ 12.43
Series F	8.81	9.49
<b>* Financial assets at fair value through profit or loss at cost</b>	<b>\$ 13,406,305</b>	<b>\$ 10,707,658</b>
<b>Proceeds of investments sold short</b>	<b>\$ 3,822,274</b>	<b>\$ 2,194,747</b>

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



**Tim Hicks**  
Director



**Brenda Burns**  
Director

# Canso Credit Opportunities Fund

## Statement of Comprehensive Income

For the year ended December 31, 2018

	31-Dec-18	31-Dec-17
<b>Income</b>		
Interest income for distribution purposes	\$ 349,644	\$ 316,028
Dividend income	19,429	15,054
Other income	4,499	3,229
<b>Realized and unrealized gain/(loss) on investments:</b>		
Net realized gain on investments sold	\$ 18,836	\$ 235,006
Net realized (loss)/gain on foreign currency	(45,001)	56,685
Change in unrealized depreciation on investments	(479,655)	(87,103)
Change in unrealized depreciation on foreign currency	-	(96)
Change in unrealized (depreciation)/appreciation on securities sold short	(157,183)	66,909
Change in unrealized (depreciation)/appreciation on foreign currency forward contracts	(32,183)	17,578
<b>Total operating income</b>	<b>\$ (321,614)</b>	<b>\$ 623,290</b>
<b>Expenses (Note 4)</b>		
Management fees (Note 6)	\$ 121,862	\$ 106,831
Custodial fees	10,979	6,544
Fund administration fees	6,065	5,468
Audit fees	2,637	1,423
Interest expense	750	622
Transaction costs	144	24
Independent Review Committee fees	109	113
Professional fees	52	-
Blended HST expense	-	1,344
<b>Total</b>	<b>\$ 142,598</b>	<b>\$ 122,369</b>
Withholding tax (Note 3)	-	139
<b>Total operating expenses</b>	<b>\$ 142,598</b>	<b>\$ 122,508</b>
<b>Change in net assets attributable to holders of redeemable units from operations</b>	<b>\$ (464,212)</b>	<b>\$ 500,782</b>
<b>Change in Net Assets Attributable to Holders of Redeemable Units from Operations, per Series</b>		
Series C	\$ (50,815)	\$ 50,372
Series F	(413,397)	450,410
	<b>\$ (464,212)</b>	<b>\$ 500,782</b>
<b>Change in Net Assets Attributable to Holders of Redeemable Units from Operations per Unit</b>		
Series C	\$ (0.63)	\$ 0.71
Series F	(0.39)	0.48

# Canso Credit Opportunities Fund

## Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

For the year ended December 31, 2018

	31-Dec-18	31-Dec-17
Net assets attributable to holders of redeemable units, beginning of year	\$ 10,059,234	\$ 8,862,951
Change in net assets attributable to holders of redeemable units from operations	(464,212)	500,782
Distributions to unitholders of redeemable units:		
From net investment income	\$ (226,957)	\$ (210,216)
From management fee rebate income	(4,499)	(3,229)
From net capital gains	-	(291,691)
	\$ (231,456)	\$ (505,136)
Redeemable unit transactions:		
Proceeds from redeemable units issued	\$ 2,619,500	\$ 1,606,000
Cost of units redeemed	(2,774,440)	(844,499)
Reinvested distributions	159,450	439,136
	\$ 4,510	\$ 1,200,637
<b>(Decrease)/Increase in net assets attributable to holders of redeemable units for the year</b>	<b>\$ (691,158)</b>	<b>\$ 1,196,283</b>
<b>Net assets attributable to holders of redeemable units, end of year</b>	<b>\$ 9,368,076</b>	<b>\$ 10,059,234</b>

