

**ANNUAL INFORMATION FORM**

**CANSO SELECT OPPORTUNITIES FUND  
(Class A Units and Class F Units)**

**March 24, 2017**



## TABLE OF CONTENTS

Name, Formation and History of the Fund .....	2
Investment Objectives and Restrictions .....	2
Description of Securities Offered by the Fund .....	6
Termination of the Fund.....	9
Valuation of Securities .....	10
Calculation of Net Asset Value.....	11
Purchases of Fund Units.....	12
Market Purchases .....	12
Redemptions of Units .....	13
Resale of Units Tendered for Redemption.....	15
Responsibility for Fund Operations.....	16
Manager .....	16
Portfolio Manager.....	18
Trustee.....	19
Custodian.....	20
Auditor.....	20
Prime Brokers.....	20
Transfer Agent and Registrar .....	21
Promoter .....	21
Conflicts of Interest .....	21
Conflicts of Interest .....	22
Fund Governance .....	23
Fees and Expenses .....	26
Fees and Expenses of the Fund.....	26

Fees and Expenses of the Manager .....	27
Canadian Federal Income Tax Considerations .....	28
Remuneration of Directors, Officers and Independent Review Committee Members .....	33
Material Contracts .....	33
Legal and Administrative Proceedings .....	34
Risk Factors .....	34
Impact of the Canadian Securities Administrators' Modernization of Investment Fund Product Regulation Project on the Fund .....	45
Other Material Information.....	46

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this annual information form (the “**Annual Information Form**” or “**AIF**”) constitute forward-looking statements. The use of any of the words “**anticipate**”, “**continue**”, “**estimate**”, “**expect**”, “**may**”, “**will**”, “**project**”, “**should**”, “**believe**” and similar expressions are intended to identify 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 such forward-looking statements. The Manager (as defined herein) believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

In particular, this Annual Information Form may contain forward-looking statements pertaining to distributions. Actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, the risk factors set out in this Annual Information Form. The Manager does not undertake any obligation to publicly update or revise any forward-looking statements.

## **DATE OF INFORMATION**

Unless otherwise stated in this AIF, the information contained herein is at March 24, 2017.

## **CURRENCY**

Unless otherwise stated in this AIF, all currency references are in Canadian dollars.

## **Name, Formation and History of the Fund**

Canso Select Opportunities Fund (the “**Fund**”) is a closed-end investment fund established under the laws of the Province of Ontario by way of a declaration of trust made as of September 25, 2013 (the “**Declaration of Trust**”). Pursuant to the Declaration of Trust dated September 25, 2013 (the “**Management Agreement**”), Lysander Funds Limited (“**Lysander**”, the “**Manager**” or the “**Trustee**”) is the trustee and manager of the Fund. The Fund’s principal office is 100 York Boulevard, Suite 501, Richmond Hill, Ontario, L4B 1J8. The beneficial interests in the net assets and net income of the Fund are divided into units of two classes, Class A units (the “**Class A Units**”) and Class F units (“**Class F Units**”, and together with the Class A Units, the “**Units**”). The Class A Units trade on the Toronto Stock Exchange (the “**TSX**”) under the symbol SCW.UN. 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 Fund completed its initial public offering of Units on October 22, 2013, issuing 8,445,844 Class A Units and 789,156 Class F Units (including Units issued on October 31, 2013 pursuant to the over-allotment option granted to the agents) at \$10 per Unit for total gross proceeds of \$92,350,000. The Fund received approval from the TSX for a normal course issuer bid for the period from April 15, 2015 to April 14, 2016. Pursuant to the issuer bid, the Fund was permitted to purchase up to 846,875 Class A Units for cancellation. The Fund subsequently received approval from the TSX for a further normal course issuer bid for the period from April 15, 2016 to April 14, 2017. Pursuant to the issuer bid, the Fund is permitted to purchase up to 822,773 Class A Units for cancellation. The Fund may only repurchase Units when the Net Asset Value per unit exceeds its trading price. The Fund invests in a diversified portfolio consisting primarily of Canadian and global debt and equity securities (the “**Portfolio**”). The Portfolio is actively managed by Canso Investment Counsel Ltd. (“**Canso**” or the “**Portfolio Manager**”), an affiliate of the Manager, pursuant to an investment advisory agreement with the Fund dated October 22, 2013 (the “**Investment Advisory Agreement**”).

## **Investment Objectives and Restrictions**

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 mutual funds under such legislation. The Fund is subject to certain other requirements and restrictions contained in applicable securities laws, including National Instrument 81-106 - Investment Fund Continuous Disclosure (“**NI 81-106**”), which governs the continuous disclosure obligations of investment funds, such as the Fund.

