

# **OCP CREDIT STRATEGY FUND**

Annual Financial Statements for the year ended  
**December 31, 2015**

**OCP CREDIT STRATEGY FUND**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of OCP Credit Strategy Fund (the "Fund") are the responsibility of the management of the Fund. They have been prepared in accordance with International Financial Reporting Standards using information available to March 29, 2016 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, Licensed Public Accountants, 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 29, 2016



**Michael Gelblat**  
Chief Executive Officer  
Onex Credit Partners, LLC,  
The Manager of the Fund  
March 29, 2016

**INDEPENDENT AUDITORS' REPORT**

To the unitholders of

**OCP Credit Strategy Fund**

We have audited the accompanying financial statements of OCP Credit Strategy Fund, which comprise the statements of financial position as at December 31, 2015 and December 31, 2014, the statements of comprehensive income, changes in equity and cash flows 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 International Financial Reporting Standards, 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 OCP Credit Strategy Fund as at December 31, 2015 and December 31, 2014, and its financial performance, its changes in equity and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Licensed Public Accountants  
Chartered Professional Accountants  
March 29, 2016  
Toronto, Ontario

This office is independently owned and operated by Collins Barrow Toronto LLP  
The Collins Barrow trademarks are used under License.

 An independent member of  
**BAKER TILLY**  
INTERNATIONAL

**OCP CREDIT STRATEGY FUND**

**STATEMENTS OF FINANCIAL POSITION**

As at (stated in Canadian dollars)

	December 31, 2015 \$	December 31, 2014 \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Investments held long	152,261,887	224,104,781
Unrealized gain on forward contracts	-	435,910
Cash and cash equivalents	39,118,274	44,309,506
Cash on deposit with brokers as collateral for swaps	-	250,303
Receivable for investments sold	2,427,870	10,885,579
Interest and other receivables	5,730,160	1,245,952
Dividends receivable	-	5,293
<b>Total Assets</b>	<b>199,538,191</b>	<b>281,237,324</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Investments sold short	18,132,081	26,309,564
Unfunded bank debt commitments	-	13,126
Unrealized loss on forward contracts	8,569,442	-
Accounts payable and accrued liabilities <i>[Note 6]</i>	516,856	631,896
Redemptions payable	955,171	-
Distributions payable <i>[Note 5]</i>	4,199,872	4,612,263
Payable for investments purchased	3,655,380	20,146,294
Payable for forward contracts	-	7,710,292
Interest payable	172,407	468,234
<b>Total Liabilities</b>	<b>36,201,209</b>	<b>59,891,669</b>
<b>EQUITY</b>		
Unit capital	150,535,600	182,532,352
Retained earnings	12,801,382	38,813,303
<b>Total Equity</b>	<b>163,336,982</b>	<b>221,345,655</b>
<b>Total Liabilities and Equity</b>	<b>199,538,191</b>	<b>281,237,324</b>
<b>Number of Units Outstanding</b> <i>[Note 7]</i>	<b>23,851,108</b>	<b>26,355,791</b>
<b>Total Equity/Net Assets per unit</b>	<b>\$6.85</b>	<b>\$8.40</b>

See accompanying notes.

**OCP CREDIT STRATEGY FUND**

**STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31 (stated in Canadian dollars)

	2015 \$	2014 \$
<b>INCOME</b>		
<b>Investment Income</b>		
Interest for distribution purposes	10,058,403	668,641
Dividends	179,368	836
	<b>10,237,771</b>	<b>669,477</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FORWARD AGREEMENT</b>		
Foreign currency gain (loss)	10,310,867	239,131
Other net changes in fair value of investments and Forward Agreement		
Net realized gain (loss) on investments	3,246,925	117,920
Net realized gain (loss) on derivatives	519,063	-
Net realized gain (loss) on forward contracts	(25,862,021)	-
Net realized gain (loss) on Forward Agreement	-	63,213,319
Net change in unrealized appreciation (depreciation) of forward contracts	(9,005,352)	435,910
Net change in unrealized appreciation (depreciation) of investments	(4,552,173)	(341,161)
Net change in unrealized appreciation (depreciation) of derivatives	67,918	541,554
Net change in unrealized appreciation (depreciation) of Forward Agreement	-	(59,273,633)
Total income	<b>(15,037,002)</b>	<b>5,602,517</b>
<b>EXPENSES</b>		
Management fees <i>[Note 6]</i>	2,423,248	838,256
Interest expense	1,807,930	112,912
Dealer service fees <i>[Note 6]</i>	775,439	976,665
Harmonized sales tax	329,262	202,834
Other administration costs	157,860	-
Securityholder reporting costs	112,947	110,108
Custodian and valuation fees	78,243	46,340
Legal fees	53,422	160,601
Audit fees	39,500	26,035
Transaction costs <i>[Note 6]</i>	37,699	584,602
Independent Review Committee fees	12,000	11,250
Withholding tax on dividend income	22,831	936
Trustee Fees	10,000	10,000
Total Expense	<b>5,860,381</b>	<b>3,080,539</b>
<b>Profit (loss) and total comprehensive income (loss) for the year</b>	<b>(20,897,383)</b>	<b>2,521,978</b>
<b>Earnings/(loss) per unit <i>[Note 11]</i></b>	<b>\$(0.85)</b>	<b>\$0.09</b>

See accompanying notes.

