

OCP INVESTMENT TRUST

Annual Financial Statements for the year ended
December 31, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of OCP Investment Trust (the “**Fund**”) are the responsibility of the management of the Fund. They have been prepared in accordance with Canadian generally accepted accounting principles using information available to March 28, 2012 and management’s best estimates and judgments.

The management of the Fund is responsible for the information and representations contained in these Annual Financial Statements and the Annual Management Report of Fund Performance. Management is also responsible for the selection of the accounting principles that are most appropriate for the Fund’s circumstances and for the judgments and estimates made in the financial statements. The management of the Fund maintains appropriate processes to ensure that accurate, relevant and reliable financial information is produced.

These financial statements have been approved by the management of the Fund and have been audited by Collins Barrow Toronto LLP, Chartered Accountants, on behalf of the unitholder. The auditors’ report outlines the scope of their audit and their opinion on the financial statements.



Josh Spierer
Chief Financial Officer
Onex Credit Partners, LLC,
The Manager of the Fund
March 28, 2012



Michael Gelblat
Chief Executive Officer
Onex Credit Partners, LLC,
The Manager of the Fund
March 28, 2012

AUDITORS' REPORT

To the Unitholder of:

OCP Investment Trust

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We have audited the accompanying financial statements of OCP Investment Trust (the "Fund"), which comprise the schedule of investments as at December 31, 2011, the statements of net assets as at December 31, 2011 and December 31, 2010 and the statements of operations and changes in net assets for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Generally Accepted Accounting Principles, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 in our audits 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 the Fund as at December 31, 2011 and December 31, 2010, and its financial performance and its changes in net assets for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
Toronto, Canada
March 28, 2012

OCP INVESTMENT TRUST

STATEMENTS OF NET ASSETS

As at December 31,

| | 2011 \$ | 2010 \$ |
|--|--------------------|--------------------|
| Assets | | |
| Investments held long | 188,702,280 | 144,892,350 |
| Cash | 123,819,297 | 97,356,603 |
| Cash on deposit with broker as collateral | 386,442 | 159,065 |
| Receivable for investments sold | 454,250 | 18,832,212 |
| Accrued interest | 1,148,020 | 684,945 |
| | 314,510,289 | 261,925,175 |
| Liabilities | | |
| Investments sold short | 32,292,286 | 26,156,242 |
| Unfunded bank debt commitments | 630,400 | 879,120 |
| Forward contract | 4,099,906 | – |
| Performance fees payable <i>[Note 5]</i> | – | 1,042,891 |
| Interest payable on short positions | 710,992 | 630,199 |
| Accounts payable and accrued liabilities | 653,426 | 568,947 |
| Redemptions payable | – | 3,760,000 |
| Payable for investments purchased | 16,008,630 | 31,699,121 |
| | 54,395,640 | 64,736,520 |
| Net Assets | 260,114,649 | 197,188,655 |
| Number of units outstanding <i>[Note 6]</i> | 25,511,799 | 19,094,689 |
| Net assets per unit | \$10.20 | \$10.33 |

See accompanying notes.

OCP INVESTMENT TRUST

STATEMENTS OF OPERATIONS

For the years ended December 31,

| | 2011 \$ | 2010 \$ |
|---|---------------------|-------------------|
| Investment income | | |
| Interest | 9,036,987 | 7,952,616 |
| Dividend, net of withholding tax | 30,183 | 10,225 |
| | 9,067,170 | 7,962,841 |
| Expenses | | |
| Interest expense | 2,783,292 | 1,344,421 |
| Management fees <i>[Note 5]</i> | 2,248,607 | 1,841,161 |
| Harmonized sales tax / Goods and Services Tax | 304,241 | 309,474 |
| Other administration costs | 157,771 | 171,042 |
| Custodian and valuation fees | 57,659 | 59,646 |
| Audit fees | 16,233 | 33,175 |
| Performance fees <i>[Note 5]</i> | 12,269 | 1,042,891 |
| Independent review committee fees | 11,250 | 15,433 |
| Trustee fees | 10,000 | 10,000 |
| Securityholder reporting costs | 6,230 | 2,421 |
| Legal fees | 5,494 | 15,538 |
| | 5,613,046 | 4,845,202 |
| Net investment income | 3,454,124 | 3,117,639 |
| Realized and unrealized gain (loss) on investments and transaction costs | | |
| Net foreign exchange gain | 5,261,478 | 1,767,229 |
| Net realized loss from derivatives <i>[Note 7]</i> | (389,673) | - |
| Net realized gain on sale of investments <i>[Note 7]</i> | 4,147,927 | 5,749,392 |
| Transaction costs | (36,394) | (14,891) |
| Net change in unrealized appreciation (depreciation) of investments | (19,109,036) | 7,473,813 |
| Net gain (loss) on investments | (10,125,698) | 14,975,543 |
| Increase (decrease) in net assets from operations | (6,671,574) | 18,093,182 |
| Increase (decrease) in net assets from operations per unit | (\$0.29) | \$0.90 |

See accompanying notes.

