

# OCP INVESTMENT TRUST

Annual Financial Statements for the year ended  
**December 31, 2012**

OCP INVESTMENT TRUST

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

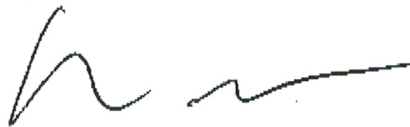
The accompanying financial statements of OCP Investment Trust (the "Fund") are the responsibility of the management of the Fund. They have been prepared in accordance with Canadian generally accepted accounting principles using information available to March 28, 2013 and management's best estimates and judgements.

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 judgements 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 unitholders. 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, 2013



**Michael Gelblat**  
Chief Executive Officer  
Onex Credit Partners, LLC,  
The Manager of the Fund  
March 28, 2013

## INDEPENDENT AUDITORS' REPORT

To the Unitholder of:

### OCP Investment Trust

We have audited the accompanying financial statements of OCP Investment Trust (the "Fund"), which comprise the schedule of investments as at December 31, 2012, the statements of net assets as at December 31, 2012 and December 31, 2011 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, 2012 and December 31, 2011, 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, 2013

**OCP INVESTMENT TRUST**

**STATEMENTS OF NET ASSETS**

As at December 31

	2012 \$	2011 \$
<b>ASSETS</b>		
Investments held long	224,056,911	188,702,280
Cash	85,660,144	123,819,297
Cash on deposit with broker as collateral	994,698	386,442
Forward contract	1,341,545	-
Receivable for investments sold	13,127,182	454,250
Accrued interest	685,456	1,148,020
	<b>325,865,936</b>	<b>314,510,289</b>
<b>LIABILITIES</b>		
Investments sold short	28,232,950	32,292,286
Unfunded bank debt commitments	69,816	630,400
Forward contract	-	4,099,906
Performance fees payable [Note 5]	1,335,510	-
Interest payable on short positions	439,091	710,992
Accounts payable and accrued liabilities	858,748	653,426
Redemptions payable	7,500,000	-
Payable for investments purchased	25,311,618	16,008,630
	<b>63,747,733</b>	<b>54,395,640</b>
<b>Net Assets</b>	<b>262,118,203</b>	<b>260,114,649</b>
<b>Number of units outstanding [Note 6]</b>	<b>22,851,539</b>	<b>25,511,799</b>
<b>Net assets per unit</b>	<b>\$11.47</b>	<b>\$10.20</b>

See accompanying notes.

OCP INVESTMENT TRUST

STATEMENTS OF OPERATIONS

For the years ended December 31,

	2012 \$	2011 \$
<b>INVESTMENT INCOME</b>		
Interest	11,714,415	9,036,987
Dividend, net of withholding tax	219,824	30,183
	<b>11,934,239</b>	<b>9,067,170</b>
<b>EXPENSES</b>		
Interest expense	3,021,124	2,783,292
Management fees <i>[Note 5]</i>	2,502,005	2,248,607
Performance fees <i>[Note 5]</i>	1,351,680	12,269
Harmonized Sales Tax	511,236	304,241
Other administration costs	163,843	157,771
Custodian and valuation fees	68,722	57,659
Audit fees	23,575	16,233
Independent review committee fees	11,250	11,250
Trustee fees	10,000	10,000
Securityholder reporting costs	4,623	6,230
Legal fees	-	5,494
	<b>7,668,058</b>	<b>5,613,046</b>
<b>Net investment income</b>	<b>4,266,181</b>	<b>3,454,124</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND TRANSACTION COSTS</b>		
Net realized foreign exchange gain (loss)	(612,992)	5,261,478
Net realized loss from derivatives	(1,564,235)	(389,673)
Net realized gain on sale of investments	3,055,909	4,147,927
Transaction costs	(60,101)	(36,394)
Net change in unrealized appreciation (depreciation) of investments	26,218,792	(19,109,036)
<b>Net gain (loss) on investments</b>	<b>27,037,373</b>	<b>(10,125,698)</b>
<b>Increase (decrease) in net assets from operations</b>	<b>31,303,554</b>	<b>(6,671,574)</b>
<b>Increase (decrease) in net assets from operations per unit</b>	<b>\$1.28</b>	<b>(\$0.29)</b>

See accompanying notes.

