

OCP CREDIT TRUST

Annual Financial Statements for the year ended
December 31, 2013

OCP CREDIT TRUST

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of OCP Credit Trust (the "Fund") are the responsibility of the management of the Fund. They have been prepared in accordance with Canadian generally accepted accounting principles using information available to March 19, 2014 and management's best estimates and judgements.

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

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



Josh Spierer
Chief Financial Officer
Onex Credit Partners, LLC,
The Manager of the Fund
March 19, 2014



Michael Gelblat
Chief Executive Officer
Onex Credit Partners, LLC,
The Manager of the Fund
March 19, 2014

INDEPENDENT AUDITORS' REPORT

To the unitholder of:

OCP Credit Trust

We have audited the accompanying financial statements of OCP Credit Trust, which comprise the schedules of investments and total return swap as at December 31, 2013, the statements of net assets as at December 31, 2013 and December 31, 2012, and the statements of operations and changes in net assets for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of OCP Credit Trust as at December 31, 2013 and December 31, 2012, and its financial performance and its changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Licensed Public Accountants

Chartered Accountants

March 19, 2014

Toronto, Ontario

OCP CREDIT TRUST

STATEMENTS OF NET ASSETS

As at December 31,

	2013 \$	2012 \$
ASSETS		
Unrealized gain on total return swap <i>[Note 3]</i>	3,368,634	3,147,223
Investments	179,792,669	202,520,808
Cash	36,194,012	22,967,829
Cash on deposit with broker as collateral <i>[Notes 3 and 4]</i>	94,053,615	93,910,924
Receivable for investments sold	414,818	738,250
Accrued interest	4,044,277	4,665,483
	317,868,025	327,950,517
LIABILITIES		
Unrealized loss on forward contracts <i>[Note 4]</i>	931,575	3,273,770
Accounts payable and accrued liabilities	747,095	775,175
Distribution payable <i>[Note 6]</i>	-	7,100,000
Interest payable	315,416	308,909
Payable for investments purchased	18,095,528	9,590,483
	20,089,614	21,048,337
Net Assets	297,778,411	306,902,180
Number of units outstanding <i>[Note 8]</i>	34,121,864	34,121,864
Net assets per unit	\$8.73	\$8.99

See accompanying notes.

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STATEMENTS OF OPERATIONS

For the years ended December 31,

	2013 \$	2012 \$
INVESTMENT INCOME		
Interest	30,446,609	27,423,725
EXPENSES		
Interest expense	3,794,963	3,311,178
Management fees <i>[Note 7]</i>	3,050,256	3,104,967
Harmonized sales tax	408,046	415,581
Other administration costs	120,735	108,550
Custodian and valuation fees	93,573	91,471
Legal fees and research fees	26,295	54,099
Audit fees	21,514	23,526
Independent review committee fees	11,250	11,250
Trustee fees	9,000	9,000
Securityholder reporting costs	1,603	4,482
	7,537,235	7,134,104
Net investment income	22,909,374	20,289,621
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized foreign exchange gain (loss)	(14,112,487)	12,568,150
Net realized gain on sale of investments	13,551,886	7,763,787
Net realized gain on total return swap	1,891,078	3,643,765
Net change in unrealized appreciation of investments	7,572,774	1,605,309
Net change in unrealized appreciation of derivatives	2,563,606	163,920
Net gain on investments	11,466,857	25,744,931
Increase in net assets from operations	34,376,231	46,034,552
Increase in net assets from operations per unit	\$1.01	\$1.35

See accompanying notes.

OCP CREDIT TRUST

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31,

	2013 \$	2012 \$
Increase in net assets from operations	34,376,231	46,034,552
Distributions to unitholder <i>[Note 6]</i>		
From net investment income	(34,376,231)	(46,034,552)
Return of capital	(9,123,769)	-
	(43,500,000)	(46,034,552)
Capital unit transactions <i>[Note 8]</i>		
Distributions reinvested	-	3,036,849
Increase (decrease) in net assets for the year	(9,123,769)	3,036,849
Net assets, beginning of year	306,902,180	303,865,331
Net assets, end of year	297,778,411	306,902,180

See accompanying notes.

