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These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any securities laws of any state, territory or possession of the United States ("state securities laws"), and may only be offered or sold, directly or indirectly, within the United States pursuant to the registration requirements of the 1933 Act and applicable state securities laws or an exemption therefrom. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities in the United States of America, its territories or possessions. See "Plan of Distribution".

Information has been incorporated by reference into this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Canso Credit Income Fund at 100 York Blvd., Ste. 550, Richmond Hill, Ontario L4B 1J8, (905) 881-8853, and are also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

May 17, 2011



# CANSO CREDIT INCOME FUND

Maximum \$75,000,032

(Maximum 5,332,840 Class A Units and 2,036,264 Class F Units)

This short form prospectus qualifies the distribution (the "Offering") of a maximum of 5,332,840 class A units (the "Class A Units") and 2,036,264 class F units (the "Class F Units" and together with the Class A Units, the "Units") of Canso Credit Income Fund (the "Fund"), a closed-end investment fund established under the laws of the Province of Ontario.

The outstanding Class A Units of the Fund are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the trading symbol "PBY.UN". The Class F Units are designed for fee-based and/or institutional accounts and are not listed on a stock exchange, but are convertible into Class A Units on a monthly basis. The closing price for the outstanding Class A Units on the TSX on May 16, 2011 was \$9.91 per Class A Unit, and the net asset value per Class A Unit and Class F Unit as at May 16, 2011 was \$9.70 and \$10.04, respectively. The manager and administrator of the Fund, Lysander Funds Limited (the "Manager"), has, on behalf of the Fund, applied to list the Class A Units being distributed under this short form prospectus on the TSX. The TSX has conditionally approved the listing of the Class A Units subject to the Fund fulfilling all of the listing requirements of the TSX prior to June 26, 2011.

**Price: \$10.15 per Class A Unit and \$10.25 per Class F Unit**

	Price to the Public <sup>(1)</sup>	Agents' Fee	Net Proceeds to the Fund <sup>(2)</sup>
Per Class A Unit . . . . .	\$ 10.15	\$ 0.406	\$ 9.744
Per Class F Unit . . . . .	\$ 10.25	\$ 0.17425	\$ 10.07575
Maximum Total Offering <sup>(3)</sup> . . . . .	\$75,000,032	\$2,519,952.04	\$72,480,079.96

Notes:

- (1) The terms of the Offering were established through negotiation between the Agents (as defined herein) and the Manager on behalf of the Fund. The price per Class A Unit and Class F Unit is equal to or exceeds the net asset value per Class A Unit and Class F Unit respectively, as at May 16, 2011 plus the expected expenses of the Offering allocable to each class of Units offered. See "Fees and Expenses — Expenses of the Offering", "Fees and Expenses — Performance Fee" and "Plan of Distribution".
- (2) Before deducting the expenses of the Offering, estimated to be \$300,000, which, subject to a maximum of 1.5% of the gross proceeds of the Offering, together with the Agents' fee, will be paid by the Fund from the proceeds of the Offering.
- (3) There is no minimum amount for the Offering. The Fund has granted to the Agents an Over-Allotment Option, exercisable for a period of 30 days from the date of Closing, to offer additional Class A Units in an amount up to 15% of the Class A Units sold on the date of Closing on the same terms as set forth above solely to cover over-allotments, if any (the "Over-Allotment Option"). If the Over-Allotment Option is exercised in full under the maximum Offering, the price to the public, Agents' fee and net proceeds to the Fund are estimated to be \$83,119,280.90, \$2,844,722 and \$80,274,558.90, respectively. This short form prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Class A Units issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units forming part of the Agent's over-allocation position acquires such Class A Units under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

(continued on next page)

(continued from cover)

	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	799,926 Class A Units	30 days from the date of Closing	\$10.15
<ul style="list-style-type: none"><li>• To ensure that the Offering is non-dilutive to existing Unitholders, the price per Class A Unit and Class F Unit is equal to or exceeds the net asset value per Class A Unit and Class F Unit, respectively, as at May 16, 2011 plus the expected expenses of the Offering allocable to each class of Units. See “Fees and Expenses — Expenses of the Offering”, “Fees and Expenses — Performance Fee” and “Plan of Distribution”.</li><li>• As of the date hereof, no performance fee has accrued. Any future performance fee in respect of Units issued pursuant to the Offering will only accrue and be payable in respect of distributions and net asset value growth occurring after the Closing. See “Fees and Expenses — Performance Fee”.</li></ul>			

RBC Dominion Securities Inc., CIBC World Markets Inc., GMP Securities L.P., Scotia Capital Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Canaccord Genuity Corp., HSBC Securities (Canada) Inc., Raymond James Ltd., MGI Securities Inc. and Wellington West Capital Markets Inc. (collectively, the “**Agents**”) as agents, conditionally offer the Units for sale, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund in accordance with the conditions contained in the agency agreement between the Fund, the Manager, Canso (as defined herein) and the Agents dated May 17, 2011 (the “**Agency Agreement**”) referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the Fund by Stikeman Elliott LLP and on behalf of the Agents by McCarthy Tétrault LLP.

The investment objectives of the Fund are to: (i) maximize total returns for holders of Units (“**Unitholders**”) on a tax-advantaged basis, while reducing risk; and (ii) provide Unitholders with attractive monthly tax-advantaged cash distributions; by exposure to a diversified portfolio consisting primarily of corporate bonds (the “**Portfolio**”). The Portfolio is actively managed by Canso Investment Counsel Ltd. (“**Canso**”) a corporate bond specialist and credit manager, founded in 1997 by John Carswell, a Canadian corporate bond manager with 25 years of credit experience. **There is no assurance that the Fund will be able to achieve its investment objectives.**

**The Fund is a party to a forward purchase and sale agreement (the “Forward Agreement”) with the Bank of Nova Scotia (the “Counterparty”), a Canadian chartered bank and an affiliate of one of the Agents. Accordingly, the Fund may be considered to be a “connected issuer” of such Agent. Please refer to “Plan of Distribution” for more information.**

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the Fund reserves the right to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on May 25, 2011 (the “**Closing**”) or such later date as the Fund and the Agents may agree to in writing, but in any event not later than 90 days after a receipt for the final short form prospectus is issued, and that Units will be available for delivery in book-entry only form through the facilities of CDS Clearing and Depository Services Inc. on the date of Closing. A purchaser of Units will receive a customer confirmation from the registered dealer from or through which the Units are purchased and will not have the right to receive physical certificates evidencing their ownership in the Units.

The head and registered office of the Fund is located at 100 York Blvd., Ste. 550, Richmond Hill, Ontario L4B 1J8.

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## FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this short form prospectus may be forward-looking statements. The use of words such as “may”, “will”, “should”, “could”, “anticipate”, “believe”, “expect”, “intend”, “plan”, “potential”, “continue” and similar expressions have been used to identify these forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the Manager believes the expectations reflected in the forward-looking statements are reasonable, no assurance can be given that actual results will be consistent with these expectations and forward-looking statements. Potential subscribers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Fund and the Manager assume no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

In particular, this short form prospectus may contain forward-looking statements pertaining to distributions on the Units. The actual results could differ materially from those anticipated in these forward-looking statements.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commissions or similar authorities in each of the provinces of Canada are specifically incorporated by reference and form an integral part of this short form prospectus:

- (a) the annual information form of the Fund dated March 31, 2011, for the year ended December 31, 2010 (the “AIF”);
- (b) the annual financial statements of the Fund for the fiscal year ended December 31, 2010, together with the accompanying report of the auditors dated March 11, 2011;
- (c) the management report of fund performance of the Fund for the fiscal year ended December 31, 2010 dated March 11, 2011;

Any of the documents of the type referred to above including any material change reports (excluding confidential material change reports), annual information forms, interim and annual financial statements and related management reports of fund performance and information circulars filed by the Fund with a securities commission or similar authority in Canada after the date of this short form prospectus and prior to the termination of the Offering, will be deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not constitute a part of this short form prospectus, except as so modified or superseded. Information on any of the websites maintained by the Manager does not constitute a part of this short form prospectus.

## THE FUND

The Fund is a closed-end investment fund established under the laws of the Province of Ontario and governed by a declaration of trust dated as of June 29, 2010 (the “**Declaration of Trust**”). The Fund’s principal office is 100 York Blvd., Ste. 550, Richmond Hill, Ontario L4B 1J8. The fiscal year-end of the Fund is December 31.

The beneficial interests in the net assets and net income of the Fund are divided into units of two classes, Class A Units and Class F Units. The Fund is authorized to issue an unlimited number of Units of each class. The Class F Units are designed for fee-based and/or institutional accounts and differ from the Class A Units in the following ways: (i) Class F Units will not be listed on a stock exchange; (ii) the Agents’ fees payable on the issuance of the Class F Units are lower than those payable on the issuance of the Class A Units; and (iii) the Management Fee (as defined herein) payable in respect of the Class A Units is reduced by an amount equal to the Service Amount (as defined herein). Accordingly, the net asset value per Unit of each class will not be the same as a result of the different fees allocable to each class of Units. See “Fees and Expenses”.

The Fund seeks to achieve its investment objectives by obtaining exposure to the Portfolio which is comprised primarily of corporate bonds. The Portfolio is held by an underlying fund, Canso Credit Trust (the “**Trust**”). The Fund commenced operations on June 29, 2010 and raised gross proceeds of \$146 million in its initial public offering. The Fund used the net proceeds of the initial public offering for the payment of its purchase obligations under the Forward Agreement. The net proceeds of the Offering will be used to fund the purchase of additional exposure to the Portfolio through an amendment to the Forward Agreement. Pursuant to the terms of the Forward Agreement, the Counterparty will deliver to the Fund, on or about June 30, 2015 (the “**Forward Termination Date**”), a specified portfolio of securities of Canadian public issuers that are both “Canadian Securities” as defined in the *Income Tax Act* (Canada) (the “**Tax Act**”) and listed on the TSX (the “**Canadian Securities Portfolio**”) with an aggregate value equal to the redemption proceeds of the relevant number of units of the Trust net of any amount owing by the Fund to the Counterparty. Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that the Counterparty’s settlement obligations under the Forward Agreement will be discharged by physical delivery of the Canadian Securities Portfolio by the Counterparty to the Fund. As a result of the Forward Agreement, the distributions paid by the Fund and the value of the Units are based on the distributions received by the Trust and the value of the Portfolio.

## DESCRIPTION OF THE BUSINESS

### Investment Objectives

The Fund seeks to achieve the following investment objectives:

- (a) to maximize total returns for Unitholders, on a tax-advantaged basis, while reducing risk; and
- (b) to provide Unitholders with attractive monthly tax-advantaged cash distributions;

by exposure to the Portfolio, which is comprised primarily of corporate bonds.