### *Investment Objectives*

The Fund was created to achieve the following investment objectives (the “**Investment Objectives**”) as set out in the Declaration of Trust: (i) to maximize long-term total returns for holders of Units (“**Unitholders**”); and (ii) to provide Unitholders with attractive monthly cash distributions, by investing in an actively managed, diversified portfolio consisting primarily of Canadian and global debt and equity securities.

### *Investment Restrictions*

The Declaration of Trust requires that investments of the Fund be made in accordance with the Investment Objectives and subject to the investment restrictions (the “**Investment Restrictions**”) set out in the Declaration of Trust. Any change in the Investment Objectives or Investment Restrictions may only be undertaken with the approval of the Unitholders by an extraordinary resolution passed by the affirmative vote of at least 66 2/3% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for such purpose (an “**Extraordinary Resolution**”), unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by the applicable regulatory authorities from time to time.

The Fund shall be subject to the investment restrictions listed below. If a percentage restriction on investment or use of assets set forth below as an investment restriction is adhered to at the time of the transaction, later changes to the market value of the Fund investment or the aggregate value of the Fund’s assets will not be considered a violation of the Investment Restrictions or require the elimination of any Fund Investment. If the Fund receives from an issuer subscription rights to purchase securities of that issue, and, if the Fund exercises those subscription rights at a time when the Fund’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 Fund 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 (d) and (j) to (q) below must be complied with at all times and may necessitate the selling of Fund Investments from time to time. Except as otherwise provided herein, the Fund will not:

- (a) 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, or a province, state or territory thereof; or (ii) another country provided that such securities are rated AAA by S&P or the equivalent rating from Moody’s, DBRS, or Fitch;
- (b) invest more than 20% 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 Fund (or by the Fund’s predecessor in title) or by law);
- (c) expose more than 10% of the net asset value of the Fund through the use of derivatives for purposes other than hedging (as defined in National Instrument 81-102 – Investment Funds (“**NI 81-102**”));
- (d) employ leverage, including through shorting and through notional exposure under derivatives (based on the market value of the notional exposure determined on a daily basis) and borrowings (including pursuant to a loan facility or by purchasing securities on margin) determined at the time of borrowing, in amounts exceeding 25% of the aggregate fair value of the

assets of the Fund (the “**Leverage Threshold**”); provided that derivatives and shorting used solely for purposes of hedging (as defined in NI 81-102) will not be included in the Leverage Threshold calculation and provided further that if at any time leverage exceeds the Leverage Threshold, the Manager will, as soon as practicable thereafter take appropriate steps to reduce leverage to a level below such threshold;

- (e) have short exposure, other than for purposes of hedging (as defined in NI 81-102), in excess of 10% of the aggregate fair value of the assets of the Fund as determined on a daily marked-to-market basis;
- (f) invest more than 20% of the Total Assets (as defined in the Declaration of Trust), determined at the time of investment, in securities of issuers that are domiciled in emerging markets (defined for this purpose as any country that is included in the MSCI Emerging Market Index or a replacement or alternative index);
- (g) invest more than 15% of the Portfolio, based on the lower of book value or market value, determined at the time of investment, in distressed securities (defined for this purpose as securities that are in default or under bankruptcy protection);
- (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 Fund 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 Fund’s own issue, purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with Canso 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 (“**NI 81- 107**”) or otherwise approved by the applicable regulatory authorities;
- (j) engage in securities lending that does not constitute a “securities lending arrangement” for purposes of the Income Tax Act (Canada) (the “**Tax Act**”);
- (k) enter into any arrangement where the result is a dividend rental arrangement for the purposes of the Tax Act;
- (l) make or hold any investment that would result in the Fund becoming a “**SIFT trust**” within the meaning of subsection 122.1(1) of the Tax Act;

- (m) make or hold any investment that would result in the Fund failing to qualify as a “**mutual fund trust**” within the meaning of the Tax Act;
- (n) invest in securities of an issuer that is or would after such investment be a foreign affiliate of the Fund within the meaning of the Tax Act;
- (o) invest in or hold (i) securities of or an interest in any non-resident entity, an interest in or a right or option to acquire such property, or an interest in a partnership that holds any such property if the Fund (or the partnership) would be required to include any significant amount in income pursuant to section 94.1 of the Tax Act, (ii) an interest in a trust (or a partnership that holds such an interest) that would require the Fund (or the partnership) to report income in connection with such interest pursuant to the rules in section 94.2 of the Tax Act, or (iii) any interest in a non-resident trust (or a partnership that holds such an interest) other than an “**exempt foreign trust**” for purposes of section 94 of the Tax Act (or, in each case, amendments to such provisions or successor provisions thereto);
- (p) invest in any security that would be a “**tax shelter investment**” within the meaning of the Tax Act; or
- (q) not acquire or hold any property that is “**taxable Canadian property**” within the meaning of the Tax Act if the definition were read without paragraph (b) thereof (or any amendments to such definition).