OCP CREDIT TRUST

SCHEDULE OF TOTAL RETURN SWAP

As at December 31, 2013

Par Value (US\$)	Description	Maturity Date	Average Cost (US\$)	Fair Value (US\$)
BONDS				
7,587,064	ACST Pass Through Trust Floating Rate	June 14, 2037	6,690,296	7,055,969
1,592,000	Avaya Inc., 9.00%	April 01, 2019	1,651,700	1,663,640
3,500,000	Ceva Group PLC, 8.375%	December 01, 2017	3,544,722	3,657,500
375,000	Clear Channel Worldwide Holdings Inc., 6.50%, Series A	November 15, 2022	371,250	380,156
1,013,000	Clear Channel Worldwide Holdings Inc., 6.50%, Series B	November 15, 2022	1,013,000	1,034,526
4,900,000	First Data Corporation, 6.75%	November 01, 2020	4,936,750	5,096,000
8,256,000	Harbinger Group Inc., 7.875%	July 15, 2019	8,232,318	8,864,880
700,000	K Hovnanian Enterprises, 7.25%	October 15, 2020	700,000	751,625
4,251,000	Prospect Medical Holding, Inc., 8.375%	May 01, 2019	4,259,545	4,559,198
Total Bonds			31,399,581	33,063,494
BANK DEBT				
12,449,486	Air Distribution Technologies, Inc., Term Loan	November 09, 2018	12,449,486	12,496,171
10,871,135	Alon USA Partners, LP, Term Loan B	November 26, 2018	11,299,186	11,088,558
4,992,135	Altegrity, Inc., Term Loan B	February 21, 2015	4,788,022	4,890,735
3,317,435	Altegrity, Inc., Term Loan D	February 21, 2015	3,278,721	3,295,318
6,988,642	Arch Coal Inc., Term Loan	May 16, 2018	7,048,046	6,885,560
7,324,852	Ascend Learning, LLC, Term Loan	July 31, 2019	7,178,355	7,318,750
2,582,756	Avaya Inc., Term Loan B-3	October 26, 2017	2,437,863	2,516,573
5,377,055	Avaya Inc., Term Loan B-5	March 31, 2018	5,262,338	5,437,547
6,367,476	Aveta Inc., Term Loan	December 12, 2017	6,415,232	6,383,394
12,044,000	Brand Energy & Infrastructure Services, Inc., Term Loan	November 26, 2020	11,983,780	12,080,566
4,836,272	Caesars Entertainment Operating Co Inc., Term Loan B4	October 31, 2016	5,023,677	4,868,515
758,260	Ceva (TNT) Logistics BV Dollar	August 31, 2016	718,452	729,826
4,427,212	Ceva Group PLC, Term Loan	August 31, 2016	4,194,784	4,261,192
2,661,000	CityCenter Holdings, LLC, Term Loan B	October 16, 2020	2,634,390	2,697,094
7,574,760	Commercial Barge Line Company, Term Loan	September 22, 2019	7,646,720	7,489,544
6,896,483	Dell International Inc., Term Loan B	April 29, 2020	6,827,518	6,903,669
4,194,900	Essar Steel Algoma Inc., Term Loan	September 19, 2014	4,228,983	4,215,875
996,852	Federal Mogul Corporation, Term Loan B	December 29, 2014	948,381	980,237
586,640	Federal Mogul Corporation, Term Loan C	December 28, 2015	558,116	576,863
6,370,000	First Data Corporation, 2018B Term Loan	September 24, 2018	6,284,005	6,374,421
5,606,179	Fortescue Metals Group Limited, Term Loan	June 28, 2019	5,592,164	5,680,927
6,520,725	Freescale Semiconductor Inc., Term Loan B-4	February 28, 2020	6,606,994	6,585,932
5,759,906	Guitar Center Inc., Term Loan	April 09, 2017	5,337,337	5,587,109
4,130,598	HD Supply Inc., Term Loan B	October 12, 2017	4,142,659	4,162,568
11,555,230	Houghton Mifflin Harcourt Publishing Company, Term Loan B	May 22, 2018	11,656,916	11,605,784
4,013,823	Ineos US Finance, LLC, Term Loan	May 04, 2018	3,922,870	4,022,606