OCP INVESTMENT TRUST

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31,

| | 2011 \$ | 2010 \$ |
|--|--------------------|--------------|
| Increase (decrease) in net assets from operations | (6,671,574) | 18,093,182 |
| Distributions to unitholders <i>[Note 4]</i> | | |
| From net realized gain on sale of investments | – | (18,114,628) |
| Capital unit transactions <i>[Note 6]</i> | | |
| Subscriptions received | 95,297,568 | – |
| Redemption of units | (25,700,000) | (16,735,000) |
| Distributions reinvestment | – | 18,114,628 |
| | 69,597,568 | 1,379,628 |
| Increase in net assets for the year | 62,925,994 | 1,358,182 |
| Net assets, beginning of year | 197,188,655 | 195,830,473 |
| Net assets, end of year | 260,114,649 | 197,188,655 |

See accompanying notes.

SCHEDULE OF INVESTMENTS

As at December 31, 2011

| Number of Shares or Par Value (US\$) | Description | Maturity date | Average cost \$ | Fair value \$ | % of Portfolio |
|---|---|--------------------|--------------------|------------------|-------------------|
| LONG POSITIONS | | | | | |
| BONDS | | | | | |
| 6,903,039 | ACST Pass Through Trust Floating Rate | June 14, 2037 | 6,089,031 | 5,967,053 | |
| 50,000 | Ally Financial (formerly known as GMAC Inc.), 6.20% | November 15, 2013 | 45,004 | 49,847 | |
| 100,000 | Ally Financial (formerly known as GMAC Inc.), 6.375% | August 1, 2013 | 88,860 | 100,235 | |
| 105,000 | Ally Financial (formerly known as GMAC Inc.), 7.00% | January 15, 2013 | 100,238 | 105,396 | |
| 96,000 | Ally Financial (formerly known as GMAC Inc.), 7.00% | November 15, 2012 | 91,054 | 97,021 | |
| 120,000 | Ally Financial (formerly known as GMAC Inc.), 7.10% | January 15, 2013 | 114,010 | 120,208 | |
| 30,000 | Ally Financial (formerly known as GMAC Inc.), 7.10% | January 15, 2013 | 27,548 | 30,135 | |
| 100,000 | Ally Financial (formerly known as GMAC Inc.), 7.125% | August 15, 2012 | 97,055 | 101,158 | |
| 135,000 | Ally Financial (formerly known as GMAC Inc.), 7.25% | August 15, 2012 | 131,025 | 136,468 | |
| 1,000,000 | Ally Financial (formerly known as GMAC Inc.), 7.50% | August 15, 2017 | 854,728 | 941,872 | |
| 194,000 | Ally Financial (formerly known as GMAC Inc.), 7.75% | October 15, 2017 | 163,666 | 185,495 | |
| 175,000 | Ally Financial (formerly known as GMAC Inc.), 7.875% | November 15, 2012 | 164,353 | 177,398 | |
| 90,000 | Ally Financial (formerly known as GMAC Inc.), 8.00% | October 15, 2017 | 75,689 | 86,424 | |
| 2,640,000 | American Airlines Inc. PT TRS 11-2, 8.625% | April 15, 2023 | 2,829,452 | 2,785,433 | |
| 440,000 | American Airlines Inc., 7.50% | Defaulted | 322,200 | 319,933 | |
| 2,640,000 | American Airlines Inc., 10.50% | Defaulted | 2,441,185 | 2,563,941 | |
| 2,083,730 | American Airlines Inc. Pt Trust 09-1A, 10.375% | July 2, 2019 | 2,276,767 | 2,251,495 | |
| 1,350,001 | American Airlines Inc. PT TRS 11-1A, 5.25% | January 31, 2021 | 1,233,414 | 1,280,217 | |
| 251,000 | Arvin Meritor Inc., 10.625% | March 15, 2018 | 241,366 | 239,940 | |
| 3,630,000 | Arvin Meritor Inc., 8.125% | September 15, 2015 | 3,388,476 | 3,303,926 | |
| 2,700,000 | Beazer Homes USA, 6.875% | July 15, 2015 | 1,936,220 | 2,052,465 | |
| 860,000 | Beazer Homes USA, 8.125% | June 15, 2016 | 709,203 | 642,816 | |