OCP INVESTMENT TRUST

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31,

	2012 \$	2011 \$
<b>Increase (decrease) in net assets from operations</b>	<b>31,303,554</b>	<b>(6,671,574)</b>
<b>Distributions to unitholder [Note 4]</b>	<b>(24,644,840)</b>	-
<b>Capital unit transactions [Note 6]</b>		
Subscriptions received	-	95,297,568
Redemption of units	<b>(29,300,000)</b>	(25,700,000)
Distributions reinvestment	<b>24,644,840</b>	-
	<b>(4,655,160)</b>	69,597,568
<b>Increase in net assets for the year</b>	<b>2,003,554</b>	62,925,994
Net assets, beginning of year	<b>260,114,649</b>	197,188,655
<b>Net assets, end of year</b>	<b>262,118,203</b>	260,114,649

See accompanying notes.

**OCP INVESTMENT TRUST**

**SCHEDULE OF INVESTMENTS**

As at December 31, 2012

Number of shares, units par value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
<b>LONG POSITIONS</b>					
<b>BONDS</b>					
5,984,730	ACS Pass Through Trust Floating Rate	June 14, 2037	5,279,010	5,476,760	
50,000	Ally Financial (formerly known as GMAC Inc.), 6.20%	November 15, 2013	45,004	50,213	
100,000	Ally Financial (formerly known as GMAC Inc.), 6.375%	August 1, 2013	88,860	99,563	
105,000	Ally Financial (formerly known as GMAC Inc.), 7.00%	January 15, 2013	100,238	104,605	
120,000	Ally Financial (formerly known as GMAC Inc.), 7.10%	January 15, 2013	114,010	119,552	
30,000	Ally Financial (formerly known as GMAC Inc.), 7.10%	January 15, 2013	27,548	29,888	
1,000,000	Ally Financial (formerly known as GMAC Inc.), 7.50%	August 15, 2017	854,728	995,020	
194,000	Ally Financial (formerly known as GMAC Inc.), 7.75%	October 15, 2017	163,666	191,612	
90,000	Ally Financial (formerly known as GMAC Inc.), 8.00%	October 15, 2017	75,689	88,878	
5,340,000	American Airlines Inc. 10.50%	Defaulted	5,156,648	5,975,650	
4,480,500	Arvin Meritor, Inc., Floating Rate, 4.625%	March 1, 2026	4,045,298	4,158,701	
6,300,000	Beazer Homes USA, 6.875%	July 15, 2015	5,198,697	6,282,266	
860,000	Beazer Homes USA, 8.125%	June 15, 2016	709,203	911,044	
3,000,000	Capmark Financial Group Inc., 6.30%	Defaulted	14,392	59,682	
1,125,000	Ceva Group PLC, 11.50%	April 1, 2018	1,060,462	934,395	
1,800,000	Ceva Group PLC, 8.375%	December 1, 2017	1,782,138	1,763,600	
2,871,666	CityCenter Holdings LLC, 10.75%	January 15, 2017	2,972,851	3,099,239	
3,168,000	Eastman Kodak Company, 10.625%	Defaulted	2,437,959	2,552,475	
3,680,000	Eastman Kodak Company, 9.75%	Defaulted	2,842,445	2,964,997	
8,690,762	Edison Mission Energy, 7.00%	Defaulted	6,361,170	4,581,684	
940,000	Edison Mission Energy, 7.20%	Defaulted	481,932	495,559	
5,670,000	International Automotive Components Group Ltd., 9.125%	June 1, 2018	5,242,813	5,231,044	
4,500,000	Jefferson County Municipal Authority, Floating Rate	February 1, 2042	2,992,051	3,334,726	
2,300,000	Jefferson County Municipal Authority, Floating Rate	February 1, 2042	1,642,539	1,704,415	
1,410,000	Jefferson County Municipal Authority, Floating Rate	February 1, 2042	998,130	1,044,881	
1,150,000	Jefferson County Municipal Authority, Floating Rate	February 1, 2042	805,072	852,208	
23,200	K Hovnanian Enterprises, 6.50%	January 15, 2014	18,530	23,077	
6,053,926	K Hovnanian Enterprises, 7.50%	May 15, 2016	4,696,656	5,871,284	