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SCHEDULE OF TOTAL RETURN SWAP continued

As at December 31, 2013

Par Value (US\$)	Description	Maturity Date	Average Cost (US\$)	Fair Value (US\$)
4,401,339	Infor (US) Inc., (Lawson), Term Loan B-2	April 05, 2018	4,357,326	4,395,837
5,000,000	Level 3 Financing Inc., Term Loan B-III 2019	August 01, 2019	5,012,500	5,025,000
4,174,223	McGraw-Hill Global Education Holdings, LLC, Term Loan B	March 22, 2019	4,195,094	4,248,315
1,062,929	Nortek Inc., Term Loan	April 26, 2017	1,049,642	1,064,257
4,157,583	Phoenix (Metal Services), Term Loan	June 30, 2017	4,157,582	4,178,370
11,889,472	Radio One Inc., Term Loan	March 31, 2016	11,685,092	12,175,568
5,171,842	Serta Simmons Holdings LLC, Term Loan B	October 01, 2019	5,178,307	5,197,660
474,120	The ServiceMaster Company, Term Loan B	January 31, 2017	449,821	468,884
11,678,000	SRA International Inc., Term Loan B	July 20, 2018	11,413,840	11,532,025
10,334,903	Stations Casino Inc., Term Loan B	March 02, 2020	10,466,156	10,438,252
4,965,050	STG-Fairway Acquisitions Inc., Term Loan	February 28, 2019	4,955,765	4,955,740
8,708,000	US Airways Group Inc., Term Loan B1	May 23, 2019	8,702,557	8,762,425
4,873,769	Wabash National Corporation, Term Loan B-1	May 08, 2019	4,881,555	4,895,091
8,326,720	Zayo Group LLC, Term Loan B	July 02, 2019	8,326,720	8,328,211
Total Bank Debt			233,296,952	234,800,969
Total Bonds and Bank Debt			264,696,533	267,864,463
Unrealized gain on total return swap (US\$)				3,167,930
Unrealized gain on total return swap (C\$)				3,368,634

See accompanying notes.