It is expected that monthly distributions received by Unitholders will consist primarily of returns of capital (which are not immediately taxable, but which reduce the adjusted cost base of a Unitholder’s Units). The Fund will determine and announce each quarter the distribution amount for the following quarter, based upon the Manager’s estimate of distributable cash flow for the quarter. The Fund may make additional distributions in any given year (“**Additional Distributions**”).

### Investment Restrictions of the Fund

The Fund is subject to investment restrictions which are set forth in the Declaration of Trust, which provides that the Fund will not:

- (a) with respect to the securities acquired pursuant to the Forward Agreement, purchase any securities other than “Canadian securities” for the purposes of the Tax Act;

- (b) purchase the securities of an issuer for the purposes of exercising control over management of that issuer or if, as a result of such purchase, the Fund would be required to make a take-over bid that is a “formal bid” for the purposes of applicable securities laws;
- (c) make or hold any investment that would result in the Fund failing to qualify as a “mutual fund trust” for purposes of the Tax Act and will not acquire any property that would be “taxable Canadian property” of the Fund as such term is defined in the Tax Act (if the definition were read without reference to paragraph (b) thereof) (or any amendment to such definition) or other “specified property” as defined in the Tax Proposals released on September 16, 2004; or
- (d) make or hold any investment that would result in the Fund being subject to the tax for specified investment flow-through (“SIFT”) trusts as provided for in section 122 of the Tax Act.

The Fund is not considered to be a mutual fund under the securities legislation of the provinces and territories of Canada. Consequently, the Fund is not subject to the various policies and regulations that apply to conventional mutual funds under such legislation, including National Instrument 81-102 — *Mutual Funds* of the Canadian Securities Administrators. However, the Fund is subject to certain other requirements and restrictions contained in securities legislation, including National Instrument 81-106 — *Investment Fund Continuous Disclosure* and National Instrument 81-107 — *Independent Review Committee for Investment Funds* of the Canadian Securities Administrators, which governs the continuous disclosure and oversight obligations of investment funds, including the Fund.

### **The Trust**

The Trust was established for the purpose of acquiring and holding the Portfolio. The beneficial owner of all of the units of the Trust is the Counterparty or an affiliate of the Counterparty. On Closing, the Counterparty or one of its affiliates may subscribe for additional units of the Trust with an aggregate purchase price of not less than the pre-payment received from the Fund as the payment of its purchase obligations under the amended Forward Agreement. The Trust will use any subscription proceeds to acquire additional securities for the Portfolio.

The Trust generally receives interest income from the corporate bonds included in the Portfolio. The net income of the Trust consists primarily of interest income, less expenses of the Trust. The Trust distributes all of its net income and net realized capital gains earned in each fiscal year.

### **Investment Restrictions of the Trust**

The Trust is subject to certain investment restrictions, which are set out in the Trust’s declaration of trust dated June 29, 2010, and provide that the Trust will not:

- (a) be net short;
- (b) have total exposure exceeding 130%, on a daily marked-to-market basis, with total exposure calculated as the value of the total unhedged long security positions, excluding cash and cash equivalents, plus the absolute value of the total unhedged short positions, divided by net asset value of the Trust;
- (c) borrow money, including pursuant to a loan facility or by purchasing securities on margin, if, immediately following the borrowings, the aggregate amount borrowed would exceed 30% of the net asset value of Trust;
- (d) invest more than 10% of its net assets in the securities of any single issuer (as determined at the time of purchase), other than securities issued or guaranteed by: (i) the Government of Canada, the Government of the United States, a province, state or territory thereof; or (ii) another country provided that such securities are rated AAA by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or the equivalent rating from Moody’s Investors Service, Inc., DBRS Limited, or Fitch Ratings Ltd;

- (e) invest more than 10% of its net assets in illiquid securities (which for these purposes means securities, the resale of which, is restricted by a representation, undertaking or agreement by the Trust (or by the Trust's predecessor in title) or by law);
- (f) have aggregate exposure to securities other than bonds, including credit instruments and credit exchange-traded funds, greater than 20% of the Portfolio's net asset value;
- (g) expose more than 10% of the Portfolio's net asset value through the use of derivatives for purposes other than hedging positions in the Portfolio;
- (h) purchase the securities of an issuer for the purposes of exercising control over management of that issuer or if, as a result of such purchase, the Trust would be required to make a take-over bid that is a "formal bid" for the purposes of applicable securities laws;
- (i) with the exception of securities of the Trust's own issue, purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Portfolio Manager or any of their respective affiliates, any officer, director or shareholder of any of them, any person, trust, firm or corporation managed by Canso or any of their respective affiliates or any firm or corporation in which any officer, director or shareholder of Canso may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless such transaction complies with National Instrument 81-107 — *Independent Review Committee for Investment Funds*;
- (j) make or hold any investments in entities that would be "foreign affiliates" of the Trust for purposes of the Tax Act;
- (k) make or hold any securities in any non-resident trusts, other than "exempt foreign trusts" as defined in proposed subsection 94(1) of the Tax Act set out in draft legislation dated August 27, 2010 (or pursuant to any amendments to such proposals, subsequent provisions enacted into law, or successor provisions thereto);
- (l) at any time, hold any property that is a "non-portfolio property" for the purposes of the provisions of the Tax Act that apply to a SIFT trust, as that term is defined in section 122.1 of the Tax Act, and its unitholders (the "**SIFT Rules**"); or
- (m) make or hold any investments that could require the Trust to include any material amount in its income pursuant to section 94.1 of the Tax Act as modified by the draft legislation released on August 27, 2010 (or pursuant to any amendments to such proposals, subsequent provisions as enacted into law, or successor provisions thereto).

If the percentage restriction in paragraph (b) is exceeded, the Trust will sell Portfolio securities in an orderly manner and use the proceeds therefrom to reduce the outstanding short position. If a percentage restriction on investment or use of assets set forth above as an investment restriction is adhered to at the time of the transaction, later changes to the market value of the investment or the aggregate value of the Trust's assets will not be considered a violation of the investment restrictions or require the elimination of any investment. If the Trust receives from an issuer subscription rights to purchase securities of that issue, and, if the Trust exercises those subscription rights at a time when the Trust's holdings of securities of that issuer would otherwise exceed the limits set forth above, the exercise of those rights will not constitute a violation of the investment restrictions if, prior to the receipt of securities of that issuer on exercise of these rights, the Trust has sold at least as many securities of the same class and value as would result in the investment restriction being complied with. Notwithstanding the foregoing, the restrictions in (c) and (j) to (m) above must be complied with at all times and may necessitate the selling of investments from time to time.

## PORTFOLIO

### Investment Strategy

The Fund seeks to achieve its investment objectives by obtaining exposure to the Portfolio.

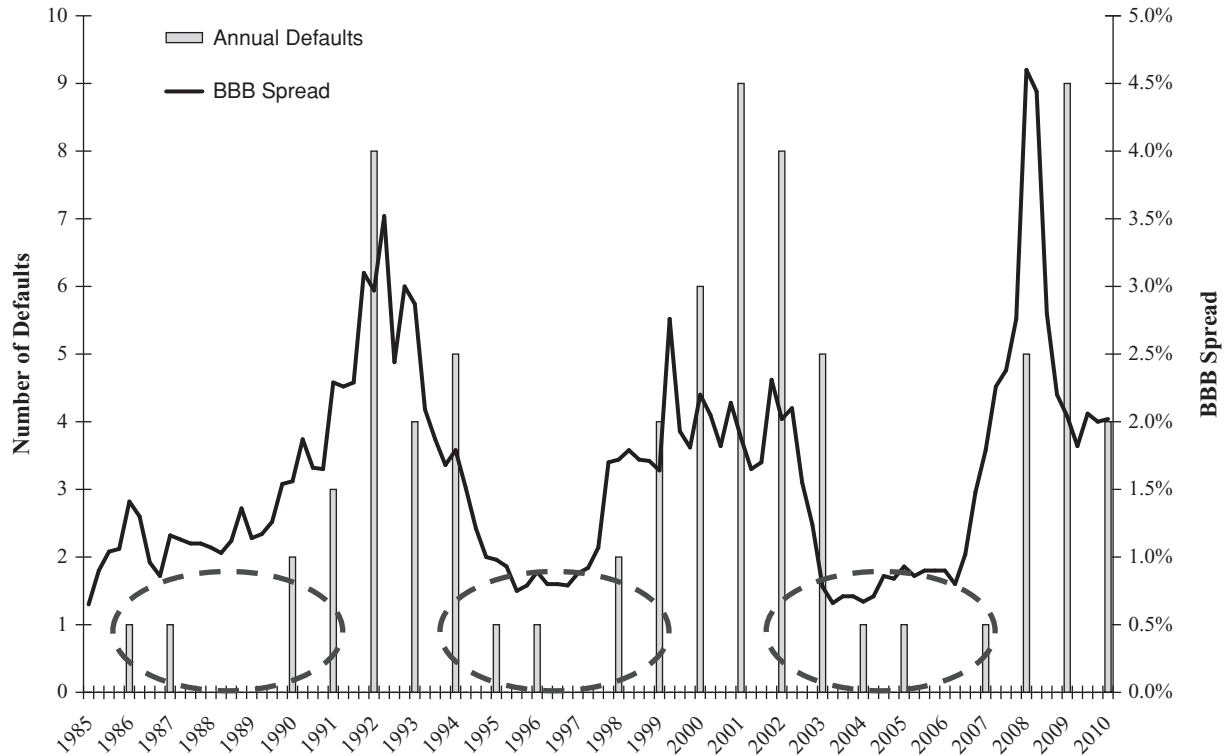
Canso tends to take a “bottom up” approach to portfolio construction, focusing on security selection and then adjusting the portfolio to stay within its duration and term targets. The exposure to credit risk in the Portfolio depends on the phase of the credit cycle and the bottom up valuation of individual securities. When credit spreads are very tight, as they were in 1997 and again in early 2007, Canso’s valuation focus will concentrate the Portfolio on high quality (primarily investment grade) corporate bonds which will reduce its credit risk. When credit spreads are wide, as they were in 2002 and during the “credit crunch” in 2008-2009, Canso will aim to exploit the wide credit spreads to add significant value to the Portfolio in the subsequent credit market rally.

While the Portfolio consists primarily of corporate bonds and other credit instruments, the Portfolio also includes other securities as a result of exchanges, recapitalization and other reorganizations. In addition, the Portfolio includes convertible and distressed bonds. Canso may also purchase additional securities which may include, but are not limited to, equity securities, income trusts and exchange-traded funds. The aggregate exposure to securities other than bonds, other credit instruments and credit exchange-traded funds is limited to 20% of the Portfolio’s net asset value. The Portfolio may from time to time also include a significant amount of cash and/or cash equivalents.