**OCP CREDIT STRATEGY FUND**

**STATEMENTS OF CHANGES IN EQUITY**

For the years ended December 31, 2015 and 2014 [stated in Canadian dollars]

	Unit Capital \$	Retained Earnings \$	Total Equity \$
<b>As at January 1, 2015</b>	182,532,352	38,813,303	221,345,655
Changes in equity for 2015:			
Profit (loss) for the year		(20,897,383)	(20,897,383)
Redemption of units	(17,346,688)	(2,552,722)	(19,899,410)
Distributions to unitholders			
Income	-	(2,561,816)	(2,561,816)
Return of Capital	(14,650,064)	-	(14,650,064)
<b>As at December 31, 2015</b>	<b>150,535,600</b>	<b>12,801,382</b>	<b>163,336,982</b>
<b>As at January 1, 2014</b>	194,832,039	59,104,491	253,936,530
Changes in equity for 2014:			
Profit (loss) for the year		2,521,978	2,521,978
Units purchased for cancellation	(599,766)	(184,025)	(783,791)
Redemption of units	(11,699,921)	(3,878,834)	(15,578,755)
Distributions to unitholders			-
Capital gains		(18,750,307)	(18,750,307)
<b>As at December 31, 2014</b>	<b>182,532,352</b>	<b>38,813,303</b>	<b>221,345,655</b>

*See accompanying notes.*

OCP CREDIT STRATEGY FUND

STATEMENTS OF CASH FLOWS

For the years ended December 31 (stated in Canadian dollars)

	2015 \$	2014 \$
<b>Cash Flows from Operating Activities</b>		
<b>Profit (loss) for the year</b>	<b>(20,897,383)</b>	2,521,978
Adjustments for:		
Foreign currency (gain) loss	<b>(10,310,867)</b>	(239,131)
Net realized (gain) loss on investments	<b>(3,246,925)</b>	(117,920)
Net realized (gain) loss on derivatives	<b>(519,063)</b>	-
Net realized gain (loss) on forward contracts	<b>25,862,021</b>	-
Net realized (gain) loss on Forward Agreement	-	(63,213,319)
Net change in unrealized (appreciation) depreciation on investments	<b>4,552,173</b>	341,161
Net change in unrealized (appreciation) depreciation on forward contracts	<b>9,005,352</b>	(435,910)
Net change in unrealized (appreciation) depreciation on derivatives	<b>(67,918)</b>	(541,554)
Net change in unrealized (appreciation) depreciation of Forward Agreement	-	59,273,633
Non-cash working capital changes		
(Increase) decrease in cash on deposit with brokers for swaps	<b>250,303</b>	(250,303)
(Increase) decrease in interest and other receivable and dividends receivable	<b>(4,478,915)</b>	(1,251,245)
Increase (decrease) in interest payable	<b>(295,827)</b>	468,234
Increase (decrease) in accounts payable and accrued liabilities	<b>(115,040)</b>	(94,818)
(Increase) decrease in accrued interest for short-term investments	<b>380</b>	(380)
Increase (decrease) in payable for forward contracts	<b>(7,710,292)</b>	7,710,292
Purchase of investments	<b>(224,937,693)</b>	(8,688,320)
Proceeds from sale of investments	<b>253,976,105</b>	17,910,897
Net proceeds from Forward Agreement	-	59,118,359
<b>Net Cash Generated (Used) by Operating Activities</b>	<b>21,066,411</b>	72,511,654
<b>Cash Flows from Financing Activities</b>		
Distributions to unitholders	<b>(17,624,271)</b>	(19,061,098)
Units purchased for cancellation	-	(783,791)
Amount paid on redemption of units	<b>(18,944,239)</b>	(15,578,755)
<b>Net Cash Generated (Used) by Financing Activities</b>	<b>(36,568,510)</b>	(35,423,644)
Foreign currency gain (loss) on cash and other assets	<b>10,310,867</b>	239,131
Net increase (decrease) in cash and cash equivalents	<b>(15,502,099)</b>	37,088,010
Cash and cash equivalents beginning of year	<b>44,309,506</b>	6,982,365
<b>Cash and Cash Equivalents End of year</b>	<b>39,118,274</b>	44,309,506
Interest received, net of withholding tax	<b>9,379,272</b>	97,688
Dividends received, net of withholding tax	<b>161,830</b>	-
Interest paid	<b>(2,103,757)</b>	(37,661)

See accompanying notes.

**OCP CREDIT STRATEGY FUND**

**SCHEDULE OF INVESTMENT PORTFOLIO**

As at December 31, 2015 (Stated in Canadian dollars)

Number of Shares, Units Par Value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
<b>LONG POSITIONS</b>					
<b>BONDS</b>					
12,910,957	ACA Financial Guaranty Corporation	Defaulted	2,213,453	1,697,282	
1,218,299	ACST Pass Through Trust, Floating Rate	June 14, 2037	1,384,173	1,626,871	
6,741,000	Altegrity Inc., 9.500%	July 1, 2019	7,135,741	8,302,069	
1,427,000	Avaya Inc., 9.00%	April 1, 2019	1,567,844	1,515,564	
4,723,000	CITGO Holdings Inc., 10.750%	February 15, 2020	5,823,120	6,339,597	
638,000	Cobalt International Energy Inc., 2.625%	December 1, 2019	564,718	494,954	
960,000	Commonwealth of Puerto Rico, 5.500%	July 1, 2039	812,726	856,846	
320,000	Commonwealth of Puerto Rico, 5.900%	July 1, 2028	262,898	281,187	
3,470,000	Gates Global LLC, 6.000%	July 15, 2022	3,537,881	3,457,275	
1,588,589	Glitnir Holdco Amortizing Zero Coupon Convertible Notes	December 31, 2030	1,771,938	1,790,350	
575,000	Global Ship Lease Inc., 10.00%	April 1, 2019	673,886	720,093	
600,000	Hexion Inc., 6.625%	April 15, 2020	632,973	649,692	
900,000	Infor US Inc., 6.500%	May 15, 2022	1,037,675	1,052,377	
1,500,000	Intelsat Jackson Holdings, 7.250%	October 15, 2020	1,763,172	1,805,853	
5,670,000	International Automotive Components Group, 9.125%	June 1, 2018	6,859,456	6,708,434	
3,053,926	K Hovnanian Enterprises, 7.500%	May 15, 2016	3,694,580	4,141,490	
940,000	K Hovnanian Enterprises, 8.625%	January 15, 2017	1,159,063	1,196,707	
230,000	K Hovnanian Enterprises, 9.125%	November 15, 2020	286,945	241,888	
2,250,000	Lehman Brothers Holding Inc., Floating Rate	Defaulted	204,694	229,624	
2,250,000	Lehman Brothers Holding Inc., Floating Rate	Defaulted	203,995	229,624	
2,250,000	Lehman Brothers Holding Inc., Floating Rate	Defaulted	204,832	229,624	
645,000	Lehman Brothers Holdings Inc., 3.60%	Defaulted	58,885	65,825	
1,256,537	Lehman Brothers Holdings Inc., 6.20%	Defaulted	117,385	130,409	
1,007,143	Lehman Brothers Holdings Inc., 6.875%	Defaulted	94,244	104,526	
48,790,000	Lehman Brothers Treasury Co. BV, 7.585%	Defaulted	529,675	633,001	
1,586,000	Lehman Brothers Treasury Co. BV, 0.000%	Defaulted	211,094	255,134	
2,262,310	Meritor. Inc., 4.625%	March 1, 2026	2,708,377	3,109,052	
1,232,000	Meritor. Inc., 6.250%	February 15, 2024	1,404,967	1,457,635	
8,588,000	Momentive Performance, 3.880%	October 24, 2021	8,421,192	8,199,986	
1,280,000	Nortel Networks Limited, 10.125%	Defaulted	1,416,795	1,580,848	
2,210,000	Nortel Networks Limited, 10.750%	Defaulted	2,631,674	2,729,433	
1,230,000	PBF Holding Company LLC, 8.250%	February 15, 2020	1,430,798	1,761,641	
2,000,000	Smurfit-Stone Container Corporation, 8.375%	Defaulted	1,162	1,384	
1,613,000	Texas Competitive Electric Holdings Company, 11.500%	Defaulted	1,313,426	742,161	
450,000	USG Corporation, 7.875%	March 30, 2020	560,105	652,287	

