

## **OCP CREDIT STRATEGY FUND**

Interim Financial Statements for the period  
**January 1, 2016 to June 30, 2016**

**NOTICE TO READER:**

These interim financial statements and related notes for the six-month period ended June 30, 2016 have been prepared by the management of the Fund. The external auditors of the Fund have not audited or reviewed these interim financial statements.

**OCP CREDIT STRATEGY FUND**

**STATEMENTS OF FINANCIAL POSITION (Unaudited)**

As at (stated in Canadian dollars)

	June 30, 2016 \$	December 31, 2015 \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Investments held long	113,373,273	152,261,887
Unrealized gain on forward contracts	1,431,419	-
Cash and cash equivalents	16,997,265	39,118,274
Receivable for investments sold	495,344	2,427,870
Interest and other receivables	1,393,910	5,730,160
<b>Total Assets</b>	<b>133,691,211</b>	<b>199,538,191</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Investments sold short	8,994,629	18,132,081
Unrealized loss on forward contracts	-	8,569,442
Accounts payable and accrued liabilities <i>[Note 6]</i>	375,503	516,856
Redemptions payable	-	955,171
Distributions payable <i>[Note 5]</i>	3,128,310	4,199,872
Payable for investments purchased	991,773	3,655,380
Interest payable	52,727	172,407
<b>Total Liabilities</b>	<b>13,542,942</b>	<b>36,201,209</b>
<b>EQUITY</b>		
Unit capital	107,339,565	150,535,600
Retained earnings	12,808,704	12,801,382
<b>Total Equity</b>	<b>120,148,269</b>	<b>163,336,982</b>
<b>Total Liabilities and Equity</b>	<b>133,691,211</b>	<b>199,538,191</b>
<b>Number of Units Outstanding <i>[Note 7]</i></b>	<b>17,876,056</b>	<b>23,851,108</b>
<b>Total Equity/Net Assets per unit</b>	<b>\$6.72</b>	<b>\$6.85</b>

See accompanying notes.

OCP CREDIT STRATEGY FUND

STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the periods ended June 30 (stated in Canadian dollars)

	2016 \$	2015 \$
<b>INCOME</b>		
<b>Investment Income</b>		
Interest for distribution purposes	4,061,762	5,179,952
Dividends	21,232	157,305
	<b>4,082,994</b>	<b>5,337,257</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>		
Foreign currency (loss) gain	(6,156,717)	6,474,569
Other net changes in fair value of investments		
Net realized gain (loss) on investments	(1,831,073)	(798,069)
Net realized gain (loss) on derivatives	(29,080)	519,063
Net realized gain (loss) on forward contracts	2,546,370	(9,098,683)
Net change in unrealized appreciation (depreciation) of forward contracts	10,000,861	(7,710,561)
Net change in unrealized (depreciation) appreciation of investments	(2,652,897)	5,418,490
Net change in unrealized depreciation of derivatives	(267,030)	(350,899)
Total income (loss)	<b>5,693,428</b>	<b>(208,833)</b>
<b>EXPENSES</b>		
Management fees <i>[Note 6]</i>	879,751	1,285,335
Interest expense	420,790	1,017,444
Dealer service fees <i>[Note 6]</i>	275,510	411,307
Harmonized sales tax	108,385	185,879
Securityholder reporting costs	59,535	44,931
Custodian and valuation fees	50,772	42,611
Other administration costs	17,816	162,783
Audit fees	17,021	29,300
Legal fees	9,656	17,114
Independent Review Committee fees	6,000	17,855
Transaction costs	7,822	25,907
Trustee Fees	5,000	8,108
Withholding tax on dividend income	1,476	21,269
Total Expense	<b>1,859,534</b>	<b>3,269,843</b>
<b>Profit (loss) and total comprehensive income (loss) for the period</b>	<b>3,833,894</b>	<b>(3,478,676)</b>
<b>Earnings (loss) per unit <i>[Note 11]</i></b>	<b>\$0.18</b>	<b>\$(0.14)</b>

See accompanying notes.