#### *Investment Restrictions – Tax Matters*

The Fund is a “**unit trust**” and a “**mutual fund trust**” for the purposes of the Tax Act. Provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act or in the case of Class A Units, the 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 (collectively, “**Registered Plans**”).

During the year ended December 31, 2016, the Fund did not deviate from the rules under the Tax Act that apply to the status of the Units as qualified investments within the meaning of the Tax Act for Registered Plans.

Units are not a prohibited investment under the Tax Act for a tax-free savings account, registered retirement savings plan or registered retirement income fund provided the holder of the tax-free savings account, or the annuitant of the registered retirement savings plan or registered retirement income fund, as the case may be, (i) deals at arms’ length with the Fund and (ii) does not have a “**significant interest**” (within the meaning of the Tax Act) in the Fund. In addition, pursuant to the Tax Act, the Units will generally not be a “**prohibited investment**” if the Units are “**excluded property**” as defined in the Tax Act for trusts governed by a tax-free savings account, registered retirement savings plan or registered retirement income fund.

## **Description of Securities Offered by the Fund**

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; and (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. 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, as part of the redemption price, any capital gains realized by the Fund in the taxation year in which the redemption occurred as payable to redeeming Unitholders. 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.

The Trust Beneficiaries' Liability Act, 2004 (Ontario) 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 the Province of Ontario. The Fund is a reporting issuer under the Securities Act (Ontario) and it is governed by the laws of the Province of Ontario by virtue of the provisions of the Declaration of Trust.

### ***Distributions***

The Declaration of Trust provides that the Fund will make monthly distributions to Unitholders at the discretion of the Trustee, upon the advice of the Manager. For the year ended December 31, 2016, the Fund paid monthly distributions on all Units in an amount equal to \$0.04166 per Unit. It is expected that monthly distributions received by Unitholders will consist primarily of income, capital gains and possibly some return of capital.

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

A holder of Class F Units may convert Class F Units into Class A Units in any month on the first Business Day (as defined herein) of a month (the "**Conversion Date**") by delivering written notice to the Fund and surrendering such Class F Units by 5:00 p.m. (Toronto time) on the day that is 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 Unit for a Class F Unit as of the close of trading on the Conversion Date divided by the net asset value per Unit for a 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 and 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 (as defined herein), 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.

Any Class F Units tendered for annual or monthly redemption, may at the option of the Fund, be converted into such number of Class A Units equal to the net asset value per Class F Unit as of the close of trading on the date such Class F Units are converted by the Fund divided by the net asset value per Class A Unit as of the close of trading on such date. No fractions of Class A Units will be issued upon any such conversion of Class F Units; any fractional amounts will be rounded down to the nearest whole number of Class A Units. The Class A Units resulting from the conversion of such tendered Class F Units will then be recirculated pursuant to the Recirculation Agreement. The amount to be paid to the Unitholder on the Redemption Payment Date will be an amount equal to the Monthly Redemption Amount or Annual Redemption Amount that a Unitholder would have been otherwise entitled to receive on the Redemption Payment Date for its Class F Units.

#### *Purchase for Cancellation*

The Declaration of Trust provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated net asset value per Unit of a Class A Unit immediately prior to the date of any such purchase of Class A Units. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the TSX or such other exchange or market on which the Units are then listed.

#### *Take-over Bids*

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Class A Units and not less than 90% of the aggregate of the Class A Units (but not including any Class A Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Class A Units held by Unitholders who did not accept the take-over bid on the terms offered by the offeror.

The Declaration of Trust also provides that, if prior to the termination of the Fund, a formal bid (as defined in the Securities Act (Ontario)) is made for all of the Class F Units and such bid would constitute a formal bid for all Class A Units if the Class F Units had been converted to Class A Units immediately prior to such bid and the offer does not include a concurrent identical take-over bid, including in terms of price (relative to the net asset value per Unit of the class), for the Class A Units then the Fund shall provide holders of Class A Units the right to convert all or a part of their Class A Units into Class F Units and to tender such Units to the offer. In the circumstances described above, the Fund shall by press release provide written notice to holders of Class A Units that such an offer has been made and of

the right of such holders to convert all or a part of their Class A Units into Class F Units and to tender such Units to the offer.