### Credit Cycle

Canso believes that credit markets move in both interest rate and credit cycles. The specific strategy employed by Canso from time to time in managing the Portfolio will depend on the valuation of individual securities and the interest rate and credit cycle. The credit cycle is illustrated in the chart below which indicates how the number of defaults and the credit spread percentages in the corporate bond market change through the credit cycle. The three circled areas in the chart below represent the period of time in the credit cycle when defaults are low, credit spreads are tight and speculation is high when capital is easily available. At this point, Canso believes that as monetary policy tightens, defaults increase and credit spreads widen as investors liquidate their positions. The cycle then repeats itself as indicated in the chart below with a return to lower defaults and tighter credit spreads.

**The Credit Cycle**  
(DEX BBB Bond Spread vs. Number of Canadian Defaults)



Sources: Standard & Poors 2010, TSX Group

- (1) Vertical bars represent the number of Canadian defaults as of December 31 in the applicable year.
- (2) The horizontal line represents the additional yield of issues rated BBB by major credit rating agencies relative to Government of Canada bonds.

Canso varies the exposure of the Portfolio to credit risk over time during the credit cycle according to the opportunities presented in the market using what Canso calls the *Credit Shift* approach. When credit spreads are very tight, as they were in 1997 and again in early 2007, Canso will focus the Portfolio on high quality holdings, as Canso believes that the relatively tight credit spreads on lower quality holdings during these periods do not justify the associated risk of such holdings. As credit spreads increase, Canso will also increase the level of lower quality holding to take advantage of large credit spreads. In Canso's opinion, this approach will add significant value to the Portfolio by protecting the Portfolio in bear markets and generating high returns when they are available.

Canso also believes that interest rates move in cycles, dictated by monetary policy and economic factors. Canso alters the overall duration of the Portfolio of corporate bonds depending on its expectation for interest rates and credit spreads. Canso believes that the strategies allowed in the Portfolio enhance its ability to add value through interest rate hedging and through the short sale of government bonds. Where the investment strategy for the Portfolio suggests only long portfolio holdings, the Trust is able to short government bonds against its long corporate bond holdings. This allows it to benefit from the additional yield and capital gain potential of long term corporate bonds while hedging the high interest rate risk of these positions. While the Portfolio primarily consists of corporate bonds, Canso also holds floating rate bonds, bank loans and other securities with variable rate coupons.

**The Canso Investment Philosophy**

The Canso investment process is focused on fundamental research and security selection. Canso believes that cheap investments are not popular and buyers must do independent research to find undervalued

securities. Canso does not make investment decisions on term or yield curve. Its portfolios are built to maximize the credit spread, credit opportunity and the term cohort where the spread potential is the best.

Canso aggressively manages the average duration of its portfolios as interest rates and credit spreads vary. During times where there is a general spread narrowing environment, such as in 2002 and 2009, Canso intends that the Portfolio will emphasize holdings of a longer term and duration where the potential for upside is the highest. When long credit spreads are not as attractive, such as in 2006 to 2007, Canso intends that the Portfolio will emphasize holdings of a shorter term and duration.

### **The Canso Credit Process**

On an individual issue basis, Canso tends to be “bottom up”, focusing on security selection and then adjusting the Portfolio to stay within Canso’s duration and term targets. Canso does not rely on published credit ratings in making investment decisions. It establishes a proprietary “*Canso Rating*” and “*Maximum Loss*” for investment decision making. Each issue is analyzed on a risk/return basis and a position is established only if the risks are compensated for in the valuation. The portfolios are constructed to maximize yield at an acceptable level of credit risk. Once a position is established, it is held until it becomes overvalued or a better value security is discovered. All securities are purchased with the intention that the position can be held to maturity. The strategy is “buy and hold”, but takes advantage of changing valuations and market opportunity.

Canso aims to include in its managed portfolios the most attractively priced bonds available at any time on a risk/return basis. A database of securities and issuers is maintained, which is constantly reviewed and updated. Canso has a team of five senior credit professionals and four dedicated research analysts as well as four other portfolio managers and analysts who contribute credit research. Each team member has responsibility for research and analysis of a distinct set of issuers, including issuers whose securities Canso does not hold but are monitoring. Each analyst is responsible for assessing corporate developments and reporting these to the other team members. The issuers are assigned to different analysts across industries and securities to ensure that expertise is developed outside of a narrow specialization. This helps to provide a high level of peer review and avoid overvaluation.

The analysis process starts with the individual bond or issuer and each analyst builds a proprietary and fundamental Canso assessment of its risk and return. The financial analysis includes a cash flow sensitivity analysis and ratio analysis on an ongoing basis. The legal structure of issues is determined by reviewing trust indentures to ensure a full understanding of the covenant patterns, structure and security ranking of the issue. The Canso internal research includes direct discussions with management and via quarterly investor conference calls and discussion with investment bankers and lawyers where necessary. External research is used as “intelligence gathering” which includes credit rating services, custom research boutiques and investment dealers.

After the initial review is completed, a team meeting is then held to consider the issue in question. Active participation by all investment staff is encouraged and the meetings are structured to allow full and open discussion. Given the wide range of experience and analytical skill in the Canso professional staff, it is a priority to encourage debate and a complete assessment of important issues. The *Canso Rating* is then assigned to the issuer. The *Canso Rating* is viewed as the probability of default of a security and corresponds to traditional published credit ratings. A *Maximum Loss* is also established for each security. The *Maximum Loss* establishes the loss inherent in a default scenario taking into account the structure, covenants and security for each issue.

Weekly meetings are held to assess new information, although decisions are frequently made on an opportunistic basis between meetings. Issuers held in portfolios are reviewed on a quarterly basis or more frequently as required. When a corporate development arises, the analyst responsible will present their analysis and recommendation to the other team members who provide peer review and input. After the development has been thoroughly reviewed, the portfolio manager makes the investment decision. A valuation is established for each security by referring to other similar issuers, current market pricing and long term normalized valuations. Canso frequently evaluates new issues but does not buy them on initial issue. It maintains research coverage and then may buy these issues when the valuation becomes cheaper. Canso has

developed *ResearchIT*, a proprietary credit research tool which stores all relevant information and analyst notes in a dedicated database.

### **Canso Credit Shift**

The exposure to credit risk in the Portfolio varies over time depending on market opportunities and Canso's proprietary and bottom-up security selection. Canso calls this the *Credit Shift* approach, which Canso feels has added significant value to its portfolios by protecting portfolios in bear markets and generating high returns in attractive credit markets. Canso constructs its portfolios to attempt to maximize risk-adjusted returns without reference to market indices. As an example, prior to the credit crisis in 2007 and 2008, Canso had only 4% of its portfolios in financial issues compared to the DEX Universe Corporate Bond Index weighting of more than 60% in financial issues. Canso also believes that traditional "high yield" mandates are restrictive as they tend to force managers into always holding lower quality securities.

### **Risk Management**

Canso risk management incorporates its proprietary credit techniques. Each portfolio position is formally assessed at purchase and both a *Canso Rating* and *Maximum Loss* is assigned for each issue. Canso established its *Maximum Loss* system in 1998 as a measure of the downside or capital risk of an issue. The potential loss in each security is then compared to the normalized value-added of the portfolio to establish the appropriate position sizing.

In Canso's opinion, the *Canso Credit Shift* orientation reduces the risk of Canso portfolios by reducing credit risk in speculative markets and by making portfolios more diversified by industry, issuer and credit rating.

### *Interest Rate Exposure*

Canso employs investment strategies designed to reduce the risk to the Portfolio of rising interest rates. Such strategies may include holding floating rate securities and shorting government bonds against corporate bonds with similar terms. The use of these strategies can be significant. For example, at March 31, 2011 the Portfolio held hedged long positions, in addition to the net asset value of the Portfolio, that were approximately 131% of the net asset value of the Portfolio. These hedged long positions were offset with short positions that were approximately 131% of the net asset value of the Portfolio.

### *Credit Risk*

Canso believes that credit market events in 2007 and 2008 demonstrated the unreliability of credit ratings insofar as they frequently did not accurately reflect the actual credit risk of a security, even in the case of highly rated securities. Canso does not rely on published credit ratings in making investment decisions. Rather, Canso establishes a proprietary "*Canso Rating*" and "*Maximum Loss*" for each investment decision. In constructing a portfolio, Canso focuses on maximizing risk-adjusted returns, rather than attempting to replicate the credit profile of benchmark indices.

As discussed in the previous section, the current composition of the Portfolio reduces the risk to the Portfolio of rising interest rates. But, the Portfolio is exposed to the potential effects of widening yield spreads on its long positions. If the absolute difference in yield between a long corporate bond and the short government bond with which it is paired increases, the Portfolio would be negatively affected.

### **Current Outlook and Positioning**

While security selection is the major source of differentiation for the Portfolio, the emphasis on the bottom up selection of corporate bonds also offers considerable protection in a rising interest rate environment. Corporate bonds normally have a higher yield than government bonds. This means that over long periods, the extra corporate yield spread will add to the return of the Portfolio and reduce the negative impact of rising interest rates. Corporate bond yield spreads (the extra yield above governments) tend to

reduce or “narrow” with rising interest rates. This results from an improving economy and therefore better credit metrics for corporate issuers.

Currently, Canso believes that there will be a trend towards an improving economy with rising inflation and interest rates. At the same time, Canso believes that the credit yield spread on many long term corporate bonds is attractive on a historical basis. Canso has structured the Portfolio to capture the credit yield spread of certain long-term corporate bonds while hedging interest rate risk by selling similar maturity Government of Canada bonds short. This will help to protect the Portfolio from the adverse effects of rising interest rates on the market values of the long positions.

Canso’s ability to hold a wide variety of securities in the Portfolio gives it additional scope for security selection and allows it to invest in issues that are not as sensitive to rising interest rates. These include:

1. Bonds rated below investment grade;
2. Distressed debt issues;
3. Bank loans;
4. Floating rate issues; and,
5. Convertible bonds.

Canso does not actively conduct duration policy changes on an economic or interest rate forecast basis, but does alter the Portfolio duration to reflect its views on credit spreads and absolute yields. Currently, as an example, Canso is replacing certain fixed rate bonds in the Portfolio with attractive floating rate bonds to obtain a similar cash yield at a much lower interest rate risk.