**OCP CREDIT STRATEGY FUND**

**SCHEDULE OF INVESTMENT PORTFOLIO** continued

As at December 31, 2015 (Stated in Canadian dollars)

Number of Shares, Units Par Value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
1,089,000	Zayo Group LLC., 6.000%	April 1, 2023	1,404,231	1,424,071	
<b>Total Bonds</b>			<b>64,099,773</b>	<b>66,414,794</b>	<b>52.89%</b>
<b>BANK DEBT</b>					
2,730,173	Alon USA Partners, LP, Term Load B	November 26, 2018	3,203,664	3,740,222	
2,132,000	American Commercial Lines, Term Loan	November 12, 2020	2,695,717	2,699,481	
1,033,152	Avaya Inc., Term Loan B6	March 31, 2018	1,174,022	1,075,231	
1,327,447	Avaya Inc., Term Loan B7	May 29, 2020	1,654,655	1,273,595	
1,304,145	Bioplan USA Inc., Term Loan	September 23, 2021	1,324,955	1,556,528	
252,353	C&J Energy Services Inc., Initial Tranche B-1 Term Loan	March 24, 2020	276,717	211,618	
132,737	C&J Energy Services Inc., Initial Tranche B-2 Term Loan	March 24, 2022	142,168	111,586	
5,834,920	Caesars Entertainment Resort Properties LLC, Term Loan B	October 11, 2020	6,219,023	7,299,710	
669,680	Ceva Group PLC (Dutch), Term Loan	March 19, 2021	744,409	758,349	
646,352	Ceva Group PLC (Pre-funded LC), Term Loan	March 19, 2021	718,478	731,933	
923,696	Ceva Group PLC (USD), Term Loan	March 19, 2021	1,026,771	1,045,999	
115,462	Ceva Group PLC, Term Loan	March 19, 2021	128,346	130,750	
2,051,032	CITGO Holdings Inc., Term Loan	May 12, 2018	2,555,953	2,821,655	
253,158	Eastman Kodak Company, Term Loan	September 3, 2019	292,284	308,281	
2,625,000	Federal-Mogul Corporation, Tranche B Term Loan	April 15, 2018	3,213,693	3,269,217	
772,045	Gates Global LLC, Initial Dollar Term Loan	July 6, 2021	970,399	999,800	
1,891,487	HGIM Corporation, Term Loan B	June 18, 2020	1,832,300	1,505,023	
15,468,000	Lehman Brothers Specialty Finance Claim	Defaulted	1,515,693	1,712,364	
3,105,986	Navistar Financial Corporation, Term Loan	December 2, 2016	3,405,290	3,954,206	
4,979,925	Navistar Inc., Term loan B	August 17, 2017	6,183,732	6,029,799	
593,993	Offshore Group Investment Limited, Term Loan	Defaulted	565,171	162,338	
636,735	Offshore Group Investment Limited, 2nd Term Loan	Defaulted	540,416	174,019	
2,857,143	Offshore Group Investment Limited, Revolver	April 25, 2017	3,469,328	3,558,332	
3,150,000	OSX 2 Leasing BV, Term Loan	Defaulted	2,564,968	1,307,687	
5,230,687	Promotora De Informaciones S.A., Tranche 2	December 12, 2018	6,374,679	6,405,918	
1,101,848	Promotora De Informaciones S.A., Tranche 3	December 12, 2019	1,288,646	1,336,993	
1,459,640	Promotora De Informaciones S.A., PPL Term Loan	December 12, 2019	1,499,436	1,403,753	
90,996	Realogy Group LLC, Extended Synthetic Commitment	October 10, 2016	104,793	124,031	
198,776	Securus Technologies Holdings Inc., 1st Lien Term Loan	April 30, 2020	205,884	196,671	
1,925,266	Sequa Corporation, Term Loan	June 19, 2017	2,168,180	1,822,295	

**OCP CREDIT STRATEGY FUND**

**SCHEDULE OF INVESTMENT PORTFOLIO** continued

As at December 31, 2015 (Stated in Canadian dollars)