### Series C

Net assets attributable to holders of redeemable units, beginning of year	\$ 945,706	\$ 844,334
Change in net assets attributable to holders of redeemable units from operations	(50,815)	50,372
Distributions to unitholders of redeemable units:		
From net investment income	\$ (30,402)	\$ (24,567)
From net capital gains	-	(27,269)
	\$ (30,402)	\$ (51,836)
Redeemable unit transactions:		
Proceeds from redeemable units issued	\$ 75,000	\$ 51,000
Reinvested distributions	30,402	51,836
	\$ 105,402	\$ 102,836
<b>Increase in net assets attributable to holders of redeemable units for the year</b>	<b>\$ 24,185</b>	<b>\$ 101,372</b>
<b>Net assets attributable to holders of redeemable units, end of year</b>	<b>\$ 969,891</b>	<b>\$ 945,706</b>

### Series F

Net assets attributable to holders of redeemable units, beginning of year	\$ 9,113,528	\$ 8,018,617
Change in net assets attributable to holders of redeemable units from operations	(413,397)	450,410
Distributions to unitholders of redeemable units:		
From net investment income	\$ (196,555)	\$ (185,649)
From management fee rebate income	(4,499)	(3,229)
From net capital gains	-	(264,422)
	\$ (201,054)	\$ (453,300)
Redeemable unit transactions:		
Proceeds from redeemable units issued	\$ 2,544,500	\$ 1,555,000
Cost of units redeemed	(2,774,440)	(844,499)
Reinvested distributions	129,048	387,300
	\$ (100,892)	\$ 1,097,801
<b>(Decrease)/Increase in net assets attributable to holders of redeemable units for the year</b>	<b>\$ (715,343)</b>	<b>\$ 1,094,911</b>
<b>Net assets attributable to holders of redeemable units, end of year</b>	<b>\$ 8,398,185</b>	<b>\$ 9,113,528</b>

# Canso Credit Opportunities Fund

## Statement of Cash Flows

For the year ended December 31, 2018

	31-Dec-18	31-Dec-17
<b>Cash Flows (Used in)/From Operating Activities</b>		
Change in net assets attributable to holders of redeemable units from operations	\$ (464,212)	\$ 500,782
Adjustments for:		
Net realized gain on sales of investments	\$ (18,836)	\$ (235,006)
Change in unrealized depreciation of investments	479,799	87,127
Change in unrealized depreciation of investments sold short	1,784,710	387,171
Purchases of investments	(9,016,555)	(6,111,714)
Proceeds from sale and maturity of investments	6,336,744	4,910,336
Payable on foreign currency forward contracts	22,090	(7,485)
Prepaid distributions	13,331	(17,094)
Receivable from foreign currency forward contracts	10,093	(10,093)
Dividends receivable	935	(487)
Accrued expenses	671	2,412
Redemptions payable	(3,500)	3,500
Accrued interest	(35,419)	28,363
Subscriptions receivable	-	860,000
Accounts receivable	-	953
<b>Net cash (used in)/from operating activities</b>	<b>\$ (890,149)</b>	<b>\$ 398,765</b>
<b>Cash Flows (Used in)/From Financing Activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	\$ (72,006)	\$ (66,000)
Proceeds from issuances of redeemable units	2,619,500	1,606,000
Amounts paid on redemption of redeemable units	(2,774,440)	(844,499)
<b>Net cash (used in)/from financing activities</b>	<b>\$ (226,946)</b>	<b>\$ 695,501</b>
(Decrease)/Increase in cash and cash equivalents during the year	\$ (1,117,095)	\$ 1,094,266
Balance of cash and cash equivalents, beginning of year	1,210,405	116,139
<b>Cash and cash equivalents, end of year</b>	<b>\$ 93,310</b>	<b>\$ 1,210,405</b>
<b>Supplemental Information on Cash Flows from/(used in) Operating Activities</b>		
Interest received	\$ 314,225	\$ 344,391
Dividends received	20,364	14,567
Interest paid	(750)	(622)
Withholding tax	-	(139)