The Portfolio is also not duration constrained. Canso has the ability to move the Portfolio more into securities that are less sensitive to interest rate changes by holding bonds with shorter maturities or ones with coupon payments that adjust or “float” with interest rate changes.

As of March 31, 2011, the duration of the Portfolio was 2.1 years and the yield-to-maturity of the Portfolio was 7.7%.

### **Portfolio Composition**

The following table sets forth the credit rating diversification of the Portfolio as at March 31, 2011.

**TABLE OF RATING DIVERSIFICATION**  
*(May not add to 100.0% because of rounding)*

<u>Credit Rating</u>	<u>Percent of Total Long Positions</u>
AAA/AA	20.5%
A	28.4
BBB	30.9
Less than BBB	20.1

The following table sets forth the top twenty long positions and the total of all the long positions of the Portfolio as at March 31, 2011.

<u>Security</u>	<u>Quantity (\$ Par Value)</u>	<u>Market Value Plus Accrued Income (\$)</u>	<u>Percent of Portfolio</u>
GE Capital Canada 5.73% Oct 22, 2037	13,700,000	14,197,575.89	9.8%
Hwy 407 Jr Secured 7.125% 26 Jul 2040	10,367,000	13,191,521.81	9.2%
CIBC Dep. Notes 5.0% Sep 10, 2012	12,214,000	12,758,374.47	9.0%
Shaw Communications Inc 6.75% Nov 9, 2039	12,550,000	12,494,541.22	8.6%
Commonwealth Bank of Australia FF 5.57% Oct 26, 2012/2017	11,620,000	12,323,893.44	8.5%
Ford Credit Canada Ltd. 7.5% Aug 18, 2015	11,000,000	11,966,232.93	8.4%
Rogers Communication Inc. 6.11% Aug 25, 2040	11,200,000	10,694,605.68	7.5%
Morgan Stanley 4.90% Feb 23, 2017	10,400,000	10,375,858.24	7.3%
Royal Bank of Scotland Tier 1 6.666% Oct 5, 2017	12,140,000	9,976,045.00	7.1%
Loblaws 6.15% Jan 29, 2035	8,680,000	8,665,319.36	6.1%
HBOS PLC FF 5.109% Jun 21, 2012/2017	10,000,000	8,664,972.60	6.0%
Strait Crossing Dev.(SINK) Inc. 6.17% Sept 15, 2031	8,031,057	7,795,873.44	5.5%
MLFA 2006-CA20 A2 4.659% Jul 12, 2016/2039	7,000,000	7,204,525.53	5.1%
Met Life Global Funding I 3.85% Jan 12, 2016	7,161,000	7,184,039.78	5.0%
TransCanada Pipeline 8.05% Feb 17, 2039	5,000,000	6,939,338.07	4.9%
CIT Group Inc. 7.00% May 1, 2017	6,917,000	6,756,483.90	4.8%
Royal Bank of Scotland 5.37% May 12, 2016	7,637,000	6,465,806.76	4.5%
Kimco North Trust III 5.18% Aug 16, 2013	5,981,000	6,238,563.78	4.4%
Dexia Municipal Agency 5.0% Mar 9, 2020	6,250,000	6,128,311.60	4.3%
Goldman Sachs 4.10% Nov 3, 2015	6,000,000	6,051,713.15	4.2%
Total of Top 20 Long Positions		186,073,596.65	
Total of All Long Positions		327,588,440.78	

The following table sets forth the short positions of the Portfolio as at March 31, 2011.

<u>Security</u>	<u>Quantity (Par Value)</u>	<u>Market Value Plus Accrued Income</u>	<u>Percent of Portfolio</u>
Canada 5.0% Jun 1, 2037	-31,365,000	-38,122,854.48	-26.6%
Canada 5.75% Jun 1, 2033	-21,267,000	-27,940,318.97	-19.5%
Canada 5.75% Jun 1, 2029	-16,904,000	-21,724,378.61	-15.1%
Canada 8.0% Jun 1, 2023	-10,458,000	-15,312,389.94	-10.6%
Canada 4.0% June 1, 2017	-13,850,000	-14,860,529.03	-10.4%
Canada 8% Jun 1, 2027	-9,177,000	-14,251,597.15	-9.9%
Canada 3% Dec 1, 2015	-13,570,000	-13,900,070.08	-9.7%
Genworth MI Canada 5.68% Jun 15, 2020	-10,000,000	-10,314,896.42	-7.2%
Canada 3.75% June 1, 2019	-8,471,000	-8,890,468.39	-6.2%
US Treasury 2.625% Feb 29, 2016	-6,470,000	-6,430,338.79	-4.5%
Canada 2% Jun 1, 2016	-4,816,000	-4,672,765.62	-3.3%
Canada 4% Jun 1, 2041	-4,084,000	-4,320,612.20	-3.0%
Canada 4.25 Jun 1, 2018	-2,029,000	-2,209,143.35	-1.5%
Canada 3.5% Jun 1, 2020	-1,820,000	-1,863,328.47	-1.3%
Total		-184,813,691.50	

## Portfolio Performance

The following table sets forth the Fund's and the Portfolio's relative performance.

	Year-to-date as of March 31, 2011	Since Inception to March 31, 2011 <sup>(1)</sup>
Class A Units of the Fund <sup>(2)(3)</sup> . . . . .	2.4%	5.7%
Class F Units of the Fund <sup>(2)(3)</sup> . . . . .	2.5%	5.9%
DEX Universe Corporate Bond Index . . . . .	0.33%	3.1%
DEX Universe Overall Index . . . . .	-0.27%	2.3%

Notes:

- (1) Period from July 16, 2010 to March 31, 2011.
- (2) Based on net asset value per Unit and assuming that all distributions are re-invested in Units at net asset value per Unit.
- (3) After accounting for fees and expenses of the initial public offering of the Fund.

## Historical Performance of Canso Corporate Value Fund

The historical returns for the Class C units of Canso Corporate Value Fund, an open-ended investment trust managed by Canso which employs a substantially similar investment strategy as the Portfolio, is set out in the table below. Included in the table below are annual calendar year returns, the three month period ending March 31, 2011, the period from the inception date of the Portfolio to March 31, 2011 and the period from the inception of the Canso Corporate Value Fund on December 31, 2000 through March 31, 2011, net of fees, of the Class C units of Canso Corporate Value Fund compared against the returns for the same periods of the DEX Universe Corporate Bond Index.

### Canso Corporate Value Fund Class C Units

	Annual Returns for Years Ending December 31			Net Compound Returns (as of March 31, 2011)	
	Canso Corporate Value Fund — Class C	DEX Universe Corporate Bond Index		Canso Corporate Value Fund — Class C	DEX Universe Corporate Bond Index
2010	12.3%	7.3%	Latest Quarter	1.5%	0.33%
2009	25.2%	16.3%	July 16, 2010 to March 31, 2011	6.3%	3.1%
2008	0.8%	0.2%	Since Inception*	10.5%	6.8%
2007	5.8%	1.8%			
2006	6.0%	4.4%			
2005	6.5%	6.0%			
2004	7.7%	7.3%			
2003	24.1%	8.5%			
2002	10.2%	8.6%			
2001	10.0%	9.3%			

\* Inception date: September 30, 2000

Notes:

- (1) There can be no assurance that the performance of the Portfolio will equal or exceed the performance of Canso Corporate Value Fund. The past performance of the Canso Corporate Value Fund may not be repeated and may not be indicative of future profit performance.

- (2) The Portfolio is subject to the investment restrictions which the Canso Corporate Value Fund is not subject to. See "Investment Restrictions of the Trust".

**The Canso Corporate Value Fund differs from the Fund in certain respects. The Fund may employ leverage and engages in short selling, both of which are strategies that are not employed by the Canso Corporate Value Fund. The Canso Corporate Value Fund, which is generally available only to accredited investors, has a management fee for its Class C Units of 0.50% and no Service Amount, Counterparty Fee or Performance Fee, resulting in a lower overall management expense ratio. Unlike the Fund, the Canso Corporate Value Fund does not pay monthly distributions, nor does it offer the expected tax advantages conferred by the Forward Agreement.**

## REDEMPTION AND CONVERSION

### Annual Redemption Right

Units may be redeemed at the option of Unitholders on the last Business Day (as defined below) in June of each year beginning in 2011 (the "**Annual Redemption Date**"). Units so redeemed will be redeemed at the Redemption Net Assets per Unit (as defined below) on the Annual Redemption Date, less any costs associated with the redemption, including commissions and other such costs, if any, related to the partial settlement of the Forward Agreement to fund such redemption. Units must be surrendered for redemption at least ten Business Days prior to the Annual Redemption Date. Payment of the proceeds of redemption will be made on or before the 15th Business Day of the following month.

"**Redemption Net Assets per Unit**" means the net assets of the Fund on a per Unit basis, calculated in a similar manner to the calculation of the net asset value per Unit except that, for the purposes of calculating the net assets of the Fund, the value of the Forward Agreement will be determined on the basis that any bonds, debentures and other debt obligations that are owned by the Trust will be valued by taking the bid price on the Valuation Date and any short position of the Trust will be valued by taking the ask price on the Valuation Date, calculated on a fully diluted basis, if applicable.

"**Valuation Date**" means, at a minimum, Thursday of each week or, if any Thursday is not a Business Day, the immediately preceding Business Day, and the last Business Day of each month, and includes any other date on which the Manager elects, in its discretion, to calculate the net asset value per Unit.

"**Business Day**" means any day except Saturday, Sunday, a statutory holiday in Toronto, Ontario or any other day on which the TSX is not open for trading.

### Forward Termination Date Redemptions

Unitholders will also have the option to redeem Units for a cash amount equal to 100% of the Redemption Net Assets per Unit (less any costs associated with the redemption, including commissions and other such costs, if any) on the Forward Termination Date, regardless of whether the Manager causes the Fund to enter into a new forward agreement or causes the Fund to hold the Portfolio directly at any time after the Forward Termination Date. Units must be surrendered for redemption at least 10 Business Days prior to the Forward Termination Date. Payment of the proceeds of redemption will be made on or before the 15th Business Day of the following month.

### Monthly Redemption Right

Units may be redeemed at the option of Unitholders on the second last business day of each month (a "**Monthly Redemption Date**"), subject to certain conditions and, in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the last business day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the tenth business day of the month immediately following a Monthly Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances. Unitholders surrendering a Unit for redemption pursuant to the Monthly Redemption Right will receive a redemption price equal to the lesser of (i) 94% of the weighted average trading price on the TSX of a Unit for the 10 trading days immediately preceding such Monthly Redemption Date, and (ii) 100% of (a) the closing price of a Unit on the TSX on such

Monthly Redemption Date if there was a trade on the Monthly Redemption Date and the TSX provides a closing price, (b) the average of the highest and lowest prices of a Unit on the TSX on such Monthly Redemption Date if there was trading on the Monthly Redemption Date and the TSX provides only the highest and lowest prices of the Unit traded on a particular day, or (c) the average of the last bid and the last asking prices of a Unit on the TSX on such Monthly Redemption Date if there was not trading on the applicable Monthly Redemption Date. See “Risk Factors — Significant Redemptions”.