**OCP CREDIT STRATEGY FUND**

**STATEMENTS OF CHANGES IN EQUITY (Unaudited)**

For the periods ended June 30, 2016 and June 30, 2015 (stated in Canadian dollars)

	Unit Capital \$	Retained Earnings \$	Total Equity \$
<b>As at January 1, 2016</b>	150,535,600	12,801,382	163,336,982
Changes in equity for 2016:			
Profit (loss) for the period	-	3,833,894	3,833,894
Redemption of units	(37,711,373)	(2,008,980)	(39,720,353)
Distributions to unitholders			
Income	-	(1,817,592)	(1,817,592)
Return of capital	(5,484,662)	-	(5,484,662)
<b>As at June 30, 2016</b>	<b>107,339,565</b>	<b>12,808,704</b>	<b>120,148,269</b>
<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 period		(3,478,676)	(3,478,676)
Redemption of units	(16,320,562)	(2,623,678)	(18,944,240)
Distributions to unitholders			
Income		(1,635,018)	(1,635,018)
Return of Capital	(7,177,118)		(7,177,118)
<b>As at June 30, 2015</b>	<b>159,034,672</b>	<b>31,075,931</b>	<b>190,110,603</b>

See accompanying notes.

OCP CREDIT STRATEGY FUND

# STATEMENTS OF CASH FLOWS

For the periods ended June 30, 2016 (stated in Canadian dollars)

	2016 \$	2015 \$
<b>Cash Flows from Operating Activities</b>		
<b>Profit (loss) for the period</b>	<b>3,833,894</b>	(3,478,676)
Adjustments for:		
Foreign currency loss (gain)	<b>6,156,717</b>	(6,474,569)
Net realized loss on investments	<b>1,831,073</b>	798,069
Net realized loss (gain) on derivatives	<b>29,080</b>	(519,063)
Net realized (gain) loss on forward contracts	<b>(2,546,370)</b>	9,098,683
Net change in unrealized depreciation (appreciation) on investments	<b>2,652,897</b>	(5,418,490)
Net change in unrealized (appreciation) depreciation on forward contracts	<b>(10,000,861)</b>	7,710,561
Net change in unrealized depreciation on derivatives	<b>267,030</b>	350,899
Non-cash working capital changes		
Decrease in cash on deposit with brokers for swaps	-	250,303
Decrease (increase) in interest and other receivables and dividends receivable	<b>4,336,250</b>	(366,933)
Decrease in interest payable	<b>(119,680)</b>	(103,580)
Increase in accounts payable and accrued liabilities	<b>(141,353)</b>	40,720
Increase in accrued interest for short-term investments	-	380
Decrease in payable for forward contracts	-	(7,710,292)
Purchase of investments	<b>(47,975,703)</b>	(128,307,708)
Proceeds from sale of investments and settlement of forward contracts	<b>74,762,074</b>	166,469,100
<b>Net Cash Generated by Operating Activities</b>	<b>33,085,048</b>	32,339,404
<b>Cash Flows from Financing Activities</b>		
Distributions to unitholders	<b>(8,373,816)</b>	(9,224,527)
Amount paid on redemption of units	<b>(40,675,524)</b>	(18,944,240)
<b>Net Cash Used by Financing Activities</b>	<b>(49,049,340)</b>	(28,168,767)
Foreign currency (loss) gain on cash and other assets	<b>(6,156,717)</b>	6,474,569
Net (decrease) increase in cash and cash equivalents	<b>(15,964,292)</b>	4,170,637
Cash and cash equivalents beginning of period	<b>39,118,274</b>	44,309,506
<b>Cash and Cash Equivalents End of period</b>	<b>16,997,265</b>	54,954,712
Interest received, net of withholding tax	<b>4,592,935</b>	4,807,726
Dividends received, net of withholding tax	<b>19,756</b>	141,329
Interest paid	<b>(540,470)</b>	(1,121,024)

See accompanying notes.