# Canso Credit Opportunities Fund

## Schedule of Investment Portfolio

As at December 31, 2018

Par value/# of shares		Average cost	Fair value
<b>Bonds (91.42%)</b>			
38,000	Bell Canada 7.85% Apr 2, 2031	\$ 44,954	\$ 50,768
838,000	BMO CB FRN Feb 1, 2023 (3M CDOR + 19)	836,297	836,753
730,000	BNS FRN Apr 2, 2020 (Q CDOR +18)	730,000	729,762
50,000	BNS FRN Aug 31, 2085 (SA LIBOR +12.5)	40,669	59,369
38,000	Bombardier Inc. 7.35% Dec. 22, 2026	38,000	35,506
30,000	CIBC FRN Aug 31, 2085 (S/A LIBOR+12.5)	23,862	35,622
110,400	ClearStream Energy Services Inc. 8% Mar 23, 2026	110,400	96,600
56,000	Element Fleet Management 4.25% Jun 30, 2020	54,120	53,760
390,000	Enbridge Inc. 4.57% Mar 11, 2044	405,573	376,134
200,000	Enbridge Inc. 5.75% Sep 2, 2039	229,036	222,166
116,000	Enbridge Inc. FRN May 24, 2019 (Q CDOR +59)	116,225	116,113
110,000	Kraft Canada Inc. FRN July 6, 2020 (Q CDOR +105)	111,251	110,936
102,000	Loblaws 6.45% Mar, 1, 2039	121,555	124,288
19,000	Manufacturers Life Insurance FF 2.64% Jan 15, 2020/2025	19,045	18,991
235,000	Manufacturers Life Insurance FF 3.181% Nov 22, 2022/2027	236,676	235,775
403,000	Pembina Pipeline Corp 4.75% Mar 26, 2048	402,742	386,526
87,914	Postmedia Network Inc. 8.25% Jul 15, 2021	89,412	85,277
778,000	RBC CB FRN Mar 23, 2020 (3M CDOR + 36)	775,340	780,674
50,000	RBC FRN June 29, 2085(Q LIMEAN+25)	37,002	54,593
769,000	Shaw Communications Inc. 6.75% Nov 9, 2039	933,250	917,217
19,000	SNC Lavalin FRN Mar 2, 2021 (Q CDOR + 54)	19,035	18,900
185,000	SNC Lavalin FRN Mar. 4, 2019 (Q CDOR + 35)	185,013	184,941
60,000	Sobeys Inc. 4.7% Aug 8, 2023	62,513	61,458
50,000	Sobeys Inc. 6.06% Oct 29, 2035	51,500	53,654
112,000	Sobeys Inc. 6.64% Jun 7, 2040	116,310	128,861
690,000	TD Bank CB 1.68% Jun 8, 2021	675,092	675,948
334,000	TD CB FRN Jun 28, 2023 (3M CDOR + 31)	334,000	335,670
143,000	Teck Resources Ltd. 5.4% Feb 1, 2043	169,864	170,772
755,000	Teck Resources Ltd. 6.25% Jul 15, 2041	1,004,688	981,490
175,000	TransCanada Pipelines FRN May 15, 2067 (3M LIBOR+221)	210,142	193,493
307,000	Videotron Ltee Sr Notes 5.625% Jun 15, 2025	307,661	311,989
53,931	Yellow Pages Digital & Media Solutions Ltd 8.0% Nov 30, 2022	49,615	53,931
65,000	Yellow Pages Digital & Media Solutions Ltd. 10% Nov 1, 2022	64,820	66,625
		\$ 8,605,662	\$ 8,564,562

<b>Canadian Equities (5.00%)</b>			
149,200	Bombardier Inc.	\$ 261,471	\$ 302,876
320	Clearstream Energy Services Inc.	-	3
1,203	Postmedia Network Canada	148,486	1,215
34	Xplornet Comm Inc. Warrants Series A Sept 30, 2020 144A	2	3,232
18	Xplornet Comm Inc. Warrants Series B Sept 30, 2020 144A	1	684
30	Xplornet Comm Inc. Warrants Series C Oct 25, 2023 Restricted	-	14,158
116	Xplornet Comm Inc. Warrants Series D Oct 25, 2023	-	58,811
14,414	Yellow Pages Limited	207,576	87,781
		\$ 617,536	\$ 468,760

<b>Foreign Fixed Income (25.80%)</b>			
500,000	AT&T Inc. 4.85% May 25, 2047	\$ 496,795	\$ 461,478

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# Canso Credit Opportunities Fund