**OCP INVESTMENT TRUST**

**SCHEDULE OF INVESTMENTS** continued

As at December 31, 2012

Number of shares, units par value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
940,000	K Hovnanian Enterprises, 8.625%	January 15, 2017	795,711	920,991	
230,000	K Hovnanian Enterprises, 9.125%	November 15, 2020	224,134	242,507	
385,000	Landsbanki Islands HF, 6.10%	Defaulted	26,598	23,935	
645,000	Lehman Brothers Holdings, 3.60%	Defaulted	95,814	149,969	
3,150,000	Lehman Brothers Holdings, 6.20%	Defaulted	637,637	748,075	
27,750,000	Lehman Brothers Holdings, 6.875%	Defaulted	4,089,911	6,624,690	
2,250,000	Lehman Brothers Holdings, Floating Rate	Defaulted	389,637	517,554	
2,250,000	Lehman Brothers Holdings, Floating Rate	Defaulted	387,072	517,554	
2,250,000	Lehman Brothers Holdings, Floating Rate	Defaulted	467,774	517,554	
48,790,000	Lehman Brothers Treasury Co. BV, 7.585%	Defaulted	1,333,546	1,563,422	
3,803,500	Penson Worldwide Inc., 12.50%	Defaulted	3,689,591	832,334	
2,000,000	Smurfit-Stone Container Corporation, 8.375%	Defaulted	-	2,984	
450,000	USG Corporation, 7.875%	March 30, 2020	446,644	497,971	
<b>Total Bonds</b>			<b>68,791,808</b>	<b>72,156,558</b>	<b>36.61%</b>
<b>BANK DEBT</b>					
4,419,444	Alon USA Energy, Inc. Term Loan	November 13, 2018	4,230,586	4,417,994	
2,617,787	Altegrity, Inc., Term Loan	February 21, 2015	2,501,733	2,408,615	
3,150,000	Apollo Management Holdings LP., Term Loan	January 3, 2017	2,885,245	2,851,303	
1,023,290	ATP DIP, Delay Draw, Term Loan	February 28, 2014	988,719	860,096	
2,296,514	ATP Oil & Gas Corporation, Term Loan	February 28, 2014	2,250,740	1,930,266	
2,308,433	Avaya Inc., Term Loan B3	October 26, 2017	2,092,123	2,016,504	
2,852,690	Avaya Inc., Term Loan B5	March 31, 2018	2,762,691	2,779,041	
6,565,170	Caesars Entertainment Operating Co. Inc. (formerly known as Harrah's Operating Company Inc.), Term Loan B3	January 28, 2015	5,569,030	6,421,521	
2,922,269	Caesars Entertainment Operating Co. Inc. (formerly known as Harrah's Operating Company Inc.), Term Loan B4	October 31, 2016	3,024,661	2,942,302	
17,707,000	Capmark Financial Group Inc.	Defaulted	177,996	352,262	
2,865,254	CMA CGM Container, Term Loan	September 16, 2014	2,152,686	2,137,546	
2,204,342	DS Waters Enterprises LP, Term Loan B	August 29, 2017	2,154,421	2,250,212	
4,058,393	Dynegy Midwest Generation, LLC, Term Loan	August 5, 2016	4,090,183	4,186,241	
2,627,739	Dynegy Power, LLC, Term Loan	August 5, 2016	2,602,291	2,725,828	
3,455,861	Federal Mogul Corporation, Term Loan C	December 28, 2015	3,156,643	3,152,718	
6,793,088	Federal Mogul Corporation, Term Loan B	December 29, 2014	6,204,923	6,197,209	
171,491	First Data Corporation, Term Loan B1	September 24, 2014	162,879	170,250	