**OCP CREDIT STRATEGY FUND**

**SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited)**

As at June 30, 2016 (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	1,500,821	
268,000	Allegheny Ludlum Corporation, 6.95%	December 15, 2025	269,420	269,996	
86,000	Allegheny Technologies Incorporated, 5.95%	January 15, 2021	93,645	92,194	
4,741,000	Altegrity Inc., 9.500%	July 1, 2019	5,018,625	5,572,363	
927,000	Avaya Inc., 9.00%	April 1, 2019	1,018,494	891,998	
240,000	Calumet Specialty Products Partners, L.P., 7.75%	April 15, 2023	223,346	219,314	
532,000	Calumet Specialty Products, 6.50%	April 15, 2021	506,995	491,299	
2,723,000	CITGO Holdings Inc., 10.750%	February 15, 2020	3,357,263	3,534,612	
638,000	Cobalt International Energy Inc., 2.625%	December 1, 2019	564,718	309,015	
19,000	Commonwealth of Puerto Rico, 5.00%	July 1, 2041	4,033	4,356	
960,000	Commonwealth of Puerto Rico, 5.50%	July 1, 2039	812,726	802,859	
320,000	Commonwealth of Puerto Rico, 5.90%	July 1, 2028	262,898	247,987	
460,000	Crmsn Mr Sub, Inc. / Ortho-Clinical Diagnostics, Inc., 6.625% PVT 144A	May 15, 2022	443,667	493,133	
1,690,000	Crmsn Mr Sub, Inc. / Ortho-Clinical Diagnostics, Inc., 6.625% PVT REGS	May 15, 2022	1,800,473	1,811,727	
2,015,000	Elizabeth Arden Inc., 7.375%	March 15, 2021	1,686,480	2,648,119	
2,905,000	Gates Global LLC, 6.000%	July 15, 2022	2,962,621	3,283,086	
873,676	Glitnir Holdco Amortizing Zero Coupon Convertible Notes	December 31, 2030	974,538	820,432	
1,734,000	Hexion Inc., 6.625%	April 15, 2020	1,910,010	1,873,006	
625,000	Hornbeck Offshore Services, Inc., 5.00%	March 1, 2021	464,253	478,296	
2,015,000	Infor US Inc., 6.500%	May 15, 2022	2,384,484	2,457,819	
372,000	Intelsat Jackson Holdings, 7.250%	April 1, 2019	389,025	350,747	
2,174,000	Intelsat Jackson Holdings, 7.250%	October 15, 2020	2,553,845	2,000,656	
1,415,000	Intelsat Jackson Holdings, 7.500%	April 1, 2021	1,423,747	1,261,054	
240,000	Intelsat Jackson Holdings, 7.750%	June 1, 2021	89,010	75,946	
1,399,000	International Automotive Components Group, 9.125%	June 1, 2018	1,692,483	1,806,948	
940,000	K Hovnanian Enterprises, 8.625%	January 15, 2017	1,159,063	1,195,892	
230,000	K Hovnanian Enterprises, 9.125%	November 15, 2020	286,945	202,006	
2,000,000	Lehman Brothers Holding Inc., Floating Rate	Defaulted	143,235	174,366	
1,256,537	Lehman Brothers Holdings Inc., 6.20%	Defaulted	92,314	113,606	
48,790,000	Lehman Brothers Treasury Co. BV, 7.585%	Defaulted	426,454	575,122	
1,586,000	Lehman Brothers Treasury Co. BV, 0.000%	Defaulted	191,285	221,236	
610,000	Meritor. Inc. 6.250%	February 15, 2024	708,819	673,634	
5,588,000	Momentive Performance, 3.880%	October 24, 2021	5,479,462	5,737,881	
2,512,000	Navistar International Corporation, 8.25%	November 1, 2021	2,347,494	2,279,261	
480,000	Nortel Networks Limited, 10.125%	Defaulted	563,005	557,971	