## Schedule of Investment Portfolio

As at December 31, 2018

Par value/# of shares		Average cost	Fair value
<b>Foreign Fixed Income (25.80%)</b>			
<i>... continued from previous page</i>			
20,000	Caisse Francaise de Financement Local 5.0% Mar 9, 2020	\$ 19,410	\$ 20,377
302,000	GE Capital Corp 5.875% Jan 14, 2038	395,177	395,570
14,000	Heathrow Funding Limited 4.0% Jul 3, 2019	14,120	14,107
150,000	Heathrow Funding Limited 3.0% Jun 17, 2021/23	156,090	150,127
76,000	KFW 1.375% Jan 28, 2020	75,494	75,547
44,000	Lehman Bros Hldg Inc 4.85% Sep 3, 2013	-	1,171
549,000	Lloyds Bank PLC FRN Jul 11, 2023 (3M CDOR + 55)	549,000	549,369
255,000	Met Life Global Funding I 1.875% Apr 16, 2020	254,878	252,688
134,000	Navient Corp 5.625% Aug 1, 2033	122,345	121,618
359,000	Teva Pharmaceuticals 3.15% Oct 1, 2026	372,596	374,564
		\$ 2,455,905	\$ 2,416,616

<b>Mortgage Backed Securities (4.52%)</b>			
194,072	Merrill Lynch FRN NHA MBS (98002097) May 1, 2022 (M CDOR +20)	\$ 193,398	\$ 194,687
42,701	Merrill Lynch NHA MBS FRN (98001103) Mar 1, 2020 (M CDOR+13)	42,550	42,697
86,075	Merrill Lynch NHA MBS FRN (98001212) Jun 1, 2020 (M CDOR +10)	85,822	86,154
97,594	Merrill Lynch NHA MBS FRN (98001703) Jul 1, 2021 (M CDOR+35)	97,460	97,849
1,671	MLFA 2002-BC2P A 6.673% May 7, 2021	1,846	1,700
		\$ 421,076	\$ 423,087

<b>Preferreds (8.09%)</b>			
10,200	BCE Inc. Prime Flat Feb 1, 2020 Cum Pfd Series AE	\$ 159,430	\$ 177,276
1,700	BMO Dec 31, 2049 NC Class A Pfd Series 26	40,015	39,627
4,300	BNS FRN Feb 2, 2021 Series 33 90CTB+134	102,173	102,168
12,024	BZ Holdings Inc. Series C Preferred Share	66,181	74,031
184	Clearstream Pfd	184,000	184,000
28,700	M Split Corp. 7.50% Dec 1, 2019 Series C	63,427	38,027
7,700	Thomson Reuters. Prime*0.7 Oct 7, 2013 Cum Pfd Series B	99,631	111,650
3,800	US Financial 15 Split Corp Pfd.	21,855	28,215
3	Xplornet Comm Pfd Class F	2,000	3,345
		\$ 738,712	\$ 758,339

<b>Private Placements (6.04%)</b>			
37,000	Black Press Group Ltd. Series B 10.0% Mar 31, 2019	\$ 37,000	\$ 36,630
349,000	Honda Canada Finance Inc FRN Aug 28, 2020 (Q CDOR +38)	350,693	349,339
166,000	Honda Canada Finance Inc FRN Dec 18, 2020 (Q CDOR+28)	166,118	165,412
13,572	Strait Crossing Dev. Inc. (amort) 6.17% Sep 15, 2031	13,603	14,824
		\$ 567,414	\$ 566,205

<b>Securities Sold Short (-42.55%)</b>			
(96,000)	Canada 1.50% Jun 1, 2023	\$ (89,637)	\$ (94,451)
(172,000)	Canada 2.5% Jun 1, 2024	(176,025)	(177,279)
(1,317,000)	Canada 2.75% Dec 1, 2048	(1,475,704)	(1,481,014)
(388,000)	Canada 3.5% Dec 1, 2045	(483,129)	(490,906)
(31,000)	Canada 3.75% June 1, 2019	(32,632)	(31,257)
(26,000)	Canada 4% Jun 1, 2041	(28,698)	(34,310)

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# Canso Credit Opportunities Fund