### **Suspension of Redemptions**

The Fund may suspend the redemption of Units or payment of redemption proceeds (a) for the whole or any part of a period during which normal trading is suspended on one or more exchanges on which more than 50% of the securities included in the Canadian Securities Portfolio (by value) are listed and traded, and if the securities are not traded on any other exchange that represents a reasonable, practical alternative for the Fund or (b) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Manager to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension, but for which payment has not been made, as well as to all requests received while the suspension is in effect. In such circumstances, all Unitholders will have, and will be advised that they have, the right to withdraw their requests for redemption. The suspension will terminate in any event on the first Business Day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager on behalf of the Fund will be conclusive.

## **FEES AND EXPENSES**

### **Expenses of the Offering**

The expenses of the Offering (including the costs of preparing, printing and mailing this short form prospectus, legal expenses, expenses of the auditor and translation fees), which are estimated to be \$300,000, will be paid out of the gross proceeds of the Offering, subject to a maximum of 1.5% of the gross proceeds of the Offering. In addition, the Agents’ fee will be paid to the Agents from the gross proceeds of the Offering as described under “Plan of Distribution”.

### **Management Fee**

The Manager receives a management fee from the Fund equal to 0.25% per annum of the net asset value of the Fund, calculated and payable monthly in arrears, plus applicable taxes, plus a service amount calculated and paid as soon as practicable after the end of each calendar quarter, equal to 0.40% per annum of the net asset value attributable to the Class A Units, plus applicable taxes.

The Manager also receives a management fee from the Trust equal to 0.50% of the net asset value of the Trust, calculated and payable monthly in arrears, plus applicable taxes.

### **Counterparty Fees**

The Fund pays to the Counterparty an amount under the Forward Agreement, calculated daily and payable monthly in arrears, of 0.30% per annum of the notional amount of the Forward Agreement (being effectively equal to the net asset value of the Trust).

### **Ongoing Expenses**

The Fund and the Trust pay for all of their respective expenses incurred in connection with their operation and administration, as more particularly described in the current AIF, which is incorporated by reference in this short form prospectus.

## Performance Fee

Subject to certain terms and conditions more fully described below, the Manager is entitled to receive a performance fee (the “**Performance Fee**”) equal to 20% of the Trust’s outperformance of the DEX Universe Corporate Bond Index, after fees and expenses. The Performance Fee is only payable if the net asset value per unit of the Trust exceeds the highest level previously reached for calculation of the Performance Fee and the net asset value per unit of the Trust exceeds the cumulative performance of the DEX Universe Corporate Bond Index during the same period of time, all as more fully described below.

From and after the date (the “**Threshold Date**”) that the net asset value per unit of the Trust is equal to or greater than 106% of the net asset value of such unit on the date of its issue (the “**Threshold Amount**”), the Manager may receive a Performance Fee. No Performance Fee will be received by the Manager unless the net asset value per unit of the Trust is greater than or equal to the Threshold Amount.

The Performance Fee shall be calculated and accrue monthly and be paid annually, if earned, after the Threshold Date. The amount of the Performance Fee, if any, shall be determined as of December 31 of each year following the Threshold Date (the “**Determination Date**”). If the Determination Date falls on the same date that the Fund is terminated, the Manager, acting reasonably, will select another date within 10 Business Days of the termination date of the Fund, as the Determination Date.

Any future performance fee in respect of Units issued pursuant to the Offering will only accrue and be payable in respect of distributions and net asset value growth occurring after the Closing.

The Performance Fee for a given Relevant Period will be an amount for each unit of the Trust then outstanding equal to 20% of  $A \times B$ , where:

A = The amount by which the Canso Performance exceeds the greater of (i) the Index Performance during the Relevant Period, and (ii) zero; and

B = The net asset value per unit of the Trust at the Determination Date;

provided that no Performance Fee shall be payable if the Canso Performance is negative during the Relevant Period or during the fiscal year ending on the Determination Date, and further provided that after the payment of the Performance Fee, in any fiscal year, the return to a unitholder of the Trust will not be negative.

For purposes of calculating the Performance Fee:

- (1) “**Canso Performance**” means a fraction, the numerator of which is: (i) the net asset value per unit of the Trust (calculated without taking into account the Performance Fee) as at the Determination Date, plus (ii) the distributions paid on such unit since the Benchmark Date, less (iii) the net asset value per unit of the Trust as at the Benchmark Date, and the denominator of which is the net asset value per unit of the Trust as at the Benchmark Date.
- (2) “**Index Performance**” means the sum of (a) a fraction, expressed as a percentage, the numerator of which is (i) the level of the DEX Universe Corporate Bond Index as at the Determination Date, less (ii) the level of the DEX Universe Corporate Bond Index as at the Benchmark Date, and the denominator of which is the level of the DEX Universe Corporate Bond Index as at the Benchmark Date, and (b) 1% for each fiscal year included in the Relevant Period (the “**Adjustment Factor**”).
- (3) “**Benchmark Date**” means initially the Threshold Date until payment of a Performance Fee, following which, the Benchmark Date shall be the date of the Determination Date on which the most recent Performance Fee is paid.
- (4) “**Relevant Period**” is the period from but excluding the Benchmark Date to and including the Determination Date.

For the purposes of calculating the Performance Fee, the Adjustment Factor will be pro rated for any Relevant Period that includes a partial fiscal year.

Where Units of the Fund are redeemed on a particular Monthly Redemption Date during a fiscal year of the Fund (other than on the last Business Day of a fiscal year), the Trust shall pay Canso a Performance Fee in respect of any concurrently redeemed units of the Trust determined as though the Monthly Redemption Date was a Determination Date. The Adjustment Factor will be pro rated for any partial fiscal year. Any Performance Fee so determined (the “**Interim Performance Fees**”) shall be payable to the Manager on the applicable Redemption Date and will be subtracted from the redemption proceeds.

As of the date hereof, no Performance Fee has been paid to the Manager.

### CAPITALIZATION TABLE

The following table sets forth the unaudited capitalization of the Fund before and after giving effect to the Offering, assuming a maximum total Offering of 5,332,840 Class A Units and 2,036,264 Class F Units and assuming that the Over-Allotment Option is exercised in full:

<u>Designation</u>	<u>Authorized as at May 16, 2011</u>	<u>Outstanding as at December 31, 2010</u>	<u>Outstanding as at March 31, 2011</u>	<u>Outstanding as at May 16, 2011 after giving effect to the Offering</u>
Class A Units . . . . .	Unlimited	12,517,647	12,617,110	18,749,876
Class F Units . . . . .	Unlimited	2,131,299	2,035,049	4,071,313

### PRICE RANGE, NET ASSET VALUE, TRADING VOLUME OF UNITS AND DISTRIBUTIONS

The Class A Units trade on the TSX under the trading symbol, “PBY.UN”. On May 16, 2011, the closing price of the Class A Units on the TSX was \$9.91 per Class A Unit and the net asset value per Class A Unit was \$9.70 and the net asset value per Class F Unit was \$10.04. The following table sets forth the closing market price and trading volume of the Units on the TSX since the completion of its initial public offering on July 16, 2010. All such information, other than the net asset value per Unit and distributions per Unit, was obtained from Bloomberg or the TSX and the Fund, the Manager and the Agents do not assume any responsibility for the accuracy of such information.

<u>Period</u>	<u>Net Asset Value per Class A Unit</u>		<u>Net Asset Value per Class F Unit</u>		<u>Distribution per Unit</u>	<u>Closing Market Price of Class A Units</u>		<u>Volume</u>
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>		<u>Low</u>	<u>High</u>	
<b>2011</b>								
May 1-16 . . . . .	\$9.70	\$9.71	\$10.04	\$10.05	N/A	\$ 9.90	\$10.00	91,990
April . . . . .	\$9.64	\$9.73	\$ 9.97	\$10.07	\$0.04166	\$ 9.85	\$10.04	211,603
March . . . . .	\$9.58	\$9.67	\$ 9.91	\$10.01	\$0.04166	\$ 9.75	\$10.02	329,202
February . . . . .	\$9.64	\$9.67	\$ 9.97	\$10.00	\$0.04166	\$ 9.84	\$10.02	256,313
January . . . . .	\$9.59	\$9.69	\$ 9.90	\$10.01	\$0.04166	\$10.00	\$10.14	227,426
<b>2010</b>								
December . . . . .	\$9.54	\$9.60	\$ 9.85	\$ 9.92	\$0.04166	\$10.00	\$10.75	220,775
November . . . . .	\$9.60	\$9.70	\$ 9.92	\$10.02	\$0.04166	\$ 9.96	\$10.13	303,808
October . . . . .	\$9.57	\$9.65	\$ 9.89	\$ 9.97	\$0.04166	\$ 9.96	\$10.10	290,437
September . . . . .	\$9.40	\$9.62	\$ 9.71	\$ 9.94	\$0.04166	\$10.05	\$10.29	247,335
August . . . . .	\$9.44	\$9.49	\$ 9.74	\$ 9.79	N/A	\$10.05	\$10.44	296,041
July . . . . .	\$9.40	\$9.47	\$ 9.69	\$ 9.77	N/A	\$10.00	\$10.25	186,366

### PRIOR SALES

Other than the Units issued in connection with the initial public offering of the Fund, the Fund has not issued any Units in the 12-month period preceding the date of this short form prospectus.

## **RISK FACTORS**

Prospective investors should carefully consider, in addition to the information contained in this short form prospectus and the information incorporated by reference herein, the risks described in the AIF which is incorporated by reference herein.

Certain risk factors relating to the Fund, the Trust and the Units are described below. As a result of the Forward Agreement, Unitholders are exposed to risks relating to the Trust. Additional risks and uncertainties not currently known to the Manager, or that are currently considered immaterial, may also impair the operations of the Fund or the Trust. If any such risk actually occurs, the business, financial condition, liquidity or results of operations of the Fund, and the ability of the Fund to make distributions on the Units, could be materially adversely affected.

### **No Assurance in Achieving Investment Objectives or Making Distributions**

There is no assurance that the Fund or the Trust will be able to achieve their respective investment objectives. Furthermore, there is no assurance that the Fund will be able to pay distributions in the short or long term, nor is there any assurance that the net asset value of the Fund will appreciate or be preserved. By virtue of the Forward Agreement, changes in the relative weightings between the various types of securities making up the Portfolio can affect the overall yield to Unitholders.