OCP INVESTMENT TRUST

SCHEDULE OF INVESTMENTS continued

As at December 31, 2012

Number of shares, units par value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
205,436	First Data Corporation, Term Loan B3	September 24, 2014	199,710	204,028	
12,650,000	GGP Term Loan A Stub	Defaulted	-	314,573	
9,213,872	Glitnir Bank HF (EUR) Claim	Defaulted	3,526,111	3,293,647	
16,890,413	Glitnir Bank HF (USD) Claim	Defaulted	4,797,954	4,620,238	
15,468,000	Lehman Brothers Specialty Finance Claim	Defaulted	2,311,392	3,884,963	
7,883,287	LightSquared LP, Term Loan	Defaulted	5,263,276	6,880,909	
4,512,015	Mach Gen LLC, Term Loan	February 15, 2015	3,449,905	2,917,261	
920,000	Monier, Term Loan	April 16, 2015	965,951	989,624	
7,230,000	Navistar International Corporation, Term Loan B	August 16, 2017	7,218,277	7,215,638	
11,583,000	Overseas Shipholding Group, Inc. Revolving Commitment	Defaulted	9,742,597	9,793,351	
3,710,000	Patriot Coal Corporation, Term Loan	December 31, 2013	3,754,455	3,699,556	
4,305,969	Realogy Corporation, Term Loan	October 10, 2016	4,063,126	4,291,171	
8,182,000	Springleaf Financial Funding Company, Term Loan	May 10, 2017	7,357,073	8,085,216	
3,894,430	Supervalve Inc., Term Loan B	August 30, 2018	3,805,145	3,933,505	
5,419,693	Tervita Corporation (formerly known as CCS Inc.), Term Loan	November 14, 2014	4,952,455	5,296,618	
460,000	Travelport Inc., Term Loan	August 23, 2015	443,257	465,187	
1,318,722	Travelport Inc., Extended Term Loan	August 23, 2015	1,195,099	1,253,249	
3,533,415	Tribune Company Revolving Commitment	Defaulted	2,482,353	2,917,186	
5,605,836	Texas Competitive Electric Holdings Company, Non-Extended Term Loan	October 10, 2014	4,107,451	4,229,138	
11,500,000	Texas Competitive Electric Holdings Company, Extended Term Loan	October 10, 2017	7,721,621	7,660,066	
768,913	United Airlines Inc., N768UA Term Loan	September 30, 2013	669,937	669,232	
511,291	United Airlines Inc., N769UA Term Loan	September 30, 2013	455,362	445,008	
923,080	W.R. Grace Strip 5-year RC and 364 Day RC	Defaulted	1,649,910	1,780,707	
2,538,584	Willbros United States Holdings Inc., Term Loan	June 30, 2014	2,492,686	2,474,622	
<b>Total Bank Debt</b>			<b>129,632,653</b>	<b>135,114,601</b>	<b>68.55%</b>

OCP INVESTMENT TRUST

SCHEDULE OF INVESTMENTS continued

As at December 31, 2012

Number of shares, units per value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
<b>CREDIT DEFAULT SWAPS</b>					
4,500,000	Avon Products, Inc., 5 Yr	September 20, 2017	751,761	709,602	
4,600,000	Best Buy 5 Yr 5.00%	June 20, 2017	279,206	729,197	
9,200,000	CDX HY 19, 5.00%	December 20, 2017	195,872	(61,006)	
6,800,000	Darden Restaurants, Inc. 5 Yr	September 20, 2017	224,260	302,977	
2,250,000	Smithfield Foods, Inc. 5 Yr	September 20, 2017	(9,227)	(228,063)	
<b>Total Credit Default Swaps</b>			1,441,872	1,452,707	0.74%
<b>EQUITIES AND WARRANTS</b>					
180,000	Air Canada, Class B		220,716	313,200	
326,479	Capmark Financial Group Inc.		264,046	3,900,225	
56,824	CIT Group Inc.		1,836,232	2,182,908	
7,360	D.R. Horton, Inc.		145,182	144,663	
74,973	Delphi Automotive PLC		1,625,542	2,851,768	
65,525	General Motors Company, Warrants A, July 10, 2016, \$10.00		1,400,679	1,273,570	
65,525	General Motors Company, Warrants B, July 10, 2019, \$18.33		1,080,723	816,024	
180,000	General Motors Corporation, 5.25% Preferred B		-	-	
529,000	General Motors Corporation, 6.25% Preferred C		-	1	
205,903	Hovnanian Enterprises Inc., Inc.		712,288	1,431,631	
4,600	Lennar Corporation		151,469	176,893	
18,095	Motors Liquidation Company GUC Trust		-	377,980	
60,160	ProShares UltraShort Euro ETF		1,068,427	1,136,980	
305	Rock-Tenn Company, Class A		19,580	21,203	
286,000	Smurfit-Stone Container Corporation Escrow		-	-	
5,520	The Ryland Group, Inc.		154,477	200,357	
122,000	US Power Generating Company		1,283,708	505,642	
<b>Total Equities and Warrants</b>			9,963,069	15,333,045	7.78%
<b>Total Long Positions</b>			209,829,402	224,056,911	113.68%
<b>FORWARD CONTRACT</b>					
<b>United States Dollars</b>					
	Forward currency contract 30/04/2013 <sup>(1)</sup>		-	1,341,545	
<b>Total Forward Contract</b>			-	1,341,545	0.68%