*Amendments to the Declaration of Trust*

Except as provided below, the Declaration of Trust may only be amended by a resolution passed by at least a majority of the votes cast (an “**Ordinary Resolution**”) at a duly convened meeting of Unitholders held in accordance with the Declaration of Trust, or by the written consent in lieu of a meeting if there is only one Unitholder. The following matters may only be undertaken with the approval of Unitholders by an Extraordinary Resolution (a separate class vote is also required if one class of Units would be affected differently than the other in respect of items (d) through (f), inclusive):

- (a) the removal of the Trustee or any of its affiliates as the trustee of the Fund;
- (b) any change in the Investment Objectives or Investment Restrictions, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (c) any material change in the management provisions contained in the Declaration of Trust or a change in the Manager, other than a change in the Manager where the new manager is an affiliate of the Manager;
- (d) any increase in the Management Fee (as defined herein) or the Performance Fee (as defined herein);
- (e) any amendment, modification or variation in the provisions or rights attaching to the Units;
- (f) any change in the frequency of calculating the net asset value per Unit to less often than each Valuation Date;
- (g) the issuance of additional Units, other than: (i) for net proceeds per Unit equal to or greater than 100% of the most recently calculated net asset value per Unit calculated prior to the entering into of the commitment by the subscriber to purchase such Units or prior to the offering, as the case may be; or (ii) by way of Unit distribution;
- (h) any merger, arrangement or similar transaction or the sale of all or substantially all of the assets of the Fund other than in the ordinary course of business;
- (i) any liquidation, dissolution or termination of the Fund except if it is determined by the Manager, in its sole discretion, to be in the best interest of the Unitholders or otherwise in accordance with the terms of the Declaration of Trust; and

- (j) any amendment to the above provisions except as permitted by the Declaration of Trust.

Notwithstanding the foregoing, the Trustee is entitled to amend the Declaration of Trust without the consent of, or notice to, the Unitholders, to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law, regulation or requirements of any governmental authority applicable to or affecting the Fund;
- (b) make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities or investment fund industries, provided such amendments do not in the opinion of the Manager adversely affect the pecuniary value of the interest of the Unitholders or restrict any protection for the Trustee or the Manager or increase their respective responsibilities;
- (d) maintain the status of the Fund as a “**mutual fund trust**” for the purposes of the Tax Act or to respond to amendments to the Tax Act or to the interpretation or administration thereof; or
- (e) provide added protection or benefit to Unitholders.

### **Termination of the Fund**

The Fund does not have a fixed termination date. The Declaration of Trust provides that the Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in its opinion, it would be in the best interests of the Unitholders to do so. The Manager will provide at least 30 days prior notice of such termination to Unitholders by way of press release. Upon such a termination, the Fund will liquidate the Portfolio and distribute to Unitholders their pro rata portions of the remaining assets of the Fund after all liabilities of the Fund have been satisfied or appropriately provided for, and which will include cash and, to the extent liquidation of certain assets is not practicable or the Manager considers such liquidation not to be appropriate prior to the termination date, such unliquidated assets in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions. Following such distribution, the Fund will be dissolved.

The Declaration of Trust provides that prior to the termination of the Fund, the Manager will dispose of all of its assets and will satisfy or make appropriate provision for all liabilities of the Fund. The Declaration of Trust provides that the Manager may, in its discretion and upon not less than 30 days prior written notice to the Unitholders, postpone

any termination date by a period of up to 180 days if the Manager determines that it will be unable to convert all of its assets to cash prior to any termination date and the Manager determines that it would be in the best interests of the Unitholders to do so.

### **Valuation of Securities**

For reporting purposes other than financial statements, the net asset value of the Fund on a particular date will be equal to (i) the aggregate value of the assets of the Fund less (ii) the aggregate value of the liabilities of the Fund. The net asset of Units of a particular class on a particular date will be equal to the net asset value of the Fund allocated to that class, including an allocation of any net realized capital gains or other amounts payable Unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date. The net asset value per Unit of a class on any day will be obtained by dividing the net asset value of the Fund of that class on such day by the number of Units of that class then outstanding.

For the purpose of calculating net asset value of the Fund on a Valuation Date, the value of the aggregate assets, and any short positions, of the Fund on such Valuation Date will be determined as follows:

- (a) the value of any cash on hand or on deposit, bill, demand note, account receivable, prepaid expense, distribution, dividend or other amount receivable (or declared to holders of record of securities owned by the Fund on a date before the Valuation Date as of which the value of the assets is being determined, and to be received) and interest accrued and not yet received shall be deemed to be the full amount thereof provided that if the Manager has determined that any such deposit, bill, demand note, account receivable, prepaid expense, distribution, dividend or other amount receivable (or declared to holders of record of securities owned by the Fund on a date before the Valuation Date as of which the value of the assets is being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager determines to be the fair market value thereof;
- (b) the value of any bonds, debentures, other debt obligations and short positions will be valued by taking the average of the bid and ask prices quoted by a major dealer or recognized information provider in such securities on a Valuation Date at such times as the Manager, in its discretion, deems appropriate (the "**Mid Price**"). Short-term investments including notes and money market instruments will be valued at cost plus accrued interest;
- (c) the value of any security which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Manager) will be determined by taking the latest available sale price or closing price (the "**Close Price**"), or lacking any recent sales or any record thereof, the closing bid price (unless in the opinion of the