### **Trading Price of Class A Units**

The Class A Units may trade in the market at a discount to the net asset value per Class A Unit and there can be no assurance that the Class A Units will trade at a price equal to the net asset value per Class A Unit.

### **Class F Units**

Class F Units are not listed on any stock exchange. Liquidity for the Class F Units will largely be obtained by means of conversion into Class A Units and the sale of those Class A Units through the facilities of the TSX.

### **Loss of Investment**

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some of their investment.

### **General Risks of Investing in Corporate Bonds and Other Credit Instruments**

Generally, corporate bonds and other credit instruments will decrease in value when interest rates rise and increase in value when interest rates decline. The net asset value of the Trust will fluctuate with interest rate changes and the corresponding changes in the value of the securities in the Portfolio. The value of corporate bonds and other credit instruments is also affected by the risk of default in the payment of interest and principal and price changes due to such factors as general economic conditions and the issuer's creditworthiness. Corporate bonds and other credit instruments may not pay interest or their issuers may default on their obligations to pay interest and/or principal amounts. Certain of the corporate bonds and other credit instruments that may be included in the Portfolio from time to time may be unsecured, which will increase the risk of loss in case of default or insolvency of the issuer. Global financial markets have experienced a significant repricing in recent months that has contributed to a reduction in liquidity and the availability of credit enhancing the likelihood of default by some issuers due to diminishing profitability or an inability to refinance existing debt.

### **Fluctuation in Value of Portfolio Securities**

The value of the Units will vary according to the value of the securities included in the Portfolio by virtue of the Forward Agreement. The value of the securities included in the Portfolio will be influenced by factors which are not within the control of the Trust or the Manager, including the financial performance of the respective issuers, operational risks relating to the specific business activities of the respective issuers, quality of assets owned by the respective issuers, commodity prices, risks associated with issuers operating outside of

Canada, exchange rates, interest rates, environmental risks, political risks, issues relating to government regulation, credit markets and other financial market conditions. As a result of its exposure to the Portfolio, the Fund will also be subject to the risks inherent in investments in equity securities, including the risk that the financial condition of the issuers in which the Trust invests may become impaired or that the general condition of the stock markets may deteriorate. Equity securities are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in, and perceptions of, the issuers change.

### **Recent Global Financial Developments**

The revaluation of assets on the balance sheets of international financial institutions and related securities has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as global governments are attempting to restore liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not materially and adversely affect economies around the world in the near to medium term. Some of these economies may experience significantly diminished growth or a recession. These market conditions and unexpected volatility or illiquidity in financial markets may also adversely affect the prospects of the Trust and the value of the securities included in the Portfolio.

### **Use of Short Selling**

Selling securities short may result in the loss of an amount greater than the amount invested since there is theoretically no limit to the price to which the securities that have been sold short may rise before the short position is closed out. In addition, the supply of securities which can be borrowed in order to maintain short positions fluctuates from time to time. There is no assurance that the lender of securities or financial instruments will not require the security to be repaid before the Manager wishes to do so, thereby requiring the Trust to borrow the security elsewhere or purchase the security in the market at an unattractive price. In addition, the borrowing of securities entails the payment of a borrowing fee. There is no assurance that any borrowing fee will not increase during the borrowing period, adding to the expense of a short sale strategy. In addition, there is no assurance that a security sold short can be repurchased due to supply and demand constraints in the marketplace.

Canso uses short selling to reduce the risk to the Portfolio of rising interest rates by shorting government bonds against corporate bonds with similar terms. As a result, the Portfolio is exposed to the potential effects of widening yield spreads on its long positions. If the absolute difference in yield between a long corporate bond and the short government bond with which it is paired increases, the Portfolio would be negatively affected.

### **Forward Agreement Counterparty Risk**

In entering into the Forward Agreement, the Fund is exposed to the unsecured credit risk associated with the Counterparty. The Counterparty may have relationships with any or all of the issuers whose securities are included in the Portfolio which could conflict with the interests of the Fund. In addition, the possibility exists that the Counterparty will default on its payment obligations under the Forward Agreement or that the proceeds from the sale of Canadian securities acquired pursuant to the Forward Agreement will be used to satisfy other liabilities of the Fund, which liabilities could include obligations to third-party creditors in the event the Fund has insufficient assets, excluding the proceeds from the sale of Canadian securities acquired pursuant to the Forward Agreement, to pay its liabilities. Unitholders will have no recourse or rights against the assets of the Trust or the Counterparty and the Counterparty is not responsible for the returns of the Portfolio.

### **Composition of Portfolio**

The composition of the securities included in the Portfolio taken as a whole may vary widely from time to time and may be concentrated by commodity, industry or geography, resulting in the securities included in

the Portfolio being less diversified than anticipated. Overweighting investments in certain sectors or industries involves risk that the Trust will suffer a loss because of declines in the prices of securities in those sectors or industries. Although Canso believes it is unlikely, at any time, the Portfolio could potentially consist of 100% non-investment grade bonds.

### **Interest Rate Fluctuations**

It is anticipated that the market price for the Units at any given time will be affected by the level of interest rates prevailing at such time by virtue of the Forward Agreement. A rise in interest rates may have a negative effect on the market price of the Units. Unitholders who wish to redeem or sell their Units may, therefore, be exposed to the risk that the redemption price or sale price of the Units will be negatively affected by interest rate fluctuations.

### **Illiquid Securities**

There is no assurance that an adequate market will exist for the securities included in the Portfolio and it cannot be predicted whether the securities included in the Portfolio will trade at a discount to, a premium to, or at their respective par or net asset values.

### **Use of Derivatives**

The Trust may invest in and use derivative instruments for hedging purposes to the extent considered appropriate by the manager of the Trust taking into account factors including transaction costs. There can be no assurance that the Trust's hedging strategies will be effective. The Trust is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) may be unable to meet its obligations. In addition, there is a risk of loss by the Trust of margin deposits in the event of the bankruptcy of the dealer with whom the Trust has an open position in an option or futures or forward contract. Derivative instruments traded in foreign markets may offer less liquidity and greater credit risk than comparable instruments traded in North American markets. The ability of the Trust to close out its positions may also be affected by exchange imposed daily trading limits on options and futures contracts. If the Trust is unable to close out a position, it will be unable to realize its profit or limit its losses until such time as the option becomes exercisable or expires or the futures or forward contract terminates, as the case may be. The inability to close out options, futures and forward positions could also have an adverse impact on the Trust's ability to use derivative instruments to effectively hedge the Portfolio.

### **Currency Exposure**

As the Portfolio will at times be invested in securities traded in foreign currencies, the net asset value of the Fund, when measured in Canadian dollars, will, to the extent this has not been hedged against, be affected by changes in the value of the foreign currencies relative to the Canadian dollar. The Trust may not be fully hedged at all times. Accordingly, no assurance can be given that the Fund will not be adversely impacted by changes in foreign exchange rates or other factors. The use of hedges, if used, involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Manager's assessment of certain market movements is incorrect, the risk that the use of hedges could reduce total returns or result in losses greater than if the hedging had not been used. In addition, the costs associated with a hedging program may outweigh the benefits of the arrangements in such circumstances.

### **Use of a Prime Broker to Hold Assets**

Some or all of the assets of the Trust may be held in one or more margin accounts due to the fact that the Trust will sell securities short. The margin accounts may provide less segregation of customer assets than would be the case with a more conventional custody arrangement. The prime broker may also lend, pledge or hypothecate the assets of the Trust in such accounts, which may result in a potential loss of such assets. As a result, the assets of the Trust could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time if the prime broker experiences financial difficulty. In such case, the Trust may

experience losses due to insufficient assets of the prime broker to satisfy the claims of its creditors, and adverse market movements while its positions cannot be traded, and which would adversely affect the total return to the Fund.

### **Securities Lending**

The Trust may engage in securities lending. Although the Trust will receive collateral for the loans and such collateral will be marked-to-market, the Trust will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral proves to be insufficient to reconstitute the portfolio of loaned securities.

### **Use of Leverage**

The Trust may utilize a loan facility or other forms of leverage in order to implement its investment strategy. While leverage may increase the potential for total returns, it may also potentially increase losses. If income and appreciation on investments made with borrowed funds are less than the cost of leverage, the value of the Trust's net assets will decrease. Any event which adversely affects the value of an investment held by the Trust will be magnified to the extent leverage is employed. Many leveraged transactions involve the posting of collateral. Increases in the amount of margin or similar payments could result in the need for trading at times or prices that are disadvantageous to the Trust and which could result in a loss for the Trust.

### **Reliance on Canso**

Canso will manage the Portfolio held by the Trust in a manner consistent with the investment objectives and the investment restrictions of the Trust. The Fund will gain exposure to the Portfolio through the Forward Agreement. The officers of Canso who will be primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios, however, there is no certainty that such individuals, including John Carswell, will continue to be employees of Canso until the termination of the Trust.

### **Taxation of the Fund**

In determining its income for tax purposes, the Fund will not treat the acquisition of Canadian Securities Portfolio securities under the Forward Agreement as a taxable event and will treat gains or losses on any disposition of Canadian Securities Portfolio securities acquired under the Forward Agreement as capital gains and capital losses for the purposes of the Tax Act. No advance income tax ruling has been requested or obtained from the Canada Revenue Agency (the "CRA") regarding the timing or characterization of the Fund's income, gains or losses. If, contrary to the advice of counsel to the Fund or as a result of a change of law, the acquisition of Canadian Securities Portfolio securities under the Forward Agreement was a taxable event or if gains realized on the sale of Canadian Securities Portfolio securities acquired under the Forward Agreement were treated other than as capital gains on the sale of such securities (by virtue of the application of the general anti-avoidance rule or otherwise), after-tax returns to Unitholders would be reduced.

On October 31, 2003 the Department of Finance (Canada) announced a Tax Proposal (as hereinafter defined) relating to the deductibility of losses under the Tax Act. Under this Tax Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If the Tax Proposal were to apply to the Fund or the Trust, deductions that would otherwise reduce the Fund's or the Trust's taxable income could be denied, with after-tax returns to the Unitholders reduced as a result. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace this Tax Proposal would be released for comment. No such alternative proposal has been received to date. There can be no assurance that such alternative proposal will not adversely affect the Fund.

## **No Ownership Interest**

An investment in Units does not constitute an investment by Unitholders in the securities included in the Portfolio. Unitholders will not own the securities held by the Fund or the Trust by virtue of owning Units.