SCHEDULE OF INVESTMENTS continued

As at December 31, 2011

| Number of Shares or Par Value (US\$) | Description | Maturity date | Average cost \$ | Fair value \$ | % of Portfolio |
|--------------------------------------|--|--------------------|-------------------|-------------------|----------------|
| 3,000,000 | Capmark Financial Group, 6.30% | Defaulted | 47,299 | 38,136 | |
| 2,813,009 | Capmark Financial Group B, 9.000% | | | | |
| | Floating Rate | September 30, 2015 | 2,883,242 | 2,896,456 | |
| 684,861 | Capmark Financial Group A, 7.00% | | | | |
| | Floating Rate | September 30, 2014 | 708,470 | 699,083 | |
| 3,600,000 | Chiron Merger Sub Inc., 10.500% | November 1, 2018 | 3,586,050 | 3,587,809 | |
| 2,404,011 | CIT Group Inc., 7.00% | May 1, 2017 | 2,202,706 | 2,444,765 | |
| 1,360,001 | CIT Group Inc., 7.00% | May 1, 2016 | 1,245,498 | 1,383,057 | |
| 1,365,578 | CityCenter Holdings LLC, 10.75% | January 15, 2017 | 1,364,200 | 1,432,126 | |
| 615,000 | ConvaTec Healthcare, 10.50% | December 15, 2018 | 622,627 | 558,193 | |
| 11,650,000 | Edison Mission Energy, 7.00% | May 15, 2017 | 8,786,005 | 7,700,874 | |
| 7,595,000 | Harbinger Group Inc., 10.625% | November 15, 2015 | 7,510,694 | 7,549,971 | |
| 2,300,000 | Intelsat Luxembourg SA, 11.250% | February 4, 2017 | 2,285,758 | 2,262,974 | |
| 23,200 | K Hovnanian Enterprises, 6.50% | January 15, 2014 | 18,530 | 13,920 | |
| 7,600,530 | K Hovnanian Enterprises, 7.50% | May 15, 2016 | 5,896,517 | 2,975,811 | |
| 645,000 | Lehman Brothers Holdings, 3.60% | Defaulted | 159,312 | 168,083 | |
| 27,750,000 | Lehman Brothers Holdings, 6.875% | Defaulted | 6,845,191 | 7,478,415 | |
| 48,790,000 | Lehman Brothers Treasury Co. BV, 7.585% | Defaulted | 1,502,333 | 1,404,080 | |
| 3,803,500 | Penson Worldwide Inc., 12.50% | May 15, 2017 | 3,689,591 | 2,320,788 | |
| 2,000,000 | Smurfit-Stone Container Corporation, 8.375% | Defaulted | – | 38,136 | |
| 115,000 | Spectrum Brands Holdings, 9.500% | June 15, 2018 | 126,335 | 127,914 | |
| 1,470,000 | Springleaf Finance Corporation, 6.90% | December 15, 2017 | 1,222,077 | 1,076,343 | |
| 140,120 | ORA / NRS II | Defaulted | 104,703 | 28,642 | |
| 93,414 | ORA / NRS II C | Defaulted | 66,063 | 19,095 | |
| 1,350,000 | Wind Acquisition Finance SA, 7.250% | February 15, 2018 | 1,238,299 | 1,249,326 | |
| Total Bonds | | | 75,532,044 | 70,992,873 | 46.81% |
| BANK DEBT | | | | | |
| 4,743,174 | Alon USA Energy, Inc., Term Loan | August 2, 2013 | 4,404,820 | 4,528,139 | |
| 1,870,769 | Boyd Gaming Corporation, Term Loan | December 17, 2015 | 1,793,091 | 1,816,872 | |
| 8,822,854 | Caesars Entertainment Operating Co. Inc. (formerly known as Harrah's Operating Company Inc.), Term Loan B3 | January 28, 2015 | 7,484,154 | 7,763,955 | |
| 2,952,395 | Caesars Entertainment Operating Co. Inc. (formerly known as Harrah's Operating Company Inc.), Term Loan B4 | October 31, 2016 | 3,055,844 | 2,974,298 | |