Manager such value does not reflect the value thereof and in which case the latest offer price or bid price will be used), as at the Valuation Date on which the value of the assets is being determined, all as reported by any means in common use;

- (d) the value of any forward contract will be the value that would be realized by the Fund if, on the date on which the value of the assets is being determined, the forward contract were closed out in accordance with its terms;
- (e) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer or recognized information provider in such securities;
- (f) the value of any security or other asset for which a market quotation is not readily available will be its fair value on the Valuation Date on which the value of the assets is being determined as determined by the Manager (generally the Manager will value such securities as it considers fair and reasonable, and if there is an industry practice for valuing such securities or assets, will follow that industry practice);
- (g) any market price reported in currency other than Canadian dollars will be translated into Canadian currency at the rate of exchange available to the Fund from the Fund's custodian (the "Custodian") on the Valuation Date on which the value of the assets is being determined;
- (h) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Manager and investments in private companies and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Manager; and
- (i) the value of any security or property to which, in the opinion of the Manager, the application of the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair market value thereof determined in good faith in such manner as the Manager from time to time adopts.

### **Calculation of Net Asset Value**

The Custodian will calculate the net asset value per Unit on each Valuation Date. Such amount will also be available on the Manager's website at [www.lysanderfunds.com](http://www.lysanderfunds.com).

The net asset value per Unit is calculated in Canadian dollars in accordance with the rules and policies of the Canadian Securities Administrators or in accordance with any exemption therefrom that the Fund may obtain. The net asset value per Unit of a class

determined in accordance with the principles set out above may differ from the net asset value per Unit determined under Canadian generally accepted accounting principles.

### **Purchases of Fund Units**

All of the currently issued and outstanding Units were issued in connection with the initial public offering of the Fund on October 22, 2013. In addition, Units may be issued from time to time in the Manager's discretion, subject to the terms of the Declaration of Trust. Units may not be issued for net proceeds per Unit less than the most recently calculated net asset value per Unit prior to the date of the setting of the subscription price by the Fund.

Registration of interests in and transfers of Units are made only through non-certificated interests issued under the book-entry only system administered by CDS Clearing and Depository Service Inc. ("CDS"). Units must be purchased, converted, transferred and surrendered for redemption through a broker, dealer, bank or other financial institution or other person for whom, from time to time, CDS effects book entries for the book-entry only Units deposited with CDS (a "CDS Participant"). All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholders are entitled will be made or delivered by CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, Unitholders will receive only a customer confirmation from the registered dealer which is a CDS Participant and form or through which the Units are purchased.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder's interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the book-entry only system administered by CDS, in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

### **Market Purchases**

The Fund may, in its sole discretion, from time to time purchase, either in the open market or by invitation for tenders, Class A Units for cancellation subject to applicable law and TSX requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated net asset value per Unit for Class A Units immediately prior to the date of any such purchase of such Units. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the TSX or such other exchange or market on which the Class A Units are then listed.

## Redemptions of Units

### *Annual Redemptions*

Subject to the right of the Fund to suspend redemptions in certain circumstances, beginning on the last Business Day in May of each year beginning in May 2015 (the “**Annual Redemption Amount Calculation Date**”), Units may be redeemed at the option of Unitholders on each such Annual Redemption Amount Calculation Date. Units redeemed on any applicable Annual Redemption Amount Calculation Date will be redeemed, in respect of a class of Units, at a redemption price per Unit of that class surrendered for redemption on the Annual Redemption Amount Calculation Date that is equal to 100% of the net asset value per Unit as of such date, less any costs and expenses incurred by the Fund in connection with funding the redemption (the “**Annual Redemption Amount**”).

Units must be surrendered for redemption during the period commencing on March 15 until 5:00 p.m. (Toronto time) on the last Business Day of March in the year of redemption (the “**Notice Period**”). Units properly surrendered for redemption during the Notice Period will be redeemed on the Annual Redemption Amount Calculation Date. Payment of the proceeds of redemption will be made on or before the 15th Business Day of the month following the Annual Redemption Amount Calculation Date.

### *Monthly Redemptions*

Subject to the right of the Fund to suspend redemptions, Units may be redeemed at the option of Unitholders on the last Business Day of each Month (each a “**Monthly Redemption Amount Calculation 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 Amount Calculation Date. Commencing in 2015, Unitholders depositing Units during the Notice Period will be entitled to elect to receive the Monthly Redemption Amount rather than the Annual Redemption Amount. Payment of the redemption price will be made on or before the Redemption Payment Date, subject to the Manager’s right to suspend redemptions in certain circumstances. Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 94% of the Market Price of a Class A Unit, and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Amount Calculation Date, less in each case any costs associated with the redemption, including brokerage costs, being the Monthly Redemption Amount. Unitholders surrendering a Class F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount, and (ii) a fraction, the numerator of which is the net asset value per Class F Unit on the applicable Monthly Redemption Amount Calculation Date and the denominator of which is the net asset value per Class A Unit on the applicable Monthly Redemption Amount Calculation Date.