Number of Shares, Units Par Value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
3,635,000	Texas Competitive Electric Holdings Company, 2017 Term Loan	Defaulted	2,714,547	1,526,323	
2,150,000	Texas Competitive Electric Holdings Company, 2017 L/C	Defaulted	1,611,825	937,176	
4,338,836	Texas Competitive Electric Holdings Company, Revolver	Defaulted	3,177,120	1,681,138	
3,726,695	Torm A/S	June 22, 2021	4,098,343	4,589,717	
3,920,870	YRC Worldwide Inc., Term Loan	February 13, 2019	4,484,316	4,693,216	
<b>Total Bank Debt</b>			<b>74,145,921</b>	<b>71,154,954</b>	<b>56.67%</b>
<b>EQUITIES AND WARRANTS</b>					
71,987	Air Canada		814,893	734,987	
306,953	Bluestem Group Inc.		1,614,611	1,253,044	
14,523	Delphi Automotive PLC		1,184,263	1,722,905	
76,917	Eagle Bulk Shipping Inc.		1,257,106	374,660	
1,068	Eagle Bulk Shipping Inc., Warrants, October 15 2021		-	140	
46,000	Federal Home Loan Mortgage Corporation, Preferred R Series 7.625%		151,432	178,233	
69,000	Federal Home Loan Mortgage Corporation, Preferred S Series 8.250%		294,570	334,187	
148,250	Federal Home Loan Mortgage Corporation, Preferred Z Series 8.375%		672,562	697,502	
97,500	Freddie Mac		225,516	218,571	
153,597	Genco Shipping & Trading Limited		2,471,992	316,695	
20,920	General Motors Company, Warrants 'A', July 10, 2016, \$10.00		524,424	705,777	
20,920	General Motors Company, Warrants 'B', July 10, 2019, \$18.33		329,742	473,606	
245,568	Hovnanian Enterprises Inc. 'A'		930,323	615,067	
45,144	Mach Gen Common Units		-	234,263	
18,095	Motors Liquidation Company GUC Trust		249,131	364,329	
4,125,668	Penson Technologies LLC, Class A		598,796	530,945	
3,720	RTS/Sanofi - Aventis		783	579	
2,062,903	Team Tankers International Limited		3,526,043	4,509,557	
22,801	Torm A/S, Warrants		-	91,823	
26,007	Torm A/S, Common		442,286	510,579	
15,001	Tribune Company		1,028,149	701,839	
42	Tribune Company, Warrants, December 31, 2032		2,888	1,934	
243,860	Vantage Drilling Company		128,562	891	
<b>Total Equities and Warrants</b>			<b>16,448,072</b>	<b>14,572,113</b>	<b>11.61%</b>

**OCP CREDIT STRATEGY FUND**

**SCHEDULE OF INVESTMENT PORTFOLIO** continued

As at December 31, 2015 (Stated in Canadian dollars)

Number of Shares, Units Par Value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
<b>CREDIT DEFAULT SWAPS</b>					
3,700,000	The Gap Inc., 5 Year	March 20, 2020	(48,513)	120,026	
<b>Total Credit Default Swaps</b>			(48,513)	120,026	0.10%
<b>Total Long positions</b>			154,645,253	152,261,887	121.27%
<b>SHORT POSITIONS</b>					
<b>BONDS</b>					
(1,410,000)	AMC Networks Inc., 4.750%	December 15, 2022	(1,593,781)	(1,965,786)	
(1,410,000)	Avis Budget Car Rental LLC, 4.875%	November 15, 2017	(1,671,626)	(2,009,687)	
(1,380,000)	Ball Corporation, 4.00%	November 15, 2023	(1,499,721)	(1,840,414)	
(440,000)	FMG Resources, 6.875%	April 1, 2022	(429,486)	(380,544)	
(2,170,000)	Ineos Group Holdings SA, 5.875%	February 15, 2019	(2,834,879)	(2,935,273)	
(1,697,000)	Macy's Retail Holdings, Inc. 3.625%	June 1, 2024	(2,184,583)	(2,163,035)	
(920,000)	Sealed Air Corporation, 5.25%	April 1, 2023	(1,069,320)	(1,311,285)	
(470,000)	Sealed Air Corporation, 6.50%	December 1, 2020	(592,717)	(723,551)	
(780,000)	Transocean Inc., 6.000%	March 15, 2018	(822,548)	(971,425)	
(2,000,000)	U.S. Treasury Notes, 2.250%	November 15, 2024	(2,326,635)	(2,766,836)	
(390,000)	Vale Overseas Limited, 4.375%	January 11, 2022	(451,971)	(410,077)	
(320,000)	Vale Overseas Limited, 4.625%	September 15, 2020	(402,422)	(370,003)	
<b>Total Bonds</b>			(15,879,689)	(17,847,916)	(14.21)%
<b>EQUITIES</b>					
(3,190)	Cobalt International Energy Common		(40,296)	(23,837)	
(97,500)	Fannie Mae Common		(234,582)	(221,269)	
<b>Total Equities</b>			(274,878)	(245,106)	(0.20)%
<b>CREDIT DEFAULT SWAPS</b>					
(1,850,000)	Nordstrom Inc., 5 Year	March 20, 2020	(63,766)	(39,059)	
<b>Total Credit Default Swaps</b>			(63,766)	(39,059)	(0.03)%
<b>Total short positions</b>			(16,218,333)	(18,132,081)	(14.44)%
<b>FORWARD CONTRACTS</b>					
	United States Dollars				
	Forward currency contract				
	March 30, 2016			(8,569,442)	
<b>Total Forward Contracts</b>				(8,569,442)	(6.83)%
<b>Adjustment for transactions costs</b>			(13,252)		
<b>Total Investments</b>			138,413,668	125,560,364	100.00%

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014  
(stated in Canadian dollars)

### 1. THE FUND

OCP Credit Strategy Fund (the "Fund") is an investment fund governed by the laws of the Province of Ontario by a Declaration of Trust dated October 27, 2009 as amended and restated December 16, 2014.

The Fund is designed to provide unitholders with exposure to the performance of an actively managed, diversified portfolio (the "Portfolio") comprised primarily of senior debt obligations of non-investment grade North American issuers.