**OCP INVESTMENT TRUST**

**SCHEDULE OF INVESTMENTS** continued

As at December 31, 2012

Number of shares, units par value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
<b>SHORT POSITIONS</b>					
<b>BONDS</b>					
(1,380,000)	Accuride Corp., 9.50%	August 1, 2018	(1,350,611)	(1,324,640)	
(920,000)	Alpha Natural Resources, 6.00%	June 1, 2019	(834,147)	(841,913)	
(1,380,000)	Arch Coal Inc., 7.00%	June 15, 2019	(1,194,782)	(1,276,596)	
(3,170,000)	Arch Coal Inc., 7.25%	June 15, 2021	(3,056,774)	(2,908,821)	
(1,350,000)	Cenveo Inc., 8.875%	February 1, 2018	(1,265,385)	(1,275,701)	
(900,000)	Exide Technologies, 8.625%	February 1, 2018	(739,184)	(758,706)	
(1,350,000)	HD Supply Inc., 11.00%	April 15, 2020	(1,377,123)	(1,584,554)	
(4,600,000)	iGate Corporation, 9.00%	May 1, 2016	(5,018,925)	(4,958,819)	
(820,000)	J Crew Group, 8.125%	March 1, 2019	(789,052)	(862,553)	
(2,250,000)	Navistar International Corporation, 8.25%	November 1, 2021	(2,167,744)	(2,159,739)	
(2,400,000)	Spanish Government Bonds, 3.30%	October 31, 2014	(3,211,834)	(3,168,223)	
(1,820,000)	Spanish Government Bonds, 4.25%	October 31, 2016	(2,303,085)	(2,421,859)	
(2,200,000)	US Treasury Note, 2.00%	November 15, 2021	(2,275,048)	(2,268,860)	
(2,150,000)	USG Corporation, 9.75%	January 15, 2018	(2,305,721)	(2,421,966)	
<b>Total Bonds</b>			(27,889,415)	(28,232,950)	(14.32)%
<b>Total Short Positions</b>			(27,889,415)	(28,232,950)	(14.32)%
<b>UNFUNDED BANK DEBT COMMITMENTS</b>					
(452,824)	ATP Oil & Gas Corporation, Term Loan		-	(69,816)	
<b>Total Unfunded Bank Debt Commitments</b>			-	(69,816)	(0.04)%
Adjustment for transactions costs			(19,089)	-	
<b>Total Investments</b>			<b>181,920,898</b>	<b>197,095,690</b>	<b>100.00%</b>

<sup>(1)</sup> Sold 222,000,000 United States dollars for Canadian dollars at a rate of 0.99662. The counterparty is rated A – by Standard & Poor's.

## OCP INVESTMENT TRUST

# NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

### 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 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.

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 on forward contracts are included in the Statements of Operations under "Net realized loss from derivatives" and "Net realized foreign exchange gain (loss)" respectively.

Investment transactions are recorded on the trade date.

#### 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.

#### Other assets and liabilities

Net assets, excluding cash, investments and derivatives, are recorded at amortized cost. Assets, excluding cash, investments and derivatives, are categorized as loans and receivables. Liabilities, excluding derivatives, are categorized as other financial liabilities.

#### 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 investment transactions, realized gains or losses on forward contracts and unrealized foreign exchange gains and losses on other net assets are included in the Statements of Operations in "Net realized foreign exchange gain (loss)". Unrealized foreign currency gains and losses on investments are included in the Statements of Operations in "Net change in unrealized appreciation (depreciation) of investments".

## OCP INVESTMENT TRUST

# NOTES TO FINANCIAL STATEMENTS continued

### 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 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 Financial Instruments – recognition and measurement.

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, 2012 and 2011, the bid price of the investments 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 also financial instruments and are carried at their fair values as described in Note 2 above.

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, 2012:

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Financial assets</b>				
Equities and warrants	14,827,403	505,642	-	15,333,045
Bonds	-	72,156,558	-	72,156,558
Bank debt	-	135,114,601	-	135,114,601
Credit default swaps	-	1,452,707	-	1,452,707
Forward contract	-	1,341,545	-	1,341,545
	<b>14,827,403</b>	<b>210,571,053</b>	<b>-</b>	<b>225,398,456</b>

OCP INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS continued

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Financial liabilities</b>				
Bonds sold short	-	28,232,950	-	28,332,950
Unfunded bank debt commitments	-	69,816	-	69,816
	-	<b>28,302,766</b>	-	<b>28,302,766</b>

As at December 31, 2011:

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Financial assets</b>				
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
	<b>13,297,919</b>	<b>174,404,361</b>	-	<b>188,702,280</b>

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Financial liabilities</b>				
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
	<b>25,936</b>	<b>36,996,656</b>	-	<b>37,022,592</b>

**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.

**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 daily 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

## OCP INVESTMENT TRUST

# NOTES TO FINANCIAL STATEMENTS continued

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).