## **Changes in Legislation**

There can be no assurance that certain laws applicable to the Fund, including income tax laws, government incentive programs and the treatment of mutual fund trusts under the Tax Act, will not be changed in a manner which adversely affects the Fund, the Units or Unitholders.

## **Conflicts of Interest — the Manager**

The Manager and its directors and officers engage in the promotion, management or investment management of one or more funds or trusts with similar investment objectives to those of the Fund and the Trust. Although none of the directors or officers of the Manager will devote his or her full time to the business and affairs of the Fund and the Trust, each director and officer of the Manager will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Fund, the Trust and the Manager.

## **Conflicts of Interest — the Trust**

Canso and its directors and officers engage in the promotion, management or investment management of one or more funds or trusts with similar investment objectives to those of the Fund and the Trust. Although none of the directors or officers of Canso will devote his or her full time to the business and affairs of the Fund and the Trust, each director and officer of Canso will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Fund, the Trust and Canso.

## **Status of the Fund**

As the Fund is not a mutual fund as defined under Canadian securities laws, the Fund is not subject to the Canadian policies and regulations that apply to open-end mutual funds.

## **Significant Redemptions**

In part, the purpose of the redemption rights granted to Unitholders is to reduce the extent to which Class A Units trade at a substantial discount. While the redemption rights aim to provide investors with liquidity, there can be no assurance that they will reduce trading discounts. Furthermore, if a substantial number of Units are redeemed, the number of Units outstanding could be significantly reduced with the effect of decreasing liquidity of the Units in the market. In addition, the expenses of the Fund would be spread among fewer Units resulting in a lower net asset value per Unit than if there were fewer redemptions. If, as a result of significant redemptions, the Manager determines that it is in the best interests of Unitholders to terminate the Fund, the Manager could cause the termination of the Fund without Unitholder approval.

## **Not a Trust Company**

The Fund is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under provisions of that statute or any other legislation.

## **Nature of Units**

The Units are neither fixed income nor equity securities. The Units represent a fractional interest in the net assets of the Fund. Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP, counsel to the Fund, and McCarthy Tétrault LLP, counsel to the Agents, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by a Unitholder who acquires Units pursuant to this short form prospectus. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length and is not affiliated with the Fund, and holds Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them and all other "Canadian securities" owned or subsequently acquired treated as capital property by making the irrevocable election in accordance with the Tax Act. This summary is based on the assumptions that the Canadian Securities Portfolio will consist solely of "Canadian securities" for purposes of the Tax Act and that the Fund will elect in accordance with the Tax Act to have each of its Canadian securities treated as capital property.

This summary is based on the current provisions of the Tax Act, counsel's understanding of the current published administrative policies and assessing practices of the CRA, and all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account provincial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on an investor's particular circumstances, including the province or provinces in which the investor resides or carries on business. Counsel expresses no views herein in respect of the deductibility of interest on any funds borrowed by a Unitholder to purchase Units. **This summary is of a general nature only and is not intended to be legal or tax advice to any Unitholder. Unitholders should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.**

### Status of the Fund

This summary is based on the assumptions that the Fund will qualify, at all times, as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act. To qualify as a mutual fund trust, the Fund must, among other things, comply on a continuous basis with certain minimum requirements respecting the ownership and dispersal of Units. Provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act, or in the case the Class A Units, such Class A Units are listed on a designated stock exchange (which currently includes the TSX), the Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans, and tax-free savings accounts ("**Registered Plans**").

### Taxation of the Fund

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amount paid or payable to Unitholders in the year. Counsel has been advised that the Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its income, including its net realized capital gains, it will generally not be liable in such year for income tax under Part I of the Tax Act, subject to the possible application of the SIFT Rules.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of Units during the year (a “capital gains refund”). The capital gains refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the sale of Canadian Securities Portfolio securities acquired by the Fund under the Forward Agreement in connection with a redemption of Units.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income in accordance with the detailed rules in the Tax Act. The Fund may deduct the costs and expenses of the Offering paid by the Fund and not reimbursed at a rate of 20% per year, pro-rated where the Fund’s taxation year is less than 365 days.

The Fund will not realize any income, gain or loss as a result of entering into the Forward Agreement and no amount will be included in computing the Fund’s income as a result of the acquisition of Canadian Securities Portfolio securities under the Forward Agreement. The cost to the Fund of such Canadian Securities Portfolio securities will be that portion of the aggregate amount paid by the Fund under the Forward Agreement attributable to such securities and any other costs of acquisition. Provided the Fund elects in accordance with the Tax Act to have each of its “Canadian securities” treated as capital property, gains or losses realized by the Fund on the sale of Canadian Securities Portfolio securities acquired under the Forward Agreement will be taxed as capital gains or capital losses.

On October 31, 2003 the Department of Finance announced a Tax Proposal relating to the deductibility of losses under the Tax Act. Under this Tax Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If such Tax Proposal were to apply to the Fund, deductions that would otherwise reduce the Fund’s taxable income could be denied, with after-tax returns to the Unitholders reduced as a result. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the Tax Proposals of October 31, 2003 would be released for comment. To date, no such alternative proposal has been released.

Provided the Fund complies with its investment restrictions, it will not be liable for tax pursuant to the SIFT Rules.

### **Taxation of Unitholders**

Subject to the possible application of the SIFT Rules, a Unitholder will generally be required to include, in computing income for a taxation year, the amount of the Fund’s net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year. The non-taxable portion of the Fund’s net realized capital gains paid or payable (whether in cash or in Units) to a Unitholder in a taxation year will not be included in the Unitholder’s income for the year. Any other amount in excess of the Fund’s net income for a taxation year paid or payable to the Unitholder in the year will not generally be included in the Unitholder’s income. Such amount, however, will generally reduce the adjusted cost base of the Unitholder’s Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder’s adjusted cost base will be increased by the amount of such deemed gain. Provided that appropriate designations are made by the Fund, such portion of the net realized taxable capital gains of the Fund as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act.

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholders’ proceeds of disposition (net of any reasonable costs of disposition) exceed (or are less than) the adjusted cost base of the Unit. For the purpose of determining the adjusted cost base to a Unitholder of a Unit, when a Unit is acquired, the cost of the newly acquired Unit will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property that were acquired before

that time. For this purpose, the cost of Units that have been issued as an Additional Distribution will generally be equal to the amount of the net income or capital gain distributed to the Unitholder in Units.

One-half of any capital gain (“**taxable capital gain**”) realized on the disposition of Units will be included in the Unitholder’s income and one-half of any capital loss realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

In general terms, net income of the Fund paid or payable to a Unitholder that is designated as net realized taxable capital gains or taxable capital gains realized on the disposition of Units may increase the Unitholder’s liability for alternative minimum tax.

Based in part on the current published administrative policies and assessing practices of the CRA, a conversion of Class F Units into Class A Units will not constitute a disposition of the Class F Units for the purposes of the Tax Act.

### **Taxation of Registered Plans**

Amounts of income and capital gains distributed by the Fund to a Registered Plan are generally not taxable under Part I of the Tax Act while retained in the Registered Plan, provided that the Units are qualified investments under such a Registered Plan. Unitholders should consult with their own advisors regarding the tax implications of establishing, amending, terminating or withdrawing amounts from a Registered Plan.

### **Taxation Implications of the Fund’s Distribution Policy**

The net asset value per Unit will reflect any income and gains of the Fund that have accrued or have been realized but have not been made payable at the time the Units are acquired. Accordingly, a Unitholder who acquires Units may become taxable on the Unitholder’s share of income and gains of the Fund that accrued before the Units were acquired, notwithstanding that such amounts will have been reflected in the price paid by the Unitholder for the Units. Since the Fund makes monthly distributions, the consequences of acquiring Units late in a calendar year will generally depend on the amount of the monthly distributions throughout the year and whether an Additional Distribution is necessary late in the calendar year to ensure that the Fund will not be liable for income tax on such amounts under the Tax Act.

## **ELIGIBILITY FOR INVESTMENT**

In the opinion of Stikeman Elliott LLP, counsel for the Fund, and McCarthy Tétrault LLP, counsel for the Agents, provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act or in the case of the Class A Units, such Class A Units are listed on a designated stock exchange (which currently includes the TSX), the Units will be qualified investments under the Tax Act for trusts governed by Registered Plans.

Notwithstanding the foregoing, if the Units are “prohibited investments” for the purposes of a tax-free savings account, a Unitholder will be subject to a penalty tax as set out in the Tax Act. A “prohibited investment” includes a unit of a trust which does not deal at arm’s length with the holder, or in which the holder has a significant interest, which, in general terms, means the ownership of 10% or more of the value of the Fund’s outstanding units by the holder, either alone or together with persons with whom the holder does not deal at arm’s length. Tax Proposals may contain similar rules with respect to annuitants of registered retirement savings plans and registered retirement income funds. Unitholders are advised to consult their own tax advisors in this regard.

## **TRUSTEE, CUSTODIAN, AUDITOR, TRANSFER AGENT AND PROMOTER**

### **The Trustee**

BNY Trust Company of Canada is the trustee of the Fund. The Trustee is responsible for certain aspects of the administration of the Fund as described in the Declaration of Trust. The address of the Trustee is 4 King Street West, Suite 1101, Toronto, Ontario, M5H 1B6.

### **The Custodian**

CIBC Mellon Trust Company at its office in Toronto, Ontario is separately appointed as the custodian of the assets of the Fund and the Trust. The Custodian, directly or through sub-custodians, is responsible for safekeeping of all the investments and other assets of the Fund and the Trust delivered to it (but not those assets of the Fund or the Trust not directly controlled or held by the Custodian, as the case may be). Subject to certain exemptions as set out in the Custodian Agreement, the Custodian is not responsible for any ongoing assessment, adequacy or monitoring of or any liability for any loan or credit facility or any liability for holding or controlling any property of the Fund or the Trust pledged to a counterparty and not directly held by the Custodian. In addition, the Custodian will calculate the net asset value of the Fund.

### **Auditor**

The auditor of the Fund is Deloitte & Touche LLP, at its offices in Toronto, Ontario.

### **Transfer Agent and Registrar**

CIBC Mellon Trust Company will act as transfer agent and registrar for the Units and will maintain the securities registers at its office in Toronto, Ontario.

### **The Promoter**

The Manager may be considered a promoter of the Fund by reason of its initiative in forming and establishing the Fund and taking the steps necessary for the public distribution of the Class A Units. The Manager will not receive any benefits, directly or indirectly, from the issuance of Units offered hereunder other than amounts paid to the Manager as described under "Fees and Expenses".