In order to meet its investment objective, the Fund used the net proceeds of the offerings to pre-pay its obligation to purchase a portfolio of Canadian Securities (the "Canadian Securities Portfolio") under a forward purchase and sale agreement (the "Forward Agreement"), which the Fund entered into with The Bank of Nova Scotia (the "Counterparty"). Under the terms of the Forward Agreement, the Counterparty agreed to deliver to the Fund on November 20, 2014 (being the scheduled Forward Termination Date) the Canadian Securities Portfolio with an aggregate value equal to the redemption proceeds of a corresponding number of units of OCP Investment Trust (the "Trust"), which held the Portfolio securities, net of any amount owing by the Fund to the Counterparty. As such, the return of the Fund was, by virtue of the Forward Agreement, based on the return of the Trust, which, in turn, was based on the performance of the Portfolio.

On November 20, 2014, the Fund announced that the originally scheduled termination date of the Forward Agreement had been extended from November 20, 2014 to December 29, 2014 (the "Termination Date"). Just prior to the Termination Date, the Forward Agreement was unwound in full (the "Forward Unwind"). Subsequent to the Forward Unwind, the Portfolio was held directly by the Fund whereas prior to the Forward Unwind, the Fund obtained exposure to the Portfolio through the Forward Agreement.

The Fund's investment objectives were amended on or about the Termination Date to remove all references to the use of forward agreements to gain exposure to the Portfolio, to delete references to "tax-advantaged" and to clarify that the Fund will invest directly in securities similar to those held by the Trust prior to the Termination Date.

The investment objectives of the Fund after the amendments are: (i) to maximize total returns for unitholders; (ii) to provide unitholders with attractive, quarterly distributions, currently targeted to be \$0.70 per annum, representing an annual yield of 7% based on the original issue price of \$10.00 per Unit; and (iii) to preserve capital.

The amendments to the investment objectives of the Fund are clarifications and will not change the portfolio that unitholders were previously exposed to indirectly through the Trust.

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.

The Fund's registered office is at 161 Bay Street, 49<sup>th</sup> Floor, Toronto, Ontario, M5J 2S1.

The financial statements of the Fund for the year ended December 31, 2015 were authorized for issue by the Manager on March 29, 2016.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

The financial statements have been prepared on a going concern basis using the historical cost convention except for financial assets and financial liabilities measured at fair value.

In applying IFRS, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Significant estimates include the valuation of investments, forward contracts and unfunded bank debt commitments, and significant judgements include determination of functional currency, classification of redeemable units and classification of the Fund as an investment entity. These estimates are based on information available as at the reporting date. Actual results could differ from those estimates.

#### Functional currency

The financial statements are presented in Canadian dollars (CAD), which is the currency of the primary economic environment in which the Fund operates and is considered the functional currency of the Fund.

#### Financial instruments

The Fund recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

## NOTES TO FINANCIAL STATEMENTS continued

### (i) Classification and recognition of financial instruments

The classification of financial instruments depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Fund's designation of such instruments.

The Fund classifies financial assets and financial liabilities at initial recognition into the following categories, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39).

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

The category of financial assets and liabilities at fair value through profit or loss (FVTPL) is sub-divided into:

*Financial assets and liabilities held for trading:* Financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. All derivatives are classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Funds' policy is not to apply hedge accounting.

*Financial instruments designated as fair value through profit or loss upon initial recognition:* All investments held by the Fund (other than derivatives) are designated as fair value through profit or loss upon initial recognition. The Fund includes both long and short positions of equities, bonds, and other interest-bearing investments in this category. These financial assets and liabilities are designated upon initial recognition on the basis that they are part of a group of financial instruments that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Fund's prospectus.

#### Other financial assets and liabilities

All other financial assets and liabilities not measured at FVTPL are measured at amortized cost. Included in loans and receivables are receivable for investments sold, interest and other receivables, cash on deposit with brokers as collateral for swaps, dividends receivable and cash and cash equivalents. Included in other financial liabilities are accounts payable and accrued liabilities, redemptions payable, distributions payable, payable for investments purchased, payable for forward contracts and interest payable. Financial assets and liabilities are shown at the amount required to be received or paid, discounted, when appropriate. The carrying value of financial assets and liabilities not measured at FVTPL approximates fair value.

### (ii) Valuation of financial instruments

Financial assets and financial liabilities at FVTPL are recorded in the statements of financial position at fair value upon initial recognition. Fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. All transaction costs such as brokerage commissions, incurred in the purchase and sale of securities for such instruments are recognized directly in the statement of comprehensive income. All other financial assets and liabilities (other than those classified as FVTPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

After initial measurement, the Fund measures financial instruments which are classified as FVTPL at fair value. Subsequent changes in the fair value of those financial instruments are recorded as "unrealized appreciation (depreciation) of investments" in the statements of comprehensive income. "Net realized gain (loss) on investments", "net change in unrealized appreciation (depreciation) of investments", "net realized gain (loss) on Forward Agreement" and "net change in unrealized appreciation (depreciation) of Forward Agreement" are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

The Fund meets the definition of an investment entity within IFRS 10 *Consolidated Financial Statements* and is required to measure its subsidiaries, if any, at FVTPL rather than consolidate them. The fair values of each specific type of investment and derivative are determined in the following manner:

#### Portfolio investments

In the case of publicly traded securities, fair value means the close or last traded price when the price falls within the day's bid-ask spread. 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 for investments held long and ask price for investments sold short. In the circumstance where the close or last traded price falls outside of the bid-ask spread, then fair value is determined by using bid price for long positions and ask price for short positions, or a different point within the bid-ask spread that the Manager determines to be more representative of fair value.

Where quoted prices are not available from independent security pricing services or broker quotes, the fair value is determined using appropriate and accepted industry valuation techniques, as described in Note 4.

#### Derivatives

The Fund is permitted to invest in forward foreign currency contracts to hedge foreign currency exposure on the investment portfolio. The value of forward currency contracts is recorded as the unrealized gain or loss that would be realized if the position was to be closed out and recorded as "unrealized gain (loss) on forward contracts" in the statements of financial position. Upon maturity of the contracts, the difference between the carrying value and the fair value is included in "net realized gain (loss) on forward contracts" in the statements of comprehensive income.