SCHEDULE OF INVESTMENTS continued

As at December 31, 2011

| Number of Shares or Par Value (US\$) | Description | Maturity date | Average cost \$ | Fair value \$ | % of Portfolio |
|--------------------------------------|--|--------------------|-----------------|---------------|----------------|
| 17,707,000 | Capmark Financial Group Inc. | Defaulted | 275,610 | 225,090 | |
| 5,097,468 | CCS Inc., Term Loan | November 14, 2014 | 4,626,536 | 4,749,733 | |
| 3,698,550 | Dynegy Midwest Generation, LLC, Term Loan | August 5, 2016 | 3,632,208 | 3,781,937 | |
| 3,449,590 | Dynegy Power, LLC, Term Loan | August 5, 2016 | 3,416,182 | 3,550,668 | |
| 10,366,939 | Federal Mogul Corporation, Term Loan | December 27, 2014 | 9,460,109 | 9,730,023 | |
| 1,350,000 | First Data Corporation, Term Loan B-1 | September 24, 2014 | 1,198,915 | 1,236,741 | |
| 12,650,000 | GGP Term Loan A Stub | Defaulted | – | 289,450 | |
| 12,290,413 | Glitnir Bank HF (USD) Claim | Defaulted | 3,447,028 | 3,124,692 | |
| 1,440,000 | Glitnir Bank HF (EUR) Claim | Defaulted | 474,527 | 455,768 | |
| 2,250,000 | Kaupthing Bank HF Claim | Defaulted | 776,912 | 697,302 | |
| 15,468,000 | Lehman Brothers Specialty Finance Claim | Defaulted | 6,657,843 | 7,157,251 | |
| 10,900,000 | Level 3 Financing Inc., Term Loan | March 13, 2014 | 10,196,186 | 10,572,112 | |
| 2,417,052 | LifeCare Holdings Inc., Term Loan | February 1, 2016 | 2,254,862 | 2,077,033 | |
| 7,114,798 | LightSquared LP, Term Loan | October 1, 2014 | 4,571,722 | 3,020,785 | |
| 6,360,601 | Mach Gen LLC, Term Loan | February 15, 2015 | 4,737,192 | 4,606,059 | |
| 1,200,000 | NewPage Corporation, Term Loan | March 7, 2013 | 1,194,810 | 1,232,547 | |
| 1,396,271 | Realogy Corporation, Term Loan | October 10, 2016 | 1,285,026 | 1,264,762 | |
| 1,462,160 | Spanish Broadcasting System, Term Loan | June 10, 2012 | 1,264,419 | 1,367,992 | |
| 5,032,000 | Springleaf Financial Funding Company, Term Loan | May 10, 2017 | 4,547,886 | 4,436,064 | |
| 1,760,000 | Texas Competitive Electric Holdings Company, Extended Term Loan | October 10, 2017 | 1,150,232 | 1,131,076 | |
| 9,822,384 | Texas Competitive Electric Holdings Company, Non-Extending TL | October 10, 2014 | 7,298,759 | 6,951,654 | |
| 6,945,415 | Tribune Company Revolving Commitment | Defaulted | 4,879,407 | 4,393,284 | |
| 5,950,000 | Tribune Incremental, Term Loan B | Defaulted | 3,635,999 | 3,519,590 | |
| 833,451 | United Airlines Inc., N769UA Term Loan | September 30, 2013 | 742,281 | 720,443 | |
| 1,204,657 | United Airlines Inc., N768UA Term Loan | September 30, 2013 | 1,049,590 | 1,041,317 | |
| 314,541 | United Airlines Inc., N773UA Term Loan | June 30, 2012 | 287,026 | 284,687 | |
| 2,205,121 | Willbros United States Holdings Inc., Term Loan | June 30, 2014 | 2,187,993 | 2,231,291 | |
| 970,098 | Woodside PH Holdings | December 31, 2012 | 963,321 | 907,621 | |

SCHEDULE OF INVESTMENTS continued

As at December 31, 2011

| Number of Shares or Par Value (US\$) | Description | Maturity date | Average cost \$ | Fair value \$ | % of Portfolio |
|---|--|---------------|--------------------|--------------------|-------------------|
| 923,080 | W.R. Grace Strip 5-year RC and 364 Day RC | Defaulted | 1,649,910 | 1,741,107 | |
| Total Bank Debt | | | 104,600,400 | 103,581,343 | 68.29% |
| CREDIT DEFAULT SWAPS | | | | | |
| 6,174,000 | CDX HY 14, 5.00% | June 20, 2015 | 16,184 | 143,451 | |
| 6,000,000 | CDX HY 16, 1.00% | June 20, 2016 | (22,518) | 45,836 | |
| Total Credit Default Swaps | | | (6,334) | 189,287 | 0.12% |
| EQUITIES AND WARRANTS | | | | | |
| 292,833 | Capmark Financial Group Inc. | | 3,881,573 | 4,928,545 | |
| 56,824 | CIT Group Inc. | | 1,836,232 | 2,012,732 | |
| 48,500 | Dana Holding Corporation | | 574,891 | 598,772 | |
| 63,473 | Delphi Automotive PLC | | 1,280,404 | 1,386,513 | |
| 82,129 | General Motors Corporation | | 2,744,021 | 1,692,977 | |
| 65,525 | General Motors Corporation, Warrants A | July 10, 2016 | 1,400,679 | 778,306 | |
| 65,525 | General Motors Corporation, Warrants B | July 10, 2019 | 1,080,723 | 522,425 | |
| 180,000 | Motors Liquidation Company Escrow Preferred | | – | 45,763 | |
| 529,000 | Motors Liquidation Company Escrow GM | | – | 134,492 | |
| 60,160 | ProShares UltraShort Euro ETF | | 1,068,427 | 1,243,175 | |
| 286,000 | Smurfit-Stone Container Corporation Escrow | | – | – | |
| 87,903 | Technicolor | | 586,852 | 134,474 | |
| 122,000 | USPower Generating Company | | 1,283,708 | 460,603 | |
| Total Equities and Warrants | | | 15,737,510 | 13,938,777 | 9.19% |
| Total Long Positions | | | 195,863,620 | 188,702,280 | 124.41% |