**OCP CREDIT STRATEGY FUND**

**SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited)** continued

As at June 30, 2016 (stated in Canadian dollars)

Number of Shares, Units Par Value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
1,911,000	Nortel Networks Limited, 10.750%	Defaulted	2,260,343	2,221,423	
575,000	Northern Tier Energy LLC., 7.125%	November 15, 2020	744,506	755,667	
1,552,000	Pershing Square Holdings Inc., 5.50%	July 15, 2022	1,854,901	1,916,864	
2,000,000	Smurfit-Stone Container Corporation, 8.375%	Defaulted	1,162	1,292	
1,613,000	Texas Competitive Electric Holdings Company, 11.500%	Defaulted	1,313,426	708,339	
			50,692,666	50,632,343	47.85%
<b>BANK DEBT</b>					
1,721,255	Alon USA Partners, LP, Term Loan B	November 26, 2018	2,019,770	2,200,941	
600,000	Alpha Natural Resources, Inc. Revolving Facility	Defaulted	419,888	399,104	
1,033,152	Avaya Inc., Term Loan B6	March 31, 2018	1,174,023	972,458	
1,297,575	Bioplan USA Inc., Term Loan	September 23, 2021	1,318,280	1,399,416	
251,717	C&J Energy Services Inc., Initial Tranche B-1 Term Loan	Defaulted	276,020	220,538	
132,403	C&J Energy Services Inc., Initial Tranche B-2 Term Loan	Defaulted	141,810	116,003	
3,815,354	Caesars Entertainment Resort Properties LLC, Term Loan B	October 11, 2020	4,066,513	4,706,155	
666,272	Ceva Group PLC (Dutch), Term Loan	March 19, 2021	740,620	701,353	
646,352	Ceva Group PLC (Pre-funded LC), Term Loan	March 19, 2021	718,478	680,385	
918,995	Ceva Group PLC (USD), Term Loan	March 19, 2021	1,021,545	967,384	
114,874	Ceva Group PLC, Term Loan	March 19, 2021	127,693	120,923	
1,323,840	CITGO Holdings Inc., Term Loan	May 12, 2018	1,649,741	1,719,845	
2,125,100	Commercial Barge Line Company, Initial Term Loan	November 12, 2020	2,651,761	2,525,197	
251,860	Eastman Kodak Company, Term Loan	September 3, 2019	290,786	314,459	
1,614,247	Federal-Mogul Corporation, Tranche B Term Loan	April 15, 2018	1,976,265	1,959,864	
1,051,000	Federal-Mogul Corporation, Tranche C Term Loan	April 15, 2021	1,232,566	1,250,571	
202,957	Gardner Denver, Inc., Initial Dollar Term Loan	July 30, 2020	233,276	240,021	
830,586	Gates Global LLC, Initial Dollar Term Loan	July 6, 2021	1,039,893	1,017,470	
1,070,650	HGIM Corporation, Term Loan A	June 18, 2018	1,015,275	1,040,596	
3,160,448	HGIM Corporation, Term Loan B	June 18, 2020	2,688,596	2,418,606	
1,370,000	Intelsat Jackson Holdings S.A., Tranche B-2 Term Loan	June 30, 2019	1,655,456	1,600,506	
10,100,000	Lehman Brothers Specialty Finance Claim	Defaulted	682,729	913,161	
2,884,130	Navistar Financial Corporation, Term Loan	December 2, 2016	3,162,055	3,650,639	
2,398,870	Navistar Inc., Term loan B	August 7, 2020	2,978,754	2,917,643	
1,131,172	Ortho-Clinical Diagnostics Holdings, Initial Term Loan	June 30, 2021	1,370,815	1,374,577	
3,150,000	OSX 2 Leasing BV, Term Loan	Defaulted	2,564,968	467,882	
1,110,000	Promotora De Informaciones S.A., PPL Term Loan	December 12, 2019	1,140,263	1,124,576	
3,070,009	Promotora De Informaciones S.A., Tranche 2	December 12, 2018	3,734,702	3,711,844	