## NOTES TO FINANCIAL STATEMENTS continued

Credit default swaps are valued on each valuation date according to the gain or loss that would be realized if the contracts were closed out. Unrealized gains and losses on derivatives are included in the statements of comprehensive income under "net change in unrealized appreciation (depreciation) of derivatives". Realized gains and losses on credit default swaps, options and warrants are included in the statements of comprehensive income under "Net realized gain (loss) on derivatives".

### **Short Sales**

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 comprehensive income 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 comprehensive income in "Net realized gain (loss) on investments". There can be no assurance that the Fund will be able to close out a short position at an acceptable time or price.

### **(iii) Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount presented in the statements 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.

### **Cash and cash equivalents**

Cash and cash equivalents in the statements of financial position comprise of deposits in banks and prime brokerage accounts that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **Income and expense recognition**

The interest for distribution purposes shown on the Statements 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.

Net realized gain/loss on investments and net change in unrealized appreciation/depreciation of investments are determined on an average cost basis. Average cost does not include amortization or premiums or discounts on fixed income securities with the exception of zero coupon bonds.

### **Redeemable participating units**

The Fund's redeemable units meet the criteria of equity classification of puttable instruments in accordance with IAS 32, *Financial Instruments: Presentation* (IAS 32). All redeemable unitholders are classified as unit capital in the statements of financial position. The movement in unit capital is shown in the statements of changes in equity.

### **Foreign currency translation**

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions.

Realized foreign currency gains and losses on investment transactions and unrealized foreign currency gains and losses on other net assets are included in the statements of comprehensive income in "Foreign currency gain (loss)". Unrealized foreign currency gains and losses on investments and derivatives are included in the statements of comprehensive income in "Net change in unrealized appreciation (depreciation) of investments" and "Net change in unrealized appreciation (depreciation) of derivatives", respectively.

### **Valuation of Fund Units**

The value at which units are redeemed is the Net Asset Value per unit. Net asset value per unit was calculated at the end of Thursday of each week, on the annual redemption date and on such other dates as the Manager deems appropriate prior to the Forward Unwind and daily thereafter by dividing the net asset value by its outstanding units. Amounts received on the issuance of units and amounts paid on the redemption of units are included on the statements of changes in equity.

### **Earnings (loss) Per Unit**

Earnings (loss) per unit are based on the profit (loss) and total comprehensive income (loss) for the period divided by the weighted average number of units outstanding during the period.

### **Future Accounting Pronouncements – IFRS 9 *Financial Instruments* ("IFRS 9")**

In July 2014, the IASB issued the final version of IFRS 9, first issued on November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. It introduces a forward-looking impairment model for financial assets which will be applicable for all financial instruments subject to impairment accounting and requires more timely recognition of expected credit losses.

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS continued

Finally, it introduces a new hedge accounting model that aligns the accounting for hedge relationship more closely with risk management. IFRS 9 will be effective for the Fund on January 1, 2018. The Fund is currently assessing the impact of adopting IFRS 9 on the financial statements.

### 3. FORWARD CONTRACTS

The Fund had entered into forward currency contracts to deliver currencies at a specific future date as follows:

As at December 31, 2015:

Sale	Amount \$	Purchase	Amount \$	Contract Price \$	Settlement date	Unrealized foreign exchange gain (loss) on contract \$
USD	(130,608,626)	CAD	171,997,193	0.7594	March 30, 2016	(8,695,961)
CAD	(3,274,241)	USD	2,450,000	0.7483	March 30, 2016	115,261
CAD	(5,250,000)	USD	3,802,942	0.7244	March 30, 2016	11,258
						<b>(8,569,442)</b>

The counterparty is rated BBB+ by Standard & Poor's.

### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The breakdown of the Fund into the three-level hierarchy is as follows:

As at December 31, 2015

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Equities and warrants	9,205,522	4,835,646	530,945	14,572,113
Bonds	–	66,414,794	–	66,414,794
Bank debt	–	69,847,267	1,307,687	71,154,954
Credit default swaps	–	120,026	–	120,026
<b>Total</b>	<b>9,205,522</b>	<b>141,217,733</b>	<b>1,838,632</b>	<b>152,261,887</b>

OCP CREDIT STRATEGY FUND

NOTES TO FINANCIAL STATEMENTS continued

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial liabilities</b>				
Equities	245,106	-	-	245,106
Bonds sold short	-	17,847,916	-	17,847,916
Credit default swaps	-	39,059	-	39,059
Forward contracts	-	8,569,442	-	8,569,442
<b>Total</b>	<b>245,106</b>	<b>26,456,417</b>	<b>-</b>	<b>26,701,523</b>

As at December 31, 2014

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Equities and warrants	23,148,237	3,086,267	-	26,234,504
Bonds	-	70,172,729	-	70,172,729
Short term notes	-	40,619,126	-	40,619,126
Bank debt	-	87,078,422	-	87,078,422
Forward contracts	-	435,910	-	435,910
<b>Total</b>	<b>23,148,237</b>	<b>201,392,454</b>	<b>-</b>	<b>224,540,691</b>

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial liabilities</b>				
Equities	232,531	-	-	232,531
Bonds sold short	-	25,926,220	-	25,926,220
Credit default swap	-	150,813	-	150,813
Unfunded bank debt commitment	-	13,126	-	13,126
<b>Total</b>	<b>232,531</b>	<b>26,090,159</b>	<b>-</b>	<b>26,322,690</b>

Financial assets and liabilities transferred from Level 1 to Level 2 are the result of securities no longer being traded in an active market. For the years ended December 31, 2015 and 2014, there were no transfers of financial assets and liabilities from Level 1 to Level 2.

Financial assets and liabilities transferred from Level 2 to Level 1 are the result of securities now being traded in an active market. For the years ended December 31, 2015 and 2014, there were no transfers of financial assets and liabilities from Level 2 to Level 1.

The Fund holds two illiquid positions which have been classified as Level 3. The following section discusses the significant unobservable inputs for Level 3 positions and quantitatively outlines the inputs used to calculate the fair value in accordance with IFRS 13, *Fair Value Measurement*.