## Schedule of Investment Portfolio

As at December 31, 2018

Par value/# of shares		Average cost	Fair value
<b>Securities Sold Short (-42.55%)</b>			
<i>... continued from previous page</i>			
(7,000)	Canada 5.0% Jun 1, 2037	\$ (9,243)	\$ (10,026)
(39,000)	Canada 5.75% Jun 1, 2029	(53,054)	(52,697)
(34,000)	Canada 8% Jun 1, 2027	(51,996)	(49,894)
(12,000)	Canada 8.0% Jun 1, 2023	(17,888)	(15,088)
(13,000)	Genworth MI Canada 4.242% Apr 1, 2024	(13,295)	(13,151)
(148,000)	US Treasury 1.75% May 15, 2023	(149,248)	(195,792)
(29,000)	US Treasury 2.5% May 15, 2024	(31,421)	(39,518)
(601,000)	US Treasury 3% Feb 15, 2048	(750,679)	(817,564)
(14,000)	US Treasury 3% May 15, 2045	(18,718)	(19,111)
(148,000)	US Treasury 3.0% Nov 15, 2045	(209,453)	(202,006)
(172,000)	US Treasury 3.125% May 15, 2048	(214,768)	(239,686)
(15,000)	US Treasury 3.625% Aug 15, 2043	(16,686)	(22,707)
		\$ (3,822,274)	\$ (3,986,457)
<b>Total investment portfolio (98.32%)</b>		\$ 9,584,031	\$ 9,211,112
<b>Net payable on foreign currency forward contracts (-0.23%)</b>			\$ (22,090)
<b>Other assets less liabilities (1.91%)</b>			\$ 179,054
<b>Net assets attributable to holders of redeemable units</b>			\$ 9,368,076

### Foreign Currency Forward Contracts

Settlement date		Buy (par value)	Sell (par value)	Current value	Unrealized gain/(loss)
March 20, 2019	CAD \$	1,142,785	USD \$ 855,000	CAD \$ 1,165,040	CAD \$ (22,255)
March 20, 2019	USD \$	135,000	CAD \$ 183,788	CAD \$ 183,953	CAD \$ 165
<b>Total amount payable on foreign currency forward contracts</b>				<b>CAD \$</b>	<b>(22,090)</b>

# Canso Credit Opportunities Fund

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## Common Notes to the Financial Statements

December 31, 2018

### 1. Formation of Fund

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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

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These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

The Fund has adopted the following standards, interpretations and amendments for the first time for the year beginning on January 1, 2018:

#### IFRS 9 Financial Instruments ("IFRS 9")

The adoption of IFRS 9 has been applied retrospectively by the Fund. IFRS 9 requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss or other comprehensive income, based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Upon adoption of IFRS 9, the Fund's financial assets and liabilities previously classified as at fair value through profit or loss ("FVTPL") and amortized cost under IAS 39 "Financial Instruments: Recognition and Measurement", continue to be classified at FVTPL and amortized cost.

### 3. Significant Accounting Policies

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The significant accounting policies of the Fund are as follows:

#### 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.

#### Financial Instruments

The Fund accounts for its financial instruments in accordance with IFRS 9, which includes cash and cash equivalents, investments at fair value through profit or loss, accrued interest, subscriptions receivable, redemptions payable, dividends receivable, due to/from investment dealers, receivable/payable from foreign currency forward contracts and accrued expenses.

#### Financial assets and financial liabilities at fair value through profit or loss

##### Assets

The Fund classifies its investments in debt and equity securities and investment funds based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

These financial assets are managed and their performance is evaluated on a fair value basis. The Fund also manages these financial assets with the objective of realizing cash flows through sales. Further, an option to irrevocably designate any equity securities at fair value through other comprehensive income ("FVOCI") has not been taken.

Consequently, these financial assets are mandatorily measured at FVTPL.

# Canso Credit Opportunities Fund

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## Common Notes to the Financial Statements

December 31, 2018

### 3. Significant Accounting Policies

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#### Financial assets and financial liabilities at fair value through profit or loss

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##### Liabilities

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 a 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 and mandatorily measured at FVTPL.

The Fund does not apply general hedge accounting to any of its derivative positions.