“**Market Price**” in respect of a security on a Monthly Redemption Amount Calculation Date means the weighted average trading price on the TSX (or such other stock exchange on which such security is listed), for the 10 trading days immediately preceding such Monthly Redemption Amount Calculation Date.

**“Closing Market Price”** in respect of a security on a Monthly Redemption Amount Calculation Date means (i) the closing price of such security on the TSX on such Monthly Redemption Amount Calculation Date (or such other stock exchange on which such security is listed) if there was a trade on the Monthly Redemption Amount Calculation Date and the market provides a closing price; (ii) the average of the highest and lowest prices of such security on the TSX on such Monthly Redemption Amount Calculation Date (or such other stock exchange on which such security is listed) if there was trading on the Monthly Redemption Amount Calculation Date and the market provides only the highest and lowest prices of the security traded on a particular day; or (iii) the average of the last bid and the last asking prices of the security on the TSX on such Monthly Redemption Amount Calculation Date (or such other stock exchange on which the security is listed) if there was not trading on the applicable Monthly Redemption Amount Calculation Date.

### *Exercise of Redemption Right*

A Unitholder who desires to exercise redemption privileges must do so by causing the CDS Participant through which he or she holds his or her Units to deliver to CDS at its office in the City of Toronto on behalf of the Unitholder, a written notice of the Unitholder’s intention to redeem Units by no later than 5:00 p.m. (Toronto time) on the applicable notice date described above. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the Annual Redemption Amount Calculation Date or the Monthly Redemption Amount Calculation Date, as applicable, deadline so as to permit the CDS Participant to deliver a notice to CDS by 5:00 p.m. (Toronto time) on the notice date described above.

By causing a CDS Participant to deliver to CDS a notice of the Unitholder’s intention to redeem Units, the Unitholder will be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise, provided that the Manager may from time to time prior to the Annual Redemption Amount Calculation Date or the Monthly Redemption Amount Calculation Date, as applicable, permit the withdrawal of a redemption notice on such terms and conditions as the Manager may determine, in its sole discretion, provided that such withdrawal will not adversely affect the Fund. Any expense associated with the preparation and delivery of the redemption notice will be for the account of the Unitholder exercising the redemption privilege.

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed will, for all purposes, be void and of no effect and the redemption privilege to which it relates will be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder’s instructions will not give rise to any obligations or liability on the part of the Fund, the Trustee or the Manager to the CDS Participant or the Unitholder.

### *Suspension of Redemptions*

The Fund may suspend the redemption of Units or payment of redemption proceeds (i) 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 Fund (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 (ii) for any period of time as provided by applicable securities legislation or policies of securities regulatory authorities. 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 day except Saturday, Sunday, a statutory holiday in Toronto, Ontario or any other day on which the TSX is not open for trading ("**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.

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

The Fund entered into the Recirculation Agreement with RBC Dominion Securities Inc. ("**RBC DS**") on October 22, 2013, whereby RBC DS agreed to use commercially reasonable efforts to find purchasers for any Class A Units tendered for redemption during the period commencing on the Business Day following the Annual Redemption Amount Calculation Date or the Monthly Redemption Amount Calculation Date, as applicable, and ending two Business Days prior to the relevant Redemption Payment Date. The Fund may, but is not obliged to, require RBC DS to seek such purchasers of Class A Units; provided that the proceeds of such sale will be equal to or exceed the Monthly Redemption Amount or Annual Redemption Amount, as applicable. In such event, the amount to be paid to the Unitholder on the Redemption Payment Date will be an amount equal to the Monthly Redemption Amount or Annual Redemption Amount, as applicable. Any excess amount resulting from the proceeds of the sale of such Class A Units will be retained by the Fund.

Any Class F Units tendered for annual or monthly redemption, may at the option of the Fund, be converted into such number of Class A Units equal to the net asset value per Class F Unit as of the close of trading on the date such Class F Units are converted by the Fund divided by the net asset value per Class A Unit as of the close of trading on such date. No fractions of Class A Units will be issued upon any such conversion of Class F Units; any fractional amounts will be rounded down to the nearest whole number of Class A Units. The Class A Units resulting from the conversion of such tendered Class F Units will then be recirculated pursuant to the Recirculation Agreement, provided that the proceeds of such sale will be equal to or exceed the Monthly Redemption Amount or the Annual Redemption Amount, as applicable. In such event, the amount to be paid to the Unitholder on the Redemption Payment Date will be an amount equal to the Monthly Redemption Amount or the Annual Redemption Amount, as applicable that a Unitholder would have been otherwise entitled to receive on the Redemption Payment Date for its Class F Units. Any

excess amount resulting from the proceeds of the sale of such converted Class A Units will be retained by the Fund.