For Level 3 investments where quoted prices are not available from brokers/counterparties or independent third-party pricing services, the Fund may use various valuation techniques, such as market approach, income approach, relative value using discounted cash flow, probability weighted recovery analysis, imputed value based on similar quoted investments, tender offer or a combination of these techniques. Inputs used may include original transaction price, market quotes of similar instruments, probability assessment of legal recovery, and discounts for

**OCP CREDIT STRATEGY FUND**

**NOTES TO FINANCIAL STATEMENTS** continued

liquidity and other risk factors. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The valuation techniques used in the valuation process were:

1. Probability weighted recovery analysis: The amount of legal claims, the priority of each claim, the amount of cash and other potential recoveries, the length of time until recovery, the probability of a favorable court determination and ultimate risk to recover.
2. Recent transactions: Recent transaction of a comparable instrument is used to infer or estimate, with or without adjustments, the value of the investment owned by the Fund.
3. Imputed Value: The value of an asset implied by the quoted price of an instrument secured by that asset.

During the year ended December 31, 2015, the reconciliation of Level 3 investments measured using non-observable inputs is presented as follows:

	Equities and Warrants	Bank Debt	Total
January 1, 2015	-	-	-
Purchases	-	-	-
Sales	-	-	-
Net transfers (out of) Level 3	-	-	-
Net transfers (in to) Level 3	530,945	2,081,878	2,612,823
Realized gains (losses)	-	-	-
Change in unrealized appreciation (depreciation)	-	(774,191)	(774,191)
December 31, 2015	530,945	1,307,687	1,838,632

Transfers from Level 2 to Level 3 occur when an instrument's fair value, which was previously determined using valuation techniques with significant observable market inputs, is now determined using valuation techniques with significant non-observable inputs. In some cases, this could be a result of lack of current information in the market due to a decrease in liquidity. Due to the unobservable nature of the inputs used to value Level 3 financial instruments there may be uncertainty about the valuation of these instruments.

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Value of Input used
OSX 2 Leasing BV, Term Loan	\$1,307,687	Recent Transactions Comparable	Price of comparable vessel imputed based on recent debt transaction	\$30 USD per \$100 USD par value
Penson Technologies LLC, Class A	\$530,945	Probability Weighted Recovery Analysis	Outcome and timing of claims resolution and litigation recoveries	.093 USD

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS continued

### Sensitivity Analysis of Level 3 Financial Assets and Liabilities

The following table summarizes the potential effect of using reasonably possible alternative assumptions for financial assets and financial liabilities held, as at December 31, 2015 that are classified in Level 3 of the fair value hierarchy.

	Valuation Technique	Significant Unobservable Inputs	Lower Range	Upper Range	Lower Range (\$)	Upper Range (\$)
OSX 2 Leasing BV, Term Loan	Recent Transactions comparable	Price of comparable vessel imputed based on recent debt transaction	\$30 USD	\$42 USD	\$1,307,687	\$1,830,762
Penson Technologies LLC, Class A	Probability Weighted Recovery Analysis	Outcome and timing of claims resolution and litigation recoveries	\$.059 USD	\$.126 USD	\$336,836	\$719,344

### 5. DISTRIBUTIONS

An objective of the Fund is to provide unitholders with attractive, quarterly distributions initially targeted to be \$0.175 per unit (\$0.70 per annum to yield 7.0% on the initial subscription price of \$10.00 per unit) to unitholders of record on the last business day of each of March, June, September and December.

If, in any year after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund intends to make, on or before December 31 of that year, a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Income Tax Act (Canada).

### 6. EXPENSES OF THE FUND AND RELATED PARTY TRANSACTIONS

Prior to the Forward Unwind, the Manager was entitled to an annual management fee of 0.3125% based on the NAV of the Fund, as well as an annual fee of 0.9375% based on the NAV of the Trust (total overall management fee of 1.25%). These fees were calculated weekly and paid monthly in arrears. Post Forward Unwind, the Manager is entitled to an annual management fee of 1.25% based on the NAV of the Fund, calculated daily and paid monthly in arrears. During the year ended December 31, 2015, the Fund incurred management fees of \$2,423,248 (December 31, 2014 – \$838,256) of which \$180,391 was owing at December 31, 2015 (December 31, 2014 – \$140,986).

A dealer service fee, which is equal to 0.40% annually of the NAV of the Fund, is payable to dealers whose clients hold units of the Fund. This fee is calculated daily and paid quarterly in arrears.

In addition, the Manager is entitled to an annual performance fee (the "Performance Fee") from the Fund once a unitholder has achieved a preferred return of 8.0% (the "Preferred Return"). The Performance Fee is calculated and accrued monthly and is paid annually (except that when units are redeemed the accrued Performance Fee in respect of such units is paid at the time of such redemption). The amount of the Performance Fee shall be 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 then outstanding equal to 15% of the amount by which the sum of (i) the NAV 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 (the "Excess Return"); provided that no Performance Fee will be paid unless the Return exceeds 108% (the "Threshold Risk") of the Threshold Amount. If the Return exceeds 108% of the Threshold Amount, the Manager will be entitled to a Performance Fee equal to 15% of the Excess Return; provided that after the payment of the Performance Fee, in any fiscal year, the return to a unitholder will be at least equal to the Preferred Return. The Threshold Amount is the greater of: (i) the NAV per unit of the Fund on the Determination Date for the previous fiscal year (after payment of such Performance Fee); and (ii) the NAV 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) reduced by the amount of distributions paid in any subsequent year in which no Performance Fee has been earned. In respect of any units of the Fund which are redeemed the Threshold Rate and the Preferred Return will also be reduced proportionately to reflect the number of days remaining in the year from the date of such redemption to December 31.

During the year ended December 31, 2015, the Fund did not incur a Performance Fee (OCP Investment Trust – December 31, 2014 – \$120,583).

Under the Forward Agreement, the Fund paid to the Counterparty an annual fee as negotiated with the Counterparty, of the notional amount of the Forward Agreement (being equal to the NAV of the Trust), calculated weekly and paid quarterly in arrears.

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.