#### Financial assets and financial liabilities at amortized cost

The financial assets and liabilities measured at amortized cost include cash collateral posted on derivative positions, accrued income, due to and from brokers and other short term receivables and payables.

IFRS 9 replaced the incurred loss model in IAS 39 with the expected credit loss model (“ECL”) as the new impairment model for financial assets measured at amortized cost. At each reporting date, the Fund measures the loss allowance on cash collateral held, amounts due from broker, accrued income, and other short term receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to the 12 month expected credit losses. Given the short-term nature of the receivables and the high credit quality, the Fund has determined that the expected credit loss allowances are not material.

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.

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 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 are included in the Fund Specific Notes to the financial statements of the applicable Fund.

# Canso Credit Opportunities Fund

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## Common Notes to the Financial Statements

December 31, 2018

### 3. Significant Accounting Policies

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#### 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.

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, and v) internally developed models. In some cases, it may be reasonable and appropriate to value at cost, where there has been no material subsequent event affecting value.

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.

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.

# Canso Credit Opportunities Fund

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## Common Notes to the Financial Statements

December 31, 2018

### 3. Significant Accounting Policies

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#### Fair Value Measurements

*... continued from previous page*

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.

#### 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.

#### 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.

# Canso Credit Opportunities Fund

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## Common Notes to the Financial Statements

December 31, 2018

### 3. Significant Accounting Policies

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#### Recognition, Derecognition and Measurement

*... continued from previous page*

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.

#### Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is 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.

#### 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.

#### 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.

#### 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.

#### 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.

# Canso Credit Opportunities Fund

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## Common Notes to the Financial Statements

December 31, 2018

### 3. Significant Accounting Policies

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#### 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. Forward contracts are either with CIBC Capital Markets (credit rating: A+), RBC Capital Markets (credit rating: AA-), or Scotia Capital Markets (credit rating: A+).

#### Taxation

The Fund is a unit trust within the meaning of the Income Tax Act (Canada). Please refer to Fund Specific Notes section (g). 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.

#### 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.

#### 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.

#### Future Changes in Accounting Standards

At December 31, 2018, there were no changes to standards that could have a material impact on the Fund.

### 4. Expenses

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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.

# Canso Credit Opportunities Fund

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## Common Notes to the Financial Statements

December 31, 2018

### 4. Expenses

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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 (f).

### 5. Issuance and Redemption of Units

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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.

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

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

### 7. Fair Value Hierarchy

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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. Risk Management

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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 interest rate risk, currency 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. The Fund measures credit risk and lifetime expected credit losses related to the trade receivables using historical analysis and forward looking information in determining the expected credit loss. Please refer to the Fund Specific Notes section (e).

#### 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 (e).

# Canso Credit Opportunities Fund

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## Common Notes to the Financial Statements

December 31, 2018

### 8. Risk Management

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#### 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 (e).

##### 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 (e).

##### 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 (e).

### 9. Capital Management

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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 (the "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.

### 10. Transactions in Underlying Funds

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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.

### 11. Statement of Portfolio Transactions

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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

### 12. Exemption from Filing

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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.

# Canso Credit Opportunities Fund

## Fund-Specific Notes to the Financial Statements

December 31, 2018

### (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 composed primarily of fixed income securities.

### (b) Issuance and Redemption of Units

During the years ended December 31, 2018 and December 31, 2017, the number of units issued, redeemed and outstanding were as follows:

	31-Dec-18	31-Dec-17
<b>Units outstanding at beginning of year</b>	<b>1,036,795</b>	<b>913,090</b>
Redeemable units issued	268,873	166,406
Redeemable units redeemed	(283,617)	(87,657)
Redeemable units issued on reinvestments	16,168	44,956
<b>Units outstanding at end of year</b>	<b>1,038,219</b>	<b>1,036,795</b>

<b>Series C</b>		
<b>Units outstanding at beginning of year</b>	<b>76,107</b>	<b>67,872</b>
Redeemable units issued	5,874	4,070
Redeemable units redeemed	-	-
Redeemable units issued on reinvestments	2,470	4,165
<b>Units outstanding at beginning of year</b>	<b>84,451</b>	<b>76,107</b>