SHORT POSITIONS**BONDS**

| | | | | | |
|-------------|---|-------------------|-------------|-------------|--|
| (1,813,333) | Clearwire Corporation, 12.00% | December 1, 2015 | (1,621,998) | (1,765,701) | |
| (1,440,000) | Italian Government Bonds, 3.75% | December 15, 2013 | (1,933,929) | (1,857,162) | |
| (1,440,000) | Italian Government Bonds, 4.25% | August 1, 2013 | (1,964,254) | (1,879,666) | |
| (820,000) | J Crew Group, 8.125% | March 1, 2019 | (789,052) | (796,376) | |
| (2,050,000) | Lender Processing Services Inc., 8.125% | July 1, 2016 | (2,065,530) | (2,048,270) | |
| (2,050,000) | MGM Resorts International, 11.375% | March 1, 2018 | (2,155,842) | (2,293,228) | |
| (820,000) | Rite Aid Corporation, 9.50% | June 15, 2017 | (712,454) | (760,935) | |
| (2,150,000) | Simon Property Group LP, 5.65% | February 1, 2020 | (2,279,597) | (2,504,972) | |
| (2,400,000) | Spanish Government Bonds, 3.30% | October 31, 2014 | (3,211,835) | (3,144,454) | |

SCHEDULE OF INVESTMENTS continued

As at December 31, 2011

| Number of Shares or Par Value (US\$) | Description | Maturity date | Average cost \$ | Fair value \$ | % of Portfolio |
|---|--|-------------------|---------------------|---------------------|-------------------|
| (4,800,000) | Spanish Government Bonds, 4.25% | January 31, 2014 | (6,579,966) | (6,430,322) | |
| (2,200,000) | US Treasury Note, 2.00% | November 15, 2021 | (2,275,048) | (2,261,767) | |
| (4,400,000) | US Treasury Note, 3.125% | November 15, 2041 | (4,678,805) | (4,675,948) | |
| (2,150,000) | USG Corporation, 9.75% | January 15, 2018 | (2,305,721) | (1,847,549) | |
| Total Bonds | | | (32,574,031) | (32,266,350) | (21.27%) |
| EQUITIES | | | | | |
| (9,207) | Dynegy Inc. | | (33,893) | (25,936) | |
| Total Equities | | | (33,893) | (25,936) | (0.02%) |
| Total Short Positions | | | (32,607,924) | (32,292,286) | (21.29%) |
| UNFUNDED BANK DEBT COMMITMENT | | | | | |
| (1,639,923) | Tribune Company Revolving Commitment | Defaulted | (525,972) | (630,400) | |
| Total Unfunded Bank Debt Commitment | | | (525,972) | (630,400) | (0.42%) |
| FORWARD CONTRACT | | | | | |
| | United States Dollars | | | | |
| | Forward currency contract 30/04/2012 ⁽¹⁾ | | – | (4,099,906) | |
| Total Forward Contract | | | – | (4,099,906) | (2.70%) |
| Adjustment for transaction costs | | | (6,036) | – | |
| Total Investments | | | 162,723,688 | 151,679,688 | 100.00% |

⁽¹⁾ Sold 159,322,000 United States dollars for Canadian dollars at a rate of 1.0057. The counterparty is rated A- by Standard & Poor's.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

1. THE FUND

OCP Investment Trust (the “**Fund**”) is an investment fund governed by the laws of the Province of Ontario by a Declaration of Trust dated October 27, 2009. On November 20, 2009 the Fund commenced operations.

The Fund was established for the purpose of acquiring and holding an actively managed, diversified portfolio (the “**Portfolio**”) comprised primarily of senior debt obligations of non-investment grade North American issuers.

The manager of the Fund is Onex Credit Partners, LLC (the “**Manager**”), as such, the Fund is dependent on the Manager for the administration and management of all matters relating to its operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“**GAAP**”). In applying Canadian GAAP, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting year. Significant estimates include the valuation of investments, forward contract and unfunded bank debt commitments. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

Investments

Investments are categorized as held for trading and recorded at their fair value. In the case of publicly traded securities, fair value means the closing bid price for long positions and the closing ask price for short positions. For bonds and bank debt (including unfunded bank debt commitments), fair market value means the bid or ask price provided by independent security pricing services or broker quotes. The difference between fair value and average cost, as recorded in the accounts, is shown as “Net change in unrealized appreciation (depreciation) of investments” in the Statements of Operations. Average cost is used to determine the gain or loss on investments sold. Investment transactions are recorded on the trade date.

Derivative financial instruments such as credit default swaps and forward contracts are valued on each valuation date according to the gain or loss that would be realized if the contracts were closed out. Cash on deposit with broker as collateral is noted in the Statements of Net Assets. Derivative financial instruments are recorded at their respective fair values. Realized gains and losses on credit default swaps, options and forward contracts are included in the Statements of Operations under “Net realized loss from derivatives” and “Net foreign exchange gain” respectively.

Short selling

When the Fund sells a security short, it will borrow that security from a broker to complete the sale. The Fund will incur a loss as a result of a short sale if the price of the borrowed security increases between the date of the short sale and the date on which the Fund closes out its short position by buying that security. The Fund will realize a gain if the security declines in price between those dates. The gain or loss that would be realized if, on the valuation date, the position were to be closed out is reflected in the Statements of Operations in “Net change in unrealized appreciation (depreciation) of investments”. When the short position is closed out, the gain and loss is realized and included in the Statements of Operations in “Net realized gain on sale of investments”.