**OCP CREDIT STRATEGY FUND**

**SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited) continued**

As at June 30, 2016 (stated in Canadian dollars)

Number of Shares, Units Par Value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
556,844	Promotora De Informaciones S.A., Tranche 3	December 12, 2019	651,247	665,278	
1,915,342	Sequa Corporation, Term Loan	June 19, 2017	2,157,004	1,927,841	
1,150,000	Texas Competitive Electric Holdings Company, 2017 L/C	Defaulted	952,184	497,589	
2,635,000	Texas Competitive Electric Holdings Company, 2017 Term Loan	Defaulted	2,173,288	1,129,492	
2,338,836	Texas Competitive Electric Holdings Company, Revolver	Defaulted	1,712,616	974,221	
1,812,458	Veritas US Inc., (USD) Initial Dollar Term B-1 Loan	January 27, 2023	1,980,273	2,032,742	
2,657,243	YRC Worldwide Inc., Term Loan	February 13, 2019	3,039,101	3,037,405	
<b>Total Bank Debt</b>			<b>54,758,254</b>	<b>50,996,685</b>	<b>48.20%</b>
<b>EQUITIES AND WARRANTS</b>					
53,170	AIP/MPM Holdings, Inc.		520,875	556,262	
71,987	Air Canada		814,893	639,964	
306,953	Bluestem Group Inc.		1,614,611	515,399	
14,523	Delphi Automotive PLC		1,184,262	1,174,245	
1,068	Eagle Bulk Shipping Inc., Warrants, October 15, 2021		-	55	
46,000	Federal Home Loan Mortgage Corporation, Preferred R Series 7.625%		151,432	243,596	
69,000	Federal Home Loan Mortgage Corporation, Preferred S Series 8.250%		294,570	398,368	
148,250	Federal Home Loan Mortgage Corporation, Preferred Z Series 8.375%		672,562	852,085	
97,500	Freddie Mac		225,516	232,972	
90,654	Genco Shipping & Trading Limited		1,458,987	66,741	
20,920	General Motors Company, Warrants 'B', July 10, 2019, \$18.33		329,742	282,902	
245,568	Hovnanian Enterprises Inc. 'A'		930,323	532,855	
45,144	Mach Gen Common Units		-	116,616	
18,095	Motors Liquidation Company GUC Trust		249,131	261,761	
4,125,668	Penson Technologies LLC, Class A		598,796	495,570	
305,286	RTS/Sanofi - Aventis		53,875	94,634	
2,062,903	Team Tankers International Limited		3,526,043	3,661,396	
26,007	TORM A/S, Common		442,286	338,307	
22,801	TORM A/S, Warrants		-	8,788	
15,001	Tribune Company		1,028,149	759,124	
42	Tribune Company, Warrants, December 31, 2032		2,888	2,097	
243,860	Vantage Drilling Company		128,562	4,592	
2,121	Vantage Drilling International		252,524	236,965	
<b>Total Equities and Warrants</b>			<b>14,480,027</b>	<b>11,475,294</b>	<b>10.85%</b>

OCP CREDIT STRATEGY FUND

SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited) continued

As at June 30, 2016 (stated in Canadian dollars)