## Responsibility for Fund Operations

### Manager

The Declaration of Trust provides that that Trustee shall appoint or retain a manager to manage the business and affairs of the Fund. The Trustee has appointed the Manager as manager of the Fund pursuant to the terms of the Declaration of Trust.

Lysander Funds Limited, the manager of the Fund, was incorporated pursuant to the Business Corporations Act (Ontario) on March 30, 2009. The majority shareholder of the Manager is Grip Investments Ltd. and of Canso is Grip Asset Management Ltd. Both Grip Investments Ltd. and Grip Asset Management Ltd. are corporations controlled by John Carswell. The Manager's head office and contact information is as follows:

Lysander Funds Limited  
100 York Blvd., Suite 501  
Richmond Hill, Ontario L4B 1J8

Phone: (416) 640-4275  
Fax: (905) 764-0000  
Email: [manager@lysanderfunds.com](mailto:manager@lysanderfunds.com)  
Website: [www.lysanderfunds.com](http://www.lysanderfunds.com)

### *Directors and Officers of the Manager*

The name, municipality of residence, position and principal occupation of the directors and officers of the Manager are as follows.

<b>Name &amp; Municipality of Residence</b>	<b>Office held with Lysander Funds Limited</b>	<b>Principal Occupation</b>	<b>Principal Occupation During Last 5 Years</b>
Richard Usher-Jones Toronto, Ontario Canada	President and Chief Executive Officer	Vice President, Canso Investment Counsel Ltd.	Unchanged
Timothy Hicks Toronto, Ontario, Canada	Chief Investment Officer and Director	Vice President, Canso Investment Counsel Ltd.	Unchanged
John Carswell Richmond Hill, Ontario, Canada	Director	President, Canso Investment Counsel Ltd.	Unchanged
Lee Wong Markham, Ontario Canada	Director	Chief Executive Officer, Toogood Financial Systems	Unchanged

Name & Municipality of Residence	Office held with Lysander Funds Limited	Principal Occupation	Principal Occupation During Last 5 Years
Raymond Oh Richmond Hill, Ontario, Canada	Director	Inc. President, Toogood Financial Systems Inc.	Unchanged
Brenda Burns Richmond Hill, Ontario, Canada	Corporate Secretary	Vice President, Canso Investment Counsel Ltd.	Unchanged
Raj Vjih Toronto, Ontario Canada	Vice President, Chief Operating Officer, Chief Financial Officer and Chief Compliance Officer	Vice President, Chief Operating Officer and Chief Financial Officer Lysander Funds Limited	Lysander Funds Limited since September 2011

***Duties and Services to be provided by the Manager***

The Manager has been appointed to act as manager of the Fund pursuant to the Declaration of Trust. The Manager has exclusive authority to manage the business and affairs of the Fund, to make all decisions regarding the business of the Fund and has authority to bind the Fund. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund to do so.

The Manager is required to exercise its powers and perform its duties honestly, in good faith and in the best interests of the Fund and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that the Manager will not be liable in any way for any default, failure or defect of the assets of the Fund if it has satisfied the duties and the standard of care, diligence and skill set forth above have been met. The Manager will incur liability, however, in cases of wilful misconduct, bad faith, negligence or breach of its duties or standard of care, diligence and skill. Among other restrictions imposed on the Manager, it may not dissolve the Fund or wind up the affairs of the Fund except if, in its opinion, it would be in the best interests of the Unitholders to terminate the Fund or otherwise in accordance with the provisions of the Declaration of Trust.

Under the terms of the Declaration of Trust, the Manager is responsible for providing, or causing to be provided, management, portfolio management and administrative services and facilities to the Fund, including, without limitation (i) authorizing and paying expenses incurred on behalf of the Fund; (ii) appointing the custodian, registrar and transfer agent, auditors, legal counsel and other organizations or professionals serving the Fund; (iii) providing office space and facilities; (iv) preparing accounting, management and other reports, including such interim and annual reports to Unitholders, financial statements, tax reporting to Unitholders and income tax returns as

may be required by applicable law; (v) monitoring the ability of the Fund to pay distributions; (vi) communicating with Unitholders; (vii) ensuring that the net asset value per Unit is calculated and published; (viii) ensuring that the Fund complies with all regulatory requirements and applicable stock exchange listing rules and requirements; (ix) calling meetings of Unitholders as required; and (x) providing such other managerial and administrative services as may be reasonably required for the ongoing business and administration of the Fund.