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SCHEDULE OF INVESTMENTS

As at December 31, 2013

Par Value (US\$)	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
BANK DEBT					
2,331,000	Air Canada, Term Loan	September 26, 2019	2,373,921	2,514,311	
2,040,745	Albertsons, LLC, Term Loan B-2	March 21, 2019	2,088,410	2,180,181	
2,190,870	Alcatel-Lucent, Term Loan C	January 30, 2019	2,232,231	2,338,893	
1,445,581	Altegrity Inc., Term Loan B	February 21, 2015	1,433,831	1,505,943	
4,180,990	American Airlines Inc., Term Loan B	June 27, 2019	4,279,703	4,479,219	
2,809,958	Appvion Inc., Term Loan	June 28, 2019	2,925,131	3,002,921	
2,566,342	Arch Coal, Inc., Term Loan	May 16, 2018	2,631,106	2,688,680	
1,718,000	Azure Midstream Holdings, Term Loan B	November 15, 2018	1,776,582	1,842,828	
4,586,000	Caesars Entertainment Operating Co Inc., Term Loan B6	January 28, 2018	4,366,728	4,647,957	
11,344,000	Caesars Entertainment Resort Properties LLC, Term Loan B	October 11, 2020	11,907,976	11,972,225	
862,059	Cenveo Corporation, Term Loan B	February 13, 2017	874,086	921,258	
3,245,475	Commercial Barge Line Company, Term Loan B	September 22, 2019	3,341,870	3,412,266	
2,339,323	Doncasters US Finance, LLC, Term Loan B	April 09, 2020	2,360,038	2,517,069	
7,180,154	Eastman Kodak Company, Term Loan	September 03, 2019	7,298,609	7,625,507	
2,972,065	Exco Resources, Inc., Term Loan B	August 19, 2019	3,043,857	3,172,211	
4,771,418	Federal Mogul Corporation, Term Loan B	December 29, 2014	4,517,266	4,989,146	
2,807,946	Federal Mogul Corporation, Term Loan C	December 28, 2015	2,658,380	2,936,078	
1,685,000	First Data Corporation, 2018B Term Loan	September 24, 2018	1,690,732	1,792,996	
5,593,980	Freescale Semiconductor Inc., Term Loan B-5	January 15, 2021	5,753,748	6,011,539	
4,053,526	Granite Broadcasting Corporation, Term Loan B	May 23, 2018	4,220,194	4,321,112	
2,840,880	HGIM Corporation, Term Loan B	June 18, 2020	2,848,225	3,047,296	
2,537,000	Hudson's Bay Company, Term Loan B	November 04, 2020	2,588,749	2,737,822	
1,549,392	Ineos US Finance, LLC, Term Loan	May 04, 2018	1,571,195	1,651,158	
3,844,945	Ion Media Networks, Inc., Term Loan B	December 18, 2020	4,058,689	4,103,872	
5,894,380	J.C. Penny Company, Term Loan B	May 22, 2018	6,028,522	6,113,735	
8,482,000	Level 3 Financing Inc., Term Loan B-III 2019	August 01, 2019	8,446,253	9,064,471	
2,942,215	Lighttower Fiber LLC, Term Loan B	April 13, 2020	2,976,830	3,144,261	
3,456,653	McGraw-Hill Global Education Holdings, LLC, Term Loan B	March 22, 2019	3,515,656	3,740,890	
2,425,000	Murray Energy Corporation, Term Loan B	December 05, 2019	2,535,438	2,599,586	
11,328,394	Navistar International Corporation, Term Loan B	December 02, 2016	10,439,342	11,493,992	
9,599,693	Navistar International Corporation, Term Loan	August 17, 2017	9,584,132	10,351,431	
851,048	OCI Beaumont LLC, Term Loan B2	August 20, 2019	867,158	914,015	
1,993,688	Orbitz Worldwide, Inc., Term Loan C	March 25, 2019	2,139,515	2,127,947	
107,660	Realty Corporation, Extended Synthetic Commitment	October 10, 2016	101,111	114,195	
5,419,178	Realty Corporation, Term Loan B	March 05, 2020	5,174,479	5,814,734	

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SCHEDULE OF INVESTMENTS continued

As at December 31, 2013

Par Value (US\$)	Description	Maturity Date	Average Cost \$	Fair Value \$	% of Portfolio
1,867,000	Samson Investment Company, Term Loan	September 25, 2018	1,987,523	1,990,246	
4,824,846	Select Medical Corporation, Series C Tranche B Term Loan	June 01, 2018	4,908,087	5,151,901	
7,976,000	State Class Tankers II, LLC, Term Loan B	June 20, 2020	8,152,990	8,587,333	
6,111,479	SuperValu Inc., Term Loan B	March 21, 2019	6,081,083	6,556,885	
5,110,383	TI Group Automotive Systems LLC, Term Loan	March 28, 2019	5,165,008	5,461,320	
1,015,000	TMS International Corporation, Term Loan B	October 16, 2020	1,040,881	1,082,003	
3,536,000	TNS Inc., Term Loan	February 14, 2020	3,503,969	3,782,349	
4,852,463	Travelport LLC, Term Loan	June 26, 2019	5,066,299	5,288,887	
Total Bank Debt			170,555,533	179,792,669	100.00%
Total Investments			170,555,533	179,792,669	100.00%

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

1. THE FUND

OCP Credit Trust (the "Fund") is an investment fund governed by the laws of the Province of Ontario by a Declaration of Trust dated October 25, 2010. On November 19, 2010 the Fund commenced operations.