Number of Shares, Units Par Value	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
<b>CREDIT DEFAULT SWAPS</b>					
1,850,000	Nordstrom Inc., 5 Year	March 20, 2020	(63,766)	33,185	
3,700,000	The Gap Inc., 5 Year	March 20, 2020	(48,513)	235,766	
<b>Total Credit Default Swaps</b>			(112,279)	268,951	0.25%
<b>FORWARD CONTRACTS</b>					
<b>United States Dollars</b>					
	Forward currency contract July 29, 2016			1,431,419	
<b>Total Forward Contracts</b>				1,431,419	1.35%
<b>Total Long positions</b>			119,818,668	114,804,692	108.50%
<b>SHORT POSITIONS</b>					
<b>BONDS</b>					
(380,000)	Ball Corporation, 4.00%	November 15, 2023	(412,967)	(487,127)	
(511,000)	Ineos Group Holdings SA, 5.875%	February 15, 2019	(667,568)	(664,133)	
(1,697,000)	Macy's Retail Holdings, Inc. 3.625%	June 1, 2024	(2,184,583)	(2,168,213)	
(920,000)	Sealed Air Corporation, 5.25%	April 1, 2023	(1,069,320)	(1,241,744)	
(470,000)	Sealed Air Corporation, 6.50%	December 1, 2020	(592,717)	(696,592)	
(2,000,000)	U.S. Treasury Notes, 2.250%	November 15, 2024	(2,326,635)	(2,757,465)	
(580,000)	XPO Logistics, Inc. 6.500%	June 15, 2022	(697,963)	(721,972)	
<b>Total Bonds</b>			(7,951,753)	(8,737,246)	(8.26)%
<b>EQUITIES</b>					
(3,190)	Cobalt International Energy Common		(40,296)	(5,521)	
(97,500)	Fannie Mae Common		(234,582)	(251,862)	
<b>Total Equities</b>			(274,878)	(257,383)	(0.24)%
<b>Total short positions</b>			(8,226,631)	(8,994,629)	(8.50)%
<b>Adjustment for transactions costs</b>			(9,604)		
<b>Total Investments</b>			111,582,433	105,810,063	100.00%

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited)

June 30, 2016  
(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.

The investment objectives of the Fund are: (i) to maximize total returns for unitholders; (ii) to provide unitholders with attractive, quarterly distributions, initially 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 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 period ended June 30, 2016 were authorized for issue by the Manager on August 25, 2016.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The financial statements of the Fund have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting (IAS 34) as issued by the 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 and forward contracts, 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.

#### (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.

## NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

### 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 and cash and cash equivalents. Included in other financial liabilities are accounts payable and accrued liabilities, redemptions payable, distributions payable, payable for investments purchased 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" and "net change in unrealized appreciation (depreciation) of investments" 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.

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.

## NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

### 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 is calculated daily, on the annual redemption date and on such other dates as the Manager deems appropriate 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. 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.

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

### 3. FORWARD CONTRACTS

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

As at June 30, 2016:

Sale	Amount \$	Purchase	Amount \$	Contract Price \$	Settlement date	Unrealized foreign exchange gain (loss) on contract \$
USD	(92,828,725)	CAD	121,329,000	0.7651	July 29, 2016	1,431,419
						<b>1,431,419</b>

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 (December 31, 2015 – BBB+).

### 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.

**OCP CREDIT STRATEGY FUND**

**NOTES TO FINANCIAL STATEMENTS (Unaudited)** continued

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

As at June 30, 2016

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Equities and warrants	7,192,924	3,786,800	495,570	11,475,294
Bonds	-	50,632,343	-	50,632,343
Bank debt	-	50,528,803	467,882	50,996,685
Credit default swaps	-	268,951	-	268,951
Forward contracts	-	1,431,419	-	1,431,419
<b>Total</b>	<b>7,192,924</b>	<b>106,648,316</b>	<b>963,452</b>	<b>114,804,692</b>

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial liabilities</b>				
Equities	257,383	-	-	257,383
Bonds sold short	-	8,737,246	-	8,737,246
<b>Total</b>	<b>257,383</b>	<b>8,737,246</b>	<b>-</b>	<b>8,994,629</b>

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>

	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>

**OCP CREDIT STRATEGY FUND**

**NOTES TO FINANCIAL STATEMENTS (Unaudited)** continued

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 periods ended June 30, 2016 and December 31, 2015, 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 periods ended June 30, 2016 and December 31, 2015, 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 current 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 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:

Probability weighted recovery analysis: 1) 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 and 2) The recoveries obtained from the two scenarios of (a) liquidation and (b) stacking the vessel now with potential re-contracting in 2017/2018 when commodity conditions are expected to improve were equally weighted to estimate the recovery of the vessel.