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS continued

### 7. REDEEMABLE UNITS

Units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. The Fund has assessed the unitholder's structure and has determined that equity treatment is the most appropriate classification. Unit capital amounts are determined on a per unit average cost basis.

The Fund is authorized to issue an unlimited number of transferable and redeemable units of one class, each of which is entitled to one vote at all unitholder meetings and represents an equal, undivided interest in the net assets of the Fund.

Units may be surrendered annually for redemption during the year from the first business day in January until 5:00pm (Toronto time) on January 15 in each year (the "Notice Period") subject to the Fund's right to suspend redemptions in certain circumstances. Units surrendered for redemption during the Notice Period will be redeemed on the last business day of March of each year (the "Annual Redemption Date") for a redemption price per unit equal to the NAV per unit determined as of the Annual Redemption Date, less any costs and expenses incurred by the Fund in order to fund such redemption.

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

	2015 #	2014 #
<b>Redeemable units outstanding, beginning of year</b>	<b>26,355,791</b>	28,131,739
Redemption of redeemable units	<b>(2,504,683)</b>	(1,689,348)
Redeemable units purchased for cancellation	-	(86,600)
<b>Redeemable units outstanding, end of year</b>	<b>23,851,108</b>	26,355,791

Under a normal course issuer bid, which will expire on July 16, 2016, the Fund has the ability to repurchase units up to a maximum of 10% of the public float at the time the bid commenced. Under the bid, units were repurchased at their market price through the facilities of the Toronto Stock Exchange ("TSX"). During the year ended December 31, 2015, no units (2014 – 86,600 units) were purchased under this normal course issuer bid (average price 2014 – \$9.05 per unit). When units are redeemed, the average cost of the units is deducted from unit capital and the difference between average cost and redemption price is taken to retained earnings.

### 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 of the Fund 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.

Subsequent to the Forward Unwind, the Portfolio was held directly by the Fund whereas prior to the Forward Unwind, the Fund obtained exposure to the Portfolio held in the Trust through the Forward Agreement. As such, the following incorporates the risk and risk management applicable to the Fund and the Trust.

#### 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.

Within the Fund's Portfolio, the maximum exposure to any one debt issuer as of December 31, 2015 was \$9,984,005 representing 6.11% of the net assets of the Fund (December 31, 2014 – \$10,671,698 or 4.82%).

Net exposure to debt securities by credit rating is as follows.

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS continued

As at

Credit Rating	As a % of Net Assets	
	December 31, 2015	December 31, 2014
A	1.00%	1.95%
BBB	(0.72)%	(1.08)%
BB	1.13%	5.45%
B	36.66%	15.08%
CCC	11.99%	9.23%
CC	0.70%	–
D	5.18%	4.57%
NR*	17.41%	23.99%

\* 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 obligations on time or at a reasonable price.

The Fund has financial liabilities outstanding, including investments sold short, unfunded bank debt commitments, unrealized loss on forward contracts, accounts payable and accrued liabilities, distributions payable, redemptions payable, payable for investments purchased, payable for forward contracts (Note 3) and interest payable. These financial liabilities are all current and are expected to be settled within three months. The Fund has sufficient liquid assets to settle these financial liabilities.

Redeemable units are redeemable at the holder's option subject to the conditions outlined in Note 6. The Manager expects to have significant liquid assets to settle any redemptions.

### 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 are 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 investments that are denominated in a currency other than the Canadian dollar, the functional currency of the Fund, and also holds foreign currency denominated cash and other net assets. Consequently, the Fund is exposed to currency risk as the fair value of the investments and net assets denominated in currencies other than the Canadian dollar will vary due to changes in foreign currency exchange rates. For the years ended December 31, 2015 and 2014, the Fund does not have significant exposure to foreign exchange risk as substantially all of the Fund's foreign denominated investments and net assets are hedged back to the Canadian dollar.

### Other price risk

Other price risk is the risk that the fair value of equities and warrants 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.

The Fund is subject to normal market fluctuations and the risks inherent in investment in financial markets. The Manager moderates this risk through a careful selection of securities within the parameters of the Fund's investment strategies and through diversification of the investment portfolios. As at December 31, 2015, approximately 8.8% of the Fund's net assets are subject to other price risk (December 31, 2014 – 11.9%). Management's best estimate of the effect on total equity as at December 31, 2015, due to a reasonably possible increase or decrease of 5% in the equity markets, with all other variables held constant, would approximately amount to an increase or decrease of \$716,000 (December 31, 2014 – \$1,312,000) respectively. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

### Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category. A summary of the Fund's concentration risk by product type as at December 31, 2015 is shown in the Fund's schedule of investment portfolio.

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS continued

### 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, which is available on SEDAR. Restrictions and specific requirements on the redemption of units are described in Note 6. The statements of changes in equity and Note 6 outline the relevant changes of the Fund's units for the periods.

The Fund's objectives in managing its capital in respect of the units are to provide unitholders with attractive, quarterly distributions initially targeted to be \$0.175 per unit (\$0.70 per annum to yield 7% per year based on the \$10.00 initial subscription price per unit), while at the same time to preserve and enhance the NAV.

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 distributions and redemptions.

### 10. TAXATION

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, 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 unitholders. 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, this excess distribution is a return of capital and is not taxable to unitholders. The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statements of comprehensive income.

The Fund had capital tax loss carry forwards of \$5,374,180 as at December 31, 2015 (December 31, 2014 – Nil).

### 11. EARNINGS (LOSS) PER UNIT

Earnings (loss) per unit for the years ended December 31, 2015 and 2014 is calculated as follows:

	2015	2014
Profit (Loss) for the year	<b>\$(20,897,383)</b>	\$2,521,978
Weighted average units outstanding during the year	<b>24,573,468</b>	26,785,335
Earnings (loss) per unit	<b>\$(0.85)</b>	\$0.09

161 Bay Street, 49<sup>th</sup> Floor  
Toronto Ontario M5J 2S1  
(647) 260-4055 or (877) 260-4055  
[www.ocpcreditstrategy.com](http://www.ocpcreditstrategy.com) • [info@ocpfunds.com](mailto:info@ocpfunds.com)

---