The Fund was established for the purpose of acquiring and holding an actively managed, diversified portfolio (the "Portfolio") comprised primarily of senior secured loans and other senior debt obligations of non-investment grade North American issuers. The Fund may invest in, or use, derivative instruments to achieve its investment objectives. In the pursuit of its objectives, the Fund may employ leverage up to 40% of its total assets.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Investments

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

Derivative financial instruments such as total return swaps and forward contracts are valued at each valuation date according to the gain or loss that would be recognized if the contracts were closed out. Cash on deposit with broker as collateral is noted in the Statements of Net Assets. Derivative financial instruments are recorded at their respective fair values. Realized gains and losses on forward contracts are included in the Statements of Operations under "Net realized foreign exchange gain (loss)". Unrealized gains and losses on derivatives are included in the Statements of Operations under "Net change in unrealized appreciation of derivatives". Realized gains and losses on total return swap are included in the "Net realized gain on total return swap".

Investment transactions are recorded on the trade date.

Other assets and liabilities

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

Income and expense recognition

The accrual method of recording income and expenses is followed.

Foreign currency translation

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

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

Increase (decrease) in net assets from operations per unit

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

Valuation of fund units

Net asset value per unit is calculated daily by dividing the net asset value by the outstanding units.

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

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NOTES TO FINANCIAL STATEMENTS continued

As at December 31, 2013 and 2012, there is no difference between net asset value for pricing purposes and net assets for financial reporting purposes.

Income taxes

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

3. TOTAL RETURN SWAP

The Fund's investment strategy is to deliver attractive risk-adjusted returns and stable income while emphasizing preservation of capital and capital appreciation by targeting senior secured loans and other senior debt obligations of non-investment grade issuers. To provide the Fund with the means to meet its investment objective, on December 20, 2010 the Fund entered into a total return swap ("TRS Facility") with The Bank of Nova Scotia (the "Counterparty") as the counterparty.

Pursuant to the TRS Facility, the Counterparty has agreed to pay to the Fund the total return of the defined underlying reference assets, which includes both the income they may generate and any capital appreciation. In return, the Fund has agreed to pay to the Counterparty a funding cost calculated daily based on a floating rate option plus a spread of 1.25%, and any administrative fees or expenses which are incurred by the Counterparty directly. Effective December 20, 2013, the spread of 1.25% was reduced to 1.00%. The floating rate option varies depending on the currency in which the reference assets are denominated. The following summarizes the floating rate options:

Base currency of reference assets	Floating rate options
USD	USD-LIBOR-BBA
Euro	EUR-ERIBOR-Reuters
GBP	GBP-LIBOR-BBA
CAD	CAD-BA-CDOR

If the prices of the underlying reference assets fall, the Fund will be required to pay the amount by which the assets have fallen in price to the Counterparty upon the deletion of a reference asset, or if later, thirty calendar days following December 19, 2014, which is the scheduled ramp-down date.

The reference assets of the TRS Facility are listed in the Schedule of Total Return Swap.

As at December 31, 2013, the Fund has \$92,978,232 (2012 - \$92,319,407) on deposit with the Counterparty as credit support. Interest earned on the collateral is paid to the Fund and is included as interest income in the Statements of Operations.

4. FORWARD CONTRACTS

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

As at December 31, 2013:

Sale	Amount \$	Purchase	Amount \$	Contract Price \$	Settlement date	Unrealized foreign exchange loss on contract \$
USD	278,700,000	CDN	295,605,106	0.9428	January 17, 2014	(931,575)
						(931,575)

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NOTES TO FINANCIAL STATEMENTS continued

As at December 31, 2012:

Sale	Amount \$	Purchase	Amount \$	Contract Price \$	Settlement date	Unrealized foreign exchange gain on contract \$
USD	308,100,000	CDN	303,324,450	1.0157	January 18, 2013	(3,267,119)
USD	5,100,000	CDN	5,068,380	1.0062	January 18, 2013	(6,651)
						(3,273,770)

The Fund has \$1,075,383 (2012 – \$1,591,517) on deposit with the Counterparty as credit support. Interest earned on the collateral is paid to the Fund and is included as interest income in the Statements of Operations.

The counterparty is rated A – by Standard & Poor’s (2012 – A –).

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments of the Fund include cash, cash on deposit with broker as collateral, receivable for investments sold, accrued interest, accounts payable and accrued liabilities, distribution payable, interest payable and payable for investments purchased. There are no significant differences between the carrying values of these financial instruments and their fair value. Derivatives and investments are also financial instruments and are carried at their fair values as described in Note 2 above.