During the period ended June 30, 2016, the reconciliation of Level 3 investments measured using non-observable inputs is presented as follows:

	Equities and Warrants	Bank Debt	Total
January 1, 2016	530,945	1,307,687	1,838,632
Purchases	-	-	-
Sales	-	-	-
Net transfers (out of) Level 3	-	-	-
Net transfers (in to) Level 3	-	-	-
Realized gains (losses)	-	-	-
Change in unrealized appreciation (depreciation)	(35,375)	(839,805)	(875,180)
June 30, 2016	495,570	467,882	963,452

During the period 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



## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

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	\$467,882	Probability Weighted Recovery Analysis	1) Liquidation analysis and 2) Stacking and Re-contracting after two years	\$11.5 USD per \$100 USD par value
Penson Technologies LLC, Class A	\$495,570	Probability Weighted Recovery Analysis	Outcome and timing of claims resolution and litigation recoveries	.093 USD

### 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 June 30, 2016 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	Probability Weighted Recovery Analysis	1) Liquidation analysis and 2) Stacking and Re-contracting after two years	\$10.8 USD	\$20 USD	\$439,402	\$813,708
Penson Technologies LLC, Class A	Probability Weighted Recovery Analysis	Outcome and timing of claims resolution and litigation recoveries	\$.059 USD	\$.126 USD	\$314,394	\$671,418

### 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

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 period ended June 30, 2016, the Fund incurred management fees of \$879,751 (June 30, 2015 – \$1,285,335) of which \$126,877 was owing at June 30, 2016 (December 31, 2015 – \$180,391).

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.

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

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 period ended June 30, 2016, the Fund did not incur a Performance Fee (June 30, 2015 – 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.

### 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 periods ended June 30 are summarized as follows:

	2016 #	2015 #
<b>Redeemable units outstanding, beginning of period</b>	<b>23,851,108</b>	26,355,791
Redemption of redeemable units	<b>(5,975,052)</b>	(2,356,521)
<b>Redeemable units outstanding, end of period</b>	<b>17,876,056</b>	23,999,270

Under a normal course issuer bid, which will expire on July 17, 2017, 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 can be repurchased at their market price through the facilities of the Toronto Stock Exchange ("TSX"). During the periods ended June 30, 2016 and 2015, no units were purchased under this normal course issuer bid. 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.

## OCP CREDIT STRATEGY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

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.

Within the Fund's Portfolio, the maximum exposure to any one debt issuer as of June 30, 2016 was \$8,847,543 representing 7.36% of the net assets of the Fund (December 31, 2015 – \$9,984,005 or 6.11%).

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

Credit Rating	As a % of Net Assets	
	June 30, 2016	December 31, 2015
A	–	1.00%
BBB	(0.21)%	(0.72)%
BB	2.83%	1.13%
B	28.96%	36.66%
CCC	26.42%	11.99%
CC	1.99%	0.70%
D	–	5.18%
NR*	17.32%	17.41%

\* 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, unrealized loss on forward contracts, accounts payable and accrued liabilities, distributions payable, redemptions payable, payable for investments purchased 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

## NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

exchange rates. For the periods ended June 30, 2016 and December 31, 2015, 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 June 30, 2016, approximately 9.3% of the Fund's net assets are subject to other price risk (December 31, 2015 – 8.8%). Management's best estimate of the effect on total equity as at June 30, 2016, 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 \$561,000 (December 31, 2015 – \$716,000) 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 June 30, 2016 is shown in the Fund's schedule of investment portfolio.

## 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 7. The statements of changes in equity and Note 7 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 8 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.

## 11. EARNINGS (LOSS) PER UNIT

Earnings (loss) per unit for the six month periods ended June 30, 2016 and 2015 is calculated as follows:

	2016	2015
Profit for the period	\$3,833,894	\$(3,478,676)
Weighted average units outstanding during the period	20,830,752	25,158,001
Earnings (loss) per unit	\$0.18	\$(0.14)

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)

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