There can be no assurance that the Fund will be able to close out a short position at an acceptable time or price. Until the Fund replaces a borrowed security, it will maintain a margin account with the prime broker containing cash and liquid securities such that the amount deposited as margin will be more than the current market value of the security sold short.

NOTES TO FINANCIAL STATEMENTS continued

Income and expense recognition

The accrual method of recording income and expenses is followed.

Foreign currency translation

Investments at fair value and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange applicable on the valuation dates. Investment transactions and income and expenses are translated at the rate of exchange on the date of such transactions.

Realized foreign currency gains and losses on investments and unrealized foreign exchange gains and losses on other net assets are included in the Statements of Operations in "Net foreign exchange gain". Unrealized foreign currency gains and losses on investments are included in the Statements of Operations in "Net change in unrealized appreciation (depreciation) of investments".

Increase (decrease) in net assets from operations per unit

The increase (decrease) in net assets from operations per unit in the Statements of Operations represents the increase (decrease) in net assets from operations during the year, divided by the weighted average number of units outstanding during the year.

Valuation of fund units for transaction purposes

Net asset value per unit is calculated at the end of Thursday of each week, on the annual redemption date and on such other dates as the Manager deems appropriate, by dividing the net asset value by the outstanding units.

Net assets per unit for financial reporting purposes are determined in the same manner as above, except for investments which are accounted for in accordance with CICA Handbook Section 3855.

The difference between net asset value for pricing purposes and net assets for financial reporting purposes results solely from investments in equities, which are valued at their closing sale price for purpose of determining net asset value. As at December 31, 2011 and December 31, 2010, the bid price of the common shares has less than a 1% variance with their closing sale price, and therefore, a reconciliation between net assets and net asset value has not been presented.

Income taxes

No provision for income taxes has been recorded in the accompanying financial statements as all income and net realized taxable capital gains are distributed to the unitholder.

Transaction costs

Transaction costs are expensed and are included in "Transaction costs" in the Statements of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers, and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments of the Fund include cash, cash on deposit with broker as collateral, receivable for investments sold, accrued interest, performance fees payable, interest payable on short positions, accounts payable and accrued liabilities, redemptions payable and payable for investments purchased. There are no significant differences between the carrying values of these financial instruments and their fair value. Investments, forward contract, and unfunded bank debt commitments are carried at their fair values as described in Note 2 above.

NOTES TO FINANCIAL STATEMENTS continued

The following tables show financial instruments recorded at fair value, categorized between those whose fair value is based on quoted market prices (Level 1), those involving valuation techniques where all the model inputs are observable in the market (Level 2) and those where the valuation technique involves the use of non-market observable inputs (Level 3).

As at December 31, 2011:

| | Level 1 (\$) | Level 2 (\$) | Level 3 (\$) | Total (\$) |
|-------------------------------|-------------------|--------------------|-----------------|--------------------|
| Financial assets | | | | |
| Equities and warrants | 13,297,919 | 640,858 | – | 13,938,777 |
| Bonds | – | 70,992,873 | – | 70,992,873 |
| Bank debt | – | 103,581,343 | – | 103,581,343 |
| Credit default swaps | – | 189,287 | – | 189,287 |
| | 13,297,919 | 175,404,361 | – | 188,702,280 |
| Financial liabilities | | | | |
| Equities sold short | 25,936 | – | – | 25,936 |
| Bonds sold short | – | 32,266,350 | – | 32,266,350 |
| Unfunded bank debt commitment | – | 630,400 | – | 630,400 |
| Forward contract | – | 4,099,906 | – | 4,099,906 |
| | 25,936 | 36,996,656 | – | 37,022,592 |

As at December 31, 2010:

| | Level 1 (\$) | Level 2 (\$) | Level 3 (\$) | Total (\$) |
|--------------------------------|-------------------|--------------------|-----------------|--------------------|
| Financial assets | | | | |
| Equities | 17,191,493 | 7,023,452 | – | 24,214,945 |
| Bonds | – | 54,186,784 | – | 54,186,784 |
| Bank debt | – | 61,743,976 | – | 61,743,976 |
| Credit default swaps | – | (135,775) | – | (135,775) |
| Forward contract | – | 4,882,420 | – | 4,882,420 |
| | 17,191,493 | 127,700,857 | – | 144,892,350 |
| Financial liabilities | | | | |
| Bonds sold short | – | 26,156,242 | – | 26,156,242 |
| Unfunded bank debt commitments | – | 879,120 | – | 879,120 |
| | – | 27,035,362 | – | 27,035,362 |

NOTES TO FINANCIAL STATEMENTS continued

4. DISTRIBUTIONS

To the extent that the Fund has not distributed in cash the full amount of its net income in any year, the difference between such amount and the amount actually distributed by the Fund will be paid through an additional distribution, being the issuance of additional units having a net asset value in the aggregate at the date of distribution equal to this difference. Immediately after any such additional distribution, the number of outstanding units will be consolidated such that the unitholder will hold after the consolidation the same number of units as it held before the distribution of additional units. See Note 6 for disclosure on any additional distributions declared during the years ended December 31, 2011 and 2010.