<b>Series F</b>		
<b>Units outstanding at beginning of year</b>	<b>960,688</b>	<b>845,218</b>
Redeemable units issued	262,999	162,336
Redeemable units redeemed	(283,617)	(87,657)
Redeemable units issued on reinvestments	13,698	40,791
<b>Units outstanding at beginning of year</b>	<b>953,768</b>	<b>960,688</b>

### (c) Related Party Transactions

At December 31, 2018, 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 10.35% (Series C), 1.31% (Series F) (December 31, 2017: 9.40% (Series C) and 1.27% (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, \$25,527 (December 31, 2017: \$22,376) for managing the investment Portfolio of the Fund.

# Canso Credit Opportunities Fund

## Fund-Specific Notes to the Financial Statements

December 31, 2018

### (c) Related Party Transactions

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#### 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 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 Series 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 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.

### (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, 2018 and December 31, 2017:

	Level 1	Level 2	Level 3	Total
<b>Financial Assets at Fair Value as at December 31, 2018</b>				
Equities	\$ 391,875	\$ -	\$ 76,885	\$ 468,760
Fixed income	107,691	11,862,779	-	11,970,470
Preferreds	496,963	-	261,376	758,339
<b>Total</b>	<b>\$ 996,529</b>	<b>\$ 11,862,779</b>	<b>\$ 338,261</b>	<b>\$ 13,197,569</b>

<b>Financial Liabilities at FVTPL as at December 31, 2018</b>				
Payable on foreign currency forward contracts	\$ -	\$ 22,090	\$ -	\$ 22,090
Investments sold short	-	3,986,457	-	3,986,457
<b>Total</b>	<b>\$ -</b>	<b>\$ 4,008,547</b>	<b>\$ -</b>	<b>\$ 4,008,547</b>

<b>Financial Assets at Fair Value as at December 31, 2017</b>				
Receivable from foreign currency forward contracts	\$ -	\$ 10,093	\$ -	\$ 10,093
Equities	574,886	-	76,885	651,771
Fixed income	15,323	9,648,301	-	9,663,624
Preferreds	506,720	-	156,606	663,326
<b>Total</b>	<b>\$ 1,096,929</b>	<b>\$ 9,658,394</b>	<b>\$ 233,491</b>	<b>\$ 10,988,814</b>

<b>Financial Liabilities at FVTPL as at December 31, 2017</b>				
Investments sold short	\$ -	\$ 2,201,747	\$ -	\$ 2,201,747
<b>Total</b>	<b>\$ -</b>	<b>\$ 2,201,747</b>	<b>\$ -</b>	<b>\$ 2,201,747</b>

# Canso Credit Opportunities Fund

## Fund-Specific Notes to the Financial Statements

December 31, 2018

### (d) Fair Value Hierarchy

... continued from previous page

The following table provides a summary of changes in investments categorized as Level 3 as at December 31, 2018 and December 31, 2017:

	31-Dec-18	31-Dec-17
Balance, beginning of year	\$ 233,491	\$ 169,838
Purchases	72,000	-
Sales	(89,256)	-
Transfers in	112,000	-
Realized gains, net	9,029	-
Change in unrealized appreciation	997	63,653
<b>Balance, end of year</b>	<b>\$ 338,261</b>	<b>\$ 233,491</b>

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. During the year, there was \$112,000 transferred from Level 2 to Level 3 due to the use of unobservable inputs in the valuation.

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:

Clearstream Pfd  
Price: \$1,000.00

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The last transacted price unless there is a material subsequent event that warrants a review. The preferred shares were issued on Jan 16, 2018 at \$1,000.00. There have been no subsequent material events affecting value.

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.

BZ Holdings Inc. Series C Preferred Share  
Price: USD \$4.51

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 USD \$0.54.

Xplornet Comm Pfd Class F  
Price: \$1,228.57

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 \$368.57.

# Canso Credit Opportunities Fund

## Fund-Specific Notes to the Financial Statements

December 31, 2018

### (d) Fair Value Hierarchy

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Xplornet Comm Inc. Warrants Series A Sept 30, 2020 144A

Price: \$95.05

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 \$28.52.