## **DESCRIPTION OF UNITS**

### **The Units**

The beneficial interests in the net assets and net income of the Fund are divided into units of two classes, Class A Units and Class F Units. The Fund is authorized to issue an unlimited number of Units of each class. The Class F Units are designed for fee-based and/or institutional accounts and differ from the Class A Units in the following ways: (i) Class F Units are not listed on a stock exchange; (ii) the Agents' fees payable on the issuance of the Class F Units are lower than those payable on the issuance of the Class A Units; and (iii) the management fee payable in respect of the Class A Units is reduced by an amount equal to the Service Amount (as defined herein). Accordingly, the net asset value per Unit of each class will not be the same as a result of the different fees allocable to each class of Units.

Each Unit entitles the holder to the same rights and obligations as a Unitholder and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of Units. Each Unitholder is entitled to one vote for each Unit held and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net realized capital gains, if any. On the redemption of Units, however, the Fund may in its sole discretion, designate payable to redeeming Unitholders, as part of the redemption price, any capital gains realized by the Fund in the taxation year in which the redemption occurred. On termination or liquidation of the Fund, the Unitholders of record are entitled to receive on a pro rata basis all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. Unitholders will have no voting rights in respect of securities held by the Fund.

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (i) the trust is a reporting issuer under the *Securities Act* (Ontario) and (ii) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the *Securities Act* (Ontario) and it is governed by the laws of Ontario by virtue of the provisions of the Declaration of Trust.

### **Resale of Units Tendered for Redemption**

The Fund entered into a Recirculation Agreement with RBC Dominion Securities Inc. ("RBC DS") dated July 16, 2010 whereby RBC DS agreed to use commercially reasonable efforts to find purchasers for any Class A Units tendered for redemption up to two Business Days prior to the relevant Redemption Date. The Fund may, but is not obliged to, require RBC DS to seek such purchasers. In such event, the amount to be paid to the Unitholder on the Redemption Date will be an amount equal to the proceeds of the sale of the Class A Units, less any applicable commission payable to RBC DS. Such amount shall not be less than the amount that a Unitholder would have been otherwise entitled to receive.

### **Conversion of Class F Units**

A holder of Class F Units may convert Class F Units into Class A Units and it is expected that liquidity for the Class F Units will be largely obtained by means of conversion into Class A Units and the sale of those Class A Units through the facilities of the TSX. Class F Units may be converted in any month on the second last Business Day of such month by delivering a notice and surrendering such Class F Units by 5:00 p.m. (Toronto time) at least 10 Business Days prior to the Conversion Date. For each Class F Unit so converted, a holder will receive that number of Class A Units equal to the Net Asset Value per Class F Unit as of the close of trading on the Conversion Date divided by the Net Asset Value per Class A Unit as of the close of trading on the Conversion Date. No fractions of Class A Units will be issued upon any conversion of Class F Units; any fractional amounts will be rounded down to the nearest whole number of Class A Units. Based in part on the current published administrative policies and assessing practices of the CRA, a conversion of Class F Units into Class A Units will not constitute a disposition of the Class F Units for the purposes of the Tax Act.

### **USE OF PROCEEDS**

The net proceeds from the issue of the maximum number of Units offered hereby after payment of the Agents' fee and the expenses of the Offering are estimated to be \$72,180,079.96. The Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option) to invest in the Portfolio through the pre-payment of its purchase obligations under the Forward Agreement with the Counterparty. Under the Forward Agreement, the Fund will, on or about the Termination Date, acquire the Canadian Securities Portfolio having an aggregate value equal to the redemption proceeds of the relevant number of units of the Trust.

### **PLAN OF DISTRIBUTION**

Pursuant to the Agency Agreement, the Agents have agreed to act as, and have been appointed as, the sole and exclusive agents of the Fund to offer the Units for sale, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund in accordance with the conditions contained in the Agency Agreement. The Units will be issued at a price of \$10.15 per Class A Unit and \$10.25 per Class F Unit. The price per Class A Unit and Class F Unit is equal to the net asset value per Class A Unit and Class F Unit, respectively, as at May 16, 2011 plus the expected expenses of the Offering allocable to each Class of Units. In consideration for their services in connection with the Offering, the Agents will be paid a fee of \$0.406 per Class A Unit (4.0%) and \$0.17425 per Class F Unit (1.7%) sold under the Offering and will be reimbursed for reasonable out-of-pocket expenses incurred by them. The Agents' fees and expenses will be paid by the Fund out of the proceeds of the Offering. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell the Units offered hereby, the Agents will not be obligated to purchase any Units which are not sold.

The Fund has granted to the Agents the Over-Allotment Option, which is exercisable for a period of 30 days from the Closing and gives the Agents the right to offer additional Class A Units in an amount equal to up to 15% of the aggregate number of Class A Units sold on Closing on the same terms as set forth above. To the extent that the Over-Allotment Option is exercised, the additional Class A Units will be sold at \$10.15 per Class A Unit and the Agents will be paid a fee of \$0.406 per Class A Unit (4.0%) sold. This short form prospectus qualifies the grant of the Over-Allotment Option as well as distribution of the Class A Units issuable upon the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units forming part of the Agent's over-allocation position acquires such Class A Units under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The maximum number of Class A Units which will be sold is 5,332,840 Units or \$54,128,326 and the maximum number of Class F Units which will be sold is 2,036,264 Units or \$20,871,706. There is no minimum amount for the Offering. Under the terms of the Agency Agreement, the Agents, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, may terminate the Agency Agreement and withdraw all subscriptions for Units on behalf of subscribers. Subscriptions for Units will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. The Closing will take place on or about May 25, 2011 or such later date as the Fund and the Agents may agree, but in any event not later than 90 days after a receipt for the final short form prospectus is issued.

The Counterparty is a Canadian chartered bank affiliate of Scotia Capital Inc., one of the Agents. Consequently, the Fund may be considered to be a "connected issuer" of Scotia Capital Inc. for the purposes of securities regulations of certain Canadian provinces.

Pursuant to policy statements of the Ontario Securities Commission and the Autorité des marchés financiers, the Agents may not, throughout the period of distribution under this short form prospectus, bid for or purchase Units. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Units. These exceptions include a bid or purchase permitted under the by-laws and rules of relevant self-regulatory authorities relating to market stabilization and passive market-making activities and a bid or purchase made for or on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable laws, an Agent may, in connection with this Offering, over-allot or effect transactions in connection with its over-allotted position. Such transactions, if commenced, may be discontinued at any time.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of Units while this Offering is in progress. These transactions may also include making short sales of Units, which involve the sale by the Agents of a greater number of Units than they are required to purchase in this Offering. Short sales may be "covered short sales", which are short positions in an amount not greater than the Over-Allotment Option, or may be "naked short sales", which are short positions in excess of that amount.

The Agents may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Units in the open market. In making this determination, the Agents will consider, among other things, the price of Units available for purchase in the open market compared to the price at which they may purchase Units through the Over-Allotment Option. The Agents must close out any naked short position by purchasing units in the open market. A naked short position is more likely to be created if the Agents are concerned that there may be downward pressure in the price of the Units in the open market that could adversely affect investors who purchase in this Offering. Any naked short position would form part of the Agents' over-allocation position.

Pursuant to the Agency Agreement, the Fund and the Manager have agreed to indemnify the Agents and their controlling persons, directors, officers and employees against certain liabilities.

## **EXPERTS**

Certain legal matters in connection with the issuance and sale of the Units offered by this short form prospectus will be passed upon on behalf of the Fund by Stikeman Elliott LLP and on behalf of the Agents by McCarthy Tétrault LLP.

As of the date hereof, the partners and associates of Stikeman Elliott LLP, as a group, and McCarthy Tétrault LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Units.

## **EXEMPTIONS**

The Fund has been granted relief by the Ontario Securities Commission pursuant to Part 17 of NI 81-106 from the requirement to calculate net asset value per Unit at least once every business day as required by Part 14 of NI 81-106. On this basis, the Fund calculates net asset value per Unit on each Valuation Date which at a minimum, will be Thursday of each week, or if any Thursday is not a Business Day, the immediately preceding Business Day, and the last Business Day of each month, and includes any other date on which the Manager elects, in its discretion, to calculate the net asset value per Unit.

## **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

## INDEPENDENT AUDITOR'S CONSENT

We have read the short form prospectus of Canso Credit Income Fund (the "**Fund**") dated May 17, 2011 relating to the offering of Class A Units and Class F Units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned short form prospectus of our report to the unitholders of the Fund on the statement of net assets and schedule of investment portfolio as at December 31, 2010 and statement of operations, statement of changes in net assets and statement of cash flows for the period from June 28, 2010, the date of commencement, to December 31, 2010. Our report is dated March 11, 2011.

Toronto, Ontario  
May 17, 2011

(Signed) DELOITTE & TOUCHE LLP  
Chartered Accountants  
Licensed Public Accountants

**CERTIFICATE OF THE FUND, THE MANAGER AND THE PROMOTER**

Dated: May 17, 2011

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of all of the provinces of Canada.

**CANSO CREDIT INCOME FUND by  
its Manager, Lysander Funds Limited**

By: (Signed) RICHARD USHER-JONES  
Chief Executive Officer

By: (Signed) TIMOTHY HICKS  
Chief Financial Officer

On behalf of the Board of Directors  
of  
**LYSANDER FUNDS LIMITED**

By: (Signed) LEE WONG  
Director

By: (Signed) JOHN CARSWELL  
Director

**LYSANDER FUNDS LIMITED**  
as Manager and Promoter

By: (Signed) RICHARD USHER-JONES  
Chief Executive Officer

## CERTIFICATE OF THE AGENTS

Dated: May 17, 2011

To the best of our knowledge, information and belief, this short form prospectus together with the documents incorporated by reference constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of all of the provinces of Canada.

RBC DOMINION SECURITIES INC.

By: (Signed) CHRISTOPHER BEAN

CIBC WORLD MARKETS INC.

GMP SECURITIES L.P.

SCOTIA CAPITAL INC.

By: (Signed) MICHAEL D. SHUH

By: (Signed) NEIL SELFE

By: (Signed) BRIAN D. MCCHESEY

BMO NESBITT BURNS INC.

NATIONAL BANK FINANCIAL INC.

By: (Signed) DELAND KAMANGA

By: (Signed) TIMOTHY D. EVANS

CANACCORD GENUITY CORP.

HSBC SECURITIES (CANADA) INC.

RAYMOND JAMES LTD.

By: (Signed) RON SEDRAN

By: (Signed) BRENT LARKAN

By: (Signed) J. GRAHAM FELL

MGI SECURITIES INC.

WELLINGTON WEST CAPITAL MARKETS INC.

By: (Signed) MARK ARTHUR

By: (Signed) SCOTT LARIN