5. EXPENSES OF THE FUND AND RELATED PARTY TRANSACTIONS

The Manager is entitled to an annual management fee of 0.9375% based on the net asset value of the Fund. This fee is calculated weekly and paid monthly in arrears.

In addition, the Manager is entitled to an annual performance fee (the “**Performance Fee**”) once a unitholder of the Fund has achieved a preferred return of 9.0%. The Performance Fee is calculated and accrued monthly and paid annually (except that when units are redeemed the accrued Performance Fee in respect of such units will be paid at the time of such redemption). The amount of the Performance Fee is determined as of December 31 of each year (the “**Determination Date**”). The Performance Fee for a given year will be an amount for each unit of the Fund then outstanding equal to 15% of the amount by which the sum of (i) the net asset value of such unit at the Determination Date (calculated without taking into account the Performance Fee), and (ii) the distributions paid on such unit during the previous 12 months (such sum being referred to as the “**Return**”), exceeds the Threshold Amount (as defined below). No Performance Fee will be paid unless the Return exceeds 109% of the Threshold Amount. If the Return exceeds 109% of the Threshold Amount, the Manager will be entitled to a Performance Fee equal to 15% of the Return. The Threshold Amount is the greatest of: (i) the net asset value per unit of the Fund immediately following the closing of the offering; (ii) the net asset value per unit of the Fund on the Determination Date for the previous fiscal year (after payment of such Performance Fee); and (iii) the net asset value per unit of the Fund on the Determination Date in the last fiscal year in which a Performance Fee was paid (after payment of such Performance Fee).

As at December 31, 2011, the Manager was entitled to a Performance Fee of \$12,269.

As at December 31, 2010, the Manager was entitled to a Performance Fee in the amount of \$1,997,513. The Manager, in its discretion, reduced the fee to \$1,042,891.

The Fund is responsible for all costs relating to its administration and operation.

All transactions with the Manager are measured at the exchange amounts, and occur within the normal course of business.

6. UNITS ISSUED AND OUTSTANDING

The Fund is authorized to issue an unlimited number of transferable and redeemable units of a single class, each of which represents an equal undivided interest in the net assets of the Fund. The unitholder is entitled to redeem its units outstanding on any business day and will receive a redemption price equal to the net asset value per unit of the Fund.

NOTES TO FINANCIAL STATEMENTS continued

Changes in the number of units outstanding for the years ended December 31 are summarized as follows:

| | 2011 # | 2010 # |
|--|--------------------|-------------|
| Units outstanding, beginning of year | 19,094,689 | 20,791,733 |
| Issuance of units | 8,889,373 | – |
| Units redeemed during the year | (2,472,263) | (1,697,044) |
| Distribution satisfied through issuance of units | – | 1,931,197 |
| Consolidation of units | – | (1,931,197) |
| Units outstanding, end of year | 25,511,799 | 19,094,689 |

On December 31, 2010, the Manager declared an additional distribution to the sole unitholder of the Fund in the amount of \$ 18,114,628. The distribution was satisfied through the issuance of additional units of the Fund having a value equal to the amount of the distribution. The additional units issued were automatically consolidated on a basis such that the number of consolidated units was equal to the number of units outstanding immediately prior to the transaction.

7. NET REALIZED GAIN ON SALE OF INVESTMENTS AND DERIVATIVES

The net realized gain on sale of investments and derivatives for the years ended December 31 was as follows:

| | 2011 \$ | 2010 \$ |
|---|----------------------|---------------|
| Proceeds on sale of investments and derivatives | 169,957,465 | 161,491,902 |
| Less cost of investments and derivatives sold | | |
| Investments and derivatives, beginning of year | 109,792,005 | 71,881,355 |
| Investments and derivatives purchased during the year | 219,130,894 | 193,653,160 |
| Investments and derivatives, cost end of year | (162,723,688) | (109,792,005) |
| Cost of investments and derivatives sold | 166,199,211 | 155,742,510 |
| Net realized gain on sale of investments and derivatives | 3,758,254 | 5,749,392 |

8. MANAGEMENT OF FINANCIAL RISKS

In the normal course of business, the Fund is exposed to various financial risks, including credit risk, liquidity risk and market risk (consisting of interest rate risk, currency risk and other price risk). The Fund's overall risk management program seeks to minimize potentially adverse effects of these risks on the Fund's financial performance by employing professional, experienced portfolio managers, by monitoring daily the Fund's positions and market events and by diversifying the investment Portfolio within the constraints of the investment guidelines. To assist in managing risk, the Manager maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy, investment guidelines and securities regulations.

NOTES TO FINANCIAL STATEMENTS continued

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

The Fund invests primarily in senior debt obligations of non-investment grade issuers, including defaulted obligations, which involves risk of loss and price changes due to such factors as an issuer's credit worthiness. This represents the main concentration of credit risk. The fair value of the debt securities held in the portfolio includes consideration of the credit worthiness of the issuer. The Schedule of Investments shows which securities are currently in default.