Xplornet Comm Inc. Warrants Series B Sept 30, 2020 144A

Price: \$38.01

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 \$11.40.

Xplornet Comm Inc. Warrants Series C Oct 25, 2023 Restricted

Price: \$471.94

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 \$141.58.

Xplornet Comm Inc. Warrants Series D Oct 25, 2023

Price: \$506.99

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 \$152.10.

### (e) Risk Management

#### Credit Risk

Bonds are classified based on information from Dominion Bond Rating Service, Standard and Poor's, Fitch Ratings, and Moody's Investors Service using the same methodology as the FTSE Canada Fixed Income Indexes.

As at December 31, 2018 and December 31, 2017, the Fund had directly invested in debt instruments with the following credit ratings:

	31-Dec-18 (% of net assets)	31-Dec-17 (% of net assets)
AAA	(7.87)	9.97
AA+	-	(4.28)
AA	7.79	-
AA-	2.70	12.77
A+	8.58	16.73
A	5.49	10.86
A-	1.75	3.16
BBB+	13.91	15.00

# Canso Credit Opportunities Fund

## Fund-Specific Notes to the Financial Statements

December 31, 2018

### (e) Risk Management

#### Credit Risk

	31-Dec-18 (% of net assets)	31-Dec-17 (% of net assets)
<i>... continued from previous page</i>		
BBB	15.71	3.89
BBB-	11.51	5.16
BB+	3.80	3.50
BB	21.52	5.34
B+	2.01	4.63
B-	1.29	1.33
CCC	0.58	0.15
Not Rated	5.51	4.33
<b>Total</b>	<b>94.28</b>	<b>92.54</b>

#### Liquidity Risk

The following tables present the Fund's financial liabilities as at December 31, 2018 and December 31, 2017:

	Less than one month	1-3 months	3 months - 1 year
<b>December 31, 2018</b>			
Payable on foreign currency forward contracts	\$ -	\$ 22,090	\$ -
Accrued expenses	-	11,836	-
<b>December 31, 2017</b>			
Redemptions payable	\$ 3,500	\$ -	\$ -
Accrued expenses	-	11,165	-

#### Market Risk

##### Interest Rate Risk

The following table summarizes the Fund's exposure to interest rate risks based on the remaining term to maturity of the investments.

	Less than 1 year	1-5 years	More than 5 years	Total
<b>Interest Rate Exposure</b>				
December 31, 2018	\$ 321,705	\$ 5,509,299	\$ 2,153,009	\$ 7,984,013
December 31, 2017	1,799,809	4,817,553	844,515	7,461,877

If interest rates had increased or decreased by 1% at December 31, 2018, with all other variables remaining constant, net assets would have decreased or increased by approximately \$39,920 (December 31, 2017: \$20,893). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

##### Currency Risk

The following tables summarize the Fund's net exposure, after hedging, to currency risk as at December 31, 2018 and December 31, 2017:

# Canso Credit Opportunities Fund

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## Fund-Specific Notes to the Financial Statements

December 31, 2018

### (e) Risk Management

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#### Market Risk

##### Currency Risk

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	% of net assets
<b>As at December 31, 2018</b>	
U.S. Dollar	(0.61)%

	% of net assets
<b>As at December 31, 2017</b>	
U.S. Dollar	(0.09)%

As at December 31, 2018, 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 0.00% (December 31, 2017: 0.00%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

##### Price Risk

As at December 31, 2018, approximately 13.09% (December 31, 2017: 13.07%) of the Fund's net assets were invested in equity securities. If prices had increased or decreased by 5% as at December 31, 2018 with all other factors remaining constant, net assets would have increased or decreased by approximately 0.65% (December 31, 2017: 0.65%).

### (f) Trailer Commissions

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No trailer commissions are paid on Series C or Series F Units of the Funds.

### (g) Taxation

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The Fund is a unit trust within the meaning of the Income Tax Act (Canada).

The Fund has \$13,083 net capital losses available to be applied against taxable capital gains of future years (December 31, 2017: \$nil).



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