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

As at December 31, 2013:

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Financial Assets				
Bank debt	–	179,792,669	–	179,792,669
Total return swap		3,368,634		3,368,634
	–	183,161,303	–	183,161,303

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Financial Liabilities				
Forward contract	–	931,575	–	931,575
	–	931,575	–	931,575

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NOTES TO FINANCIAL STATEMENTS continued

As at December 31, 2012:

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Financial Assets				
Bank debt	-	202,520,808	-	202,520,808
Total return swap	-	3,147,223	-	3,147,223
	-	205,668,031	-	205,668,031

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Financial Liabilities				
Forward contracts	-	3,273,770	-	3,273,770
	-	3,273,770	-	3,273,770

6. DISTRIBUTIONS

To the extent that the Fund has not distributed in cash the full amount of its net income in any year, the difference between such amount and the amount actually distributed by the Fund will be paid through an additional distribution, being the issuance of additional units having a net asset value in the aggregate at the date of distribution equal to this difference. Immediately after any such additional distribution, the number of outstanding units will be consolidated such that the unitholder will hold after the consolidation the same number of units as it held before the distribution of additional units. See Note 8 for disclosure on additional distributions declared during 2012.

7. EXPENSES OF THE FUND AND RELATED PARTY TRANSACTIONS

The Manager is entitled to an annual management fee of 1.00% based on the net asset value of the Fund. This fee is calculated daily and paid monthly 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.

8. UNITS ISSUED AND OUTSTANDING

The Fund is authorized to issue an unlimited number of transferable and redeemable units of a single class, each of which represents an equal undivided interest in the net assets of the Fund. The unitholder is entitled to redeem its units outstanding on any business day and will receive a redemption price equal to the net asset value per unit of the Fund. There were no changes in the number of units outstanding for the year ended December 31, 2013. Changes in the number of units outstanding for the year ended December 31, 2012 are summarized as follows:

	2013 #	2012 #
Units outstanding, beginning of year	34,121,864	34,121,864
Distribution satisfied through issuance of units	-	341,219
Consolidation of units	-	(341,219)
Units outstanding, end of year	34,121,864	34,121,864

On December 31, 2012, the Manager declared an additional distribution to the sole unitholder of the Fund in the amount of \$3,036,849. The distribution was satisfied through the issuance of additional units of the Fund having a value equal to the amount of the distribution. The

NOTES TO FINANCIAL STATEMENTS continued

additional units issued were automatically consolidated on a basis such that the number of consolidated units was equal to the number of units outstanding immediately prior to the transaction.

9. 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 and currency risk). The Fund's overall risk management program seeks to minimize potentially adverse effects of these risks on the Fund's financial performance by employing professional, experienced portfolio managers, by monitoring daily the Fund's positions and market events and by diversifying the investment Portfolio within the constraints of the investment guidelines. To assist in managing risk, the Manager maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy, investment guidelines and securities regulations.

Credit risk

Credit risk is the risk that the 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 secured loans and other senior debt obligations of non-investment grade issuers, which involves risk of loss and price changes due to such factors as an issuer's creditworthiness. This represents the main concentration of credit risk. The fair value of debt securities held directly or in the TRS Facility includes consideration of the creditworthiness of the issuer, and accordingly, represents the maximum credit exposure of the Fund. The Fund currently uses only one counterparty for its TRS Facility. Credit risk for the TRS Facility is managed by dealing with a counterparty that has a current credit rating of A+ by Standard and Poor's (2012 – A+).

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

The maximum exposure to any one debt issuer as of December 31, 2013 was \$21,845,423 (2012 – \$22,241,153) representing 7.34% (2012 – 7.25%) of the net assets of the Fund.

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

Credit rating	As a % of net assets	
	2013	2012
A	2.52	2.90
BBB	2.03	3.42
BB	23.66	23.04
B	107.99	104.94
CCC	6.18	7.49
Not rated *	13.66	14.29

* 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 accounts payable and accrued liabilities, interest payable and payable for investments purchased. These financial liabilities are all current and due within 12 months. The Fund has sufficient cash on hand to settle these financial liabilities.