As part of its cash management, the Fund limits its direct exposure to credit loss by placing its cash with high credit quality financial institutions.

The maximum exposure to any one debt issuer as of December 31, 2011 was \$16,207,830 (2010 – \$9,473,037 or 4.80%) representing 6.23% of the net assets of the Fund.

As at December 31, direct exposure to debt securities by credit rating is as follows:

| Credit rating | As % of net assets | |
|---------------|--------------------|--------|
| | 2011 | 2010 |
| AAA | (2.67) | (1.41) |
| AA | – | (2.61) |
| A | (2.35) | 1.07 |
| BBB | 2.78 | – |
| BB | 0.87 | 4.72 |
| B | 32.09 | 31.63 |
| CCC | 5.99 | (0.17) |
| CC | 1.15 | – |
| Not rated* | 16.61 | 12.30 |

*Not rated by Standard & Poor's Rating Services.

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligation on time or at a reasonable price.

The Fund has financial liabilities outstanding, including investments sold short, unfunded bank debt commitments, forward contract, performance fees payable, interest payable on short positions, accounts payable and accrued liabilities, redemptions payable and payable for investments purchased. These financial liabilities are all current and due within 12 months. The Fund has sufficient cash on hand to settle these financial liabilities.

NOTES TO FINANCIAL STATEMENTS continued

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Of the Fund's interest-bearing financial instruments, changes in the prevailing levels of market interest rates is not expected to have a significant impact on their fair values or cash flows.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund invests its assets in securities that are denominated in a currency other than the Canadian dollar, the functional currency of the Fund. Consequently, the Fund is exposed to currency risk as the fair value of the Portfolio securities denominated in currencies other than the Canadian dollar will vary due to changes in foreign currency exchange rates. For the year's ended December 31, 2011 and December 31, 2010, the Fund does not have a significant exposure to foreign exchange risk as substantially all of the Fund's foreign investments are hedged back to the Canadian dollar.

Other price risk

Other price risk is the risk that the fair value of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Since the Fund does not invest substantially in equity securities, the Fund does not have a significant exposure to other price risk as at December 31, 2011 and 2010.

9. CAPITAL MANAGEMENT

Units issued and outstanding represent the capital of the Fund. The Fund has no restrictions or specific capital requirements and is authorized to issue an unlimited number of redeemable units as specified in its most recent Annual Information Form. Restrictions and specific requirements on the redemption of units are described in Note 6. The Statements of Changes in Net Assets and Note 6 outline the relevant changes of the Fund's units for the year.

The Fund manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in Note 8 while maintaining sufficient liquidity to meet unitholder redemptions.

10. INCOME TAXES

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada) and will follow "financial institution" rules for purposes of the "mark-to-market" provisions contained in the Tax Act (Canada). The Fund is not subject to tax on that portion of its income, including net realized capital gains for its taxation year that is paid or payable to its unitholder. Income tax on net realized capital gains not paid or payable will be generally recoverable by virtue of refunding provisions contained in the Income Tax Act (Canada) and provincial income tax legislation, as redemptions occur. It is the intention of the Fund to pay all net taxable income and sufficient net taxable gains so that the Fund will not be subject to income taxes. If the Fund distributes more than it earns, the excess distribution is a return of capital and is not taxable to the unitholder.

The Fund may be subject to "minimum tax" under the Tax Act. The Manager will endeavour to manage the Fund in a manner such that the Fund will not be subject to minimum tax.

NOTES TO FINANCIAL STATEMENTS continued

As of December 31, 2011, the Fund has accumulated \$6,667,392 of non-capital losses which may be carried forward to reduce future taxable income for up to twenty years.

11. INTERNATIONAL FINANCIAL REPORTING STANDARDS

On December 12, 2011, the Canadian Accounting Standards Board (“**AcSB**”) made a decision to extend the deferral of the adoption of International Financial Reporting Standards (“**IFRS**”) by investment companies for an additional year to January 1, 2014. This extends the previous two-year deferral of IFRS to three years as compared to other publicly accountable entities. Consequently, IFRS will be applicable to the Fund for the fiscal year beginning January 1, 2014. At the transition date the prior fiscal year financial statements will require restatement to IFRS for comparative purposes.

The deferral is to provide time for the International Accounting Standards Board (“**IASB**”) to finalize its guidance on investment entities such that a final standard could be issued after January 1, 2013, the previously established changeover date for investment companies in Canada.

The Fund is continuing with its orderly transition plan to meet the requirements to changeover to IFRS. The Fund has reviewed the existing body of IFRS against its current policies under Canadian GAAP and has noted certain policy differences. The major changes identified include the addition of a statement of cash flows and the classification of unitholder’s equity (puttable instruments) as a liability unless certain conditions are met, as well as more extensive note disclosure requirements. These changes will not have an impact on the Fund’s results of operations or financial position.

The process of evaluating the potential impact of IFRS on the financial statements is ongoing, as the IASB and the AcSB continue to issue new standards and recommendations.

12. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year’s presentation.

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