For the year ended December 31, 2012, the Fund incurred a Performance fee of \$1,351,680 (2011 – \$12,269) of which \$1,335,510 was payable as at December 31, 2012 (2011 – \$nil).

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 one 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.

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

	2012 #	2011 #
<b>Units outstanding, beginning of year</b>	<b>25,511,799</b>	19,094,689
Issuance of units	-	8,889,373
Units redeemed during the year	<b>(2,660,260)</b>	(2,472,263)
Distribution satisfied through issuance of units	<b>2,371,142</b>	-
Consolidation of units	<b>(2,371,142)</b>	-
<b>Units outstanding, end of year</b>	<b>22,851,539</b>	25,511,799

On December 31, 2012, the Manager declared an additional distribution to the sole unitholder of the Fund in the amount of \$24,644,840. 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. 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.

#### 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 mitigates such risk by entering into investment transactions with high credit quality financial institutions.

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, 2012 was \$14,523,781 (2011 – \$16,207,830) representing 5.54% (2011 – 6.23%) of the net assets of the Fund.

## OCP INVESTMENT TRUST

# NOTES TO FINANCIAL STATEMENTS continued

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

As a % of net assets		
Credit rating	2012	2011
AAA	-	(2.67)
AA	(0.87)	-
A	2.09	(2.35)
BBB	(2.13)	2.78
BB	3.59	0.87
B	18.98	32.09
CCC	8.30	5.99
CC	4.85	-
C	2.65	1.15
D	1.94	-
Not rated*	28.87	16.61

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

### 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.

### 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 years ended December 31, 2012 and December 31, 2011, 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, 2012 and 2011.

## 8. 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.



## NOTES TO FINANCIAL STATEMENTS continued

The Fund manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in Note 7 while maintaining sufficient liquidity to meet unitholder redemptions.

### 9. 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.

### 10. INTERNATIONAL FINANCIAL REPORTING STANDARDS

Canadian investment companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), for interim and annual periods beginning on or after January 1, 2014. These standards will replace the existing Canadian generally accepted accounting principles. Effective January 1, 2014, the Fund will adopt IFRS as the basis for preparing its financial statements. The Fund will prepare its first financial statements under IFRS for the interim period ending June 30, 2014, along with comparative data on an IFRS basis and an opening statement of financial position as at January 1, 2013.

The Fund is continuing with its orderly transition plan to meet the requirements to change over to IFRS. Based on the Fund’s analysis to date, the transition to IFRS will primarily impact financial statement presentation and disclosures. A summary of the significant standards impacting the Fund under IFRS are outlined below. The key differences identified are based on the application of IFRS as they exist as of this date and will not have an impact on the Fund’s Net Asset Value.

IAS 32 – Presentation of puttable instruments (equity vs. liability):

IAS 32 Financial Instruments: Presentation requires puttable instruments to be presented as a liability rather than equity on the Fund’s Statement of Net Assets, unless certain conditions are met. IAS 32 defines a puttable instrument as a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset, as is the case with unit redemptions. The Fund is currently assessing its unitholder structure to confirm future presentation.

IAS 7 – Statement of cash flows:

In addition to the financial statements currently presented, the Fund will be required to present a statement of cash flows under IFRS.

IFRS 13 – Fair value measurement:

If an asset or liability measured at fair value has a bid price and an ask price, IFRS 13 requires that the price within the bid-ask spread that is most representative of the fair value be used to measure fair value. The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required. IFRS 13 allows for the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. As such, IFRS 13 could potentially eliminate the existing difference between Net Assets for financial reporting purposes and Net Asset Value for fund pricing purposes. The Manager is currently assessing the options under IFRS 13 and the potential impact on the Fund.

IFRS 10 – Consolidated financial statements:

The Fund is expected to meet the definition to be an investment entity, and, as such, will not be required to consolidate its investments, but rather measure them at fair value through profit or loss, regardless of whether those investments are controlled.

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