Interest rate risk

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

Changes in the prevailing levels of market interest rates are not expected to have a significant impact on the fair value of the TRS Facility or investments nor the related interest income and TRS Facility funding cost cash flows.

Currency risk

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

The Fund invests its assets in securities that are denominated in a currency other than the Canadian dollar, the functional currency of the Fund. Consequently, the Fund is exposed to currency risk as the fair value of the Portfolio securities denominated in currencies other than the

NOTES TO FINANCIAL STATEMENTS continued

Canadian dollar will vary due to changes in foreign currency exchange rates. For the years ended December 31, 2013 and 2012, the Fund does not have a significant exposure to foreign exchange risk as substantially all of the Fund's foreign exposure is hedged back to the Canadian dollar.

10. 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 the Annual Information Form. Restrictions and specific requirements on the redemption of units are described in Note 8. The Statements of Changes in Net Assets and Note 8 outline the relevant changes of the Fund's units for the periods.

The Fund manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in Note 9 while maintaining sufficient liquidity to meet unitholder redemptions.

11. INCOME TAXES

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

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

12. INTERNATIONAL FINANCIAL REPORTING STANDARDS

Investment companies that are publicly accountable enterprises or investment funds to which National Instrument 81-106 *Investment Fund Continuous Disclosure* is applicable, are required to adopt International Financial Reporting Standards (IFRS) for the first time for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Fund will adopt IFRS beginning January 1, 2014 and publish its first financial statements, prepared in accordance with IFRS, for the semi-annual period ending June 30, 2014. The 2014 semi-annual and annual financial statements will include 2013 comparative financial information and an opening Statement of Financial Position as at January 1, 2013, also prepared in accordance with IFRS.

The Fund continues to execute its transition plan to complete the changeover to IFRS in 2014 and comply with the required timetable for continuous disclosure. As at December 31, 2013, the impact to the financial statements based on the Fund's assessment of the differences between current Canadian GAAP and IFRS are as follows:

- IFRS 13 *Fair Value Measurement* permits the use of mid-market prices or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. The Fund will adopt accounting policies for the valuation of investments to utilize mid-market prices that align more closely with the calculation of net asset value (NAV) used to price unitholder transactions (Transaction NAV). As a result, net assets for current financial reporting purposes (GAAP NAV) will be impacted and is expected to align with Transaction NAV, eliminating the need for a NAV per unit reconciliation. The impact to the Statements of Financial Position as at January 1, 2013 (see December 31, 2012) and December 31, 2013 is disclosed in note 2 of the Fund's annual financial statements. The net change in these reconciliation adjustments will have a corresponding impact to retained earnings as at December 31, 2013 and income in the Statements of Comprehensive Income for the year ended December 31, 2013.
- IFRS 10 *Consolidated Financial Statements* provides an exception to the consolidation requirements and requires an investment entity to account for its subsidiaries at fair value through profit or loss. The Fund has concluded that it meets the definition of an investment entity as at January 1, 2013 and throughout the year ended December 31, 2013.
- Units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. In circumstances where the conditions are met to reflect securityholder's equity as equity, the Fund will also be required to separately disclose retained earnings, other reserves and securityholders' paid up capital. The Fund has assessed the unitholder's structure and has determined the equity treatment is the most appropriate classification. The amount of share capital and retained earnings as of December 31, 2013 were \$210,249,797 and \$87,528,614 (2012 – \$253,749,797 and \$53,152,383), respectively.

NOTES TO FINANCIAL STATEMENTS continued

- IFRS requires the presentation of a Statement of Cash Flows, including comparatives for 2013. The Fund has not previously presented this statement as permitted by current Canadian GAAP. In addition, other statements presented will be renamed as follow:

Canadian GAAP

Statements of Net Assets
Statements of Operations
Statements of Changes in Net Assets
Statement of Investment Portfolio

IFRS

Statements of Financial Position
Statements of Comprehensive Income
Statements of Changes in Financial Position
Schedule of Investment Portfolio

- Other reclassifications, presentation differences and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.

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