In consideration for these services, the Fund will pay to the Manager the Management Fee and reimburse the Manager for all reasonable costs and expenses incurred by the Manager on behalf of the Fund. The Manager and each of its directors, officers, employees, consultants and agents are indemnified and will be reimbursed by the Fund to the fullest extent permitted by law against all liabilities and expenses (including judgments, fines, penalties, interest, amounts paid in settlement with the approval of the Fund, and counsel fees and disbursements on a solicitor and client basis) reasonably incurred in connection with the services provided to the Fund described herein or as a director, officer, employee, consultant or agent thereof, including in connection with any civil, criminal, administrative, investigative or other action, suit or proceeding to which any such person may hereafter be made a party by reason of being or having been the manager, the portfolio manager, trustee or a director, officer, employee, consultant or agent thereof, except for liabilities and expenses resulting from the person's willful misconduct, bad faith, negligence, breach of their duties or standard of care, diligence and skill or material breach or default of their obligations under the Declaration of Trust.

Unless the Manager resigns or is removed as described below, the Manager will continue as manager until the termination of the Fund. The Manager may resign if the Fund is in breach or default of the provisions of the Declaration of Trust and, if capable of being cured, such breach or default has not been cured within 30 days' notice of such breach or default to the Fund. The Manager is deemed to have resigned if the Manager becomes bankrupt or insolvent or in the event the Manager ceases to be resident in Canada for purposes of the Tax Act. The Manager may not be removed other than by an Extraordinary Resolution of the Unitholders. In the event the Manager is in material breach or default of the provisions of the Declaration of Trust and, if capable of being cured, such breach or default has not been cured within 30 days' notice of such breach or default to the Manager, the Trustee shall give notice thereof to Unitholders and Unitholders may direct the Trustee by Ordinary Resolution to remove the Manager and appoint a successor Manager.

The services of the Manager and the officers and directors of the Manager are not exclusive to the Fund. The Manager and its affiliates and associates may, at any time, engage in any other activity including the administration of any other fund or trust.

### **Portfolio Manager**

Pursuant to the Investment Advisory Agreement, the Manager has retained Canso to provide investment advisory and portfolio management services to the Manager and the Fund, including actively managing the Portfolio. The address of Canso is 100 York Blvd., Suite 550 Richmond Hill, Ontario L4B 1J8. The Investment Advisory Agreement shall continue until termination of the Fund unless terminated earlier in accordance with its

terms. The Investment Advisory Agreement may be terminated by the Trustee or the Manager, on behalf of the Fund, at any time on 90 days' written notice to Canso with the approval of the Unitholders of the Fund by an extraordinary resolution. The Investment Advisory Agreement may also be terminated by the Trustee or the Manager immediately in the event of the commission by Canso of any fraudulent act and Canso will be deemed to have resigned if Canso becomes bankrupt, insolvent or makes a general assignment for the benefit of its creditors or ceases to be resident in Canada for purposes of the Tax Act. In the event Canso is in material breach or default of the provisions of the Investment Advisory Agreement and such breach or default has not been cured within 30 days' notice of such breach or default to Canso, the Trustee or the Manager shall give notice to the Unitholders and with the approval of such Unitholders by ordinary resolution, such Unitholders may direct the Trustee to remove Canso and appoint a successor portfolio manager. Canso shall provide notice to the Trustee of any material breach of the Investment Advisory Agreement, and the Trustee or the Manager is entitled to rely solely on Canso's notice without independent investigation. Canso may resign if the Manager or the Fund is in breach or default of the provisions of the Investment Advisory Agreement and such breach or default has not been cured within 30 days' notice of such breach or default to the Manager or the Fund, as applicable.

Canso was founded by John Carswell who began his career as a credit analyst at Mutual Life. He was a partner, credit analyst and fixed income portfolio manager at TAL Investment Counsel Ltd. and Foyston, Gordon & Payne prior to establishing Canso in 1997. The other senior credit and portfolio managers of Canso are:

<b>Name</b>	<b>Description of Background and Experience</b>
Gail Mudie, MBA	Gail joined Canso in 1998 and has 36 years of experience in treasury, corporate banking, credit and corporate bond management.
Heather Mason Wood, CFA, MBA	Heather joined Canso in 2003 and has 33 years of experience as a credit analyst, corporate banker, commercial banker and risk analyst.
Vivek Verma, CFA, MBA, MA (Economics)	Vivek joined Canso in 2002 and has 19 years of experience as a credit rater, credit analyst and corporate bond manager.
Joe Morin, CFA, MBA	Joe Morin, CFA, MBA Joe joined Canso in 2009 and has 22 years of experience in international trade finance, credit ratings, and credit analysis.

The investment decisions made by these individuals are not subject to the oversight, approval or ratification of any committee of the Fund.

### **Trustee**

Pursuant to the Declaration of Trust, Lysander Funds Limited has been appointed 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 100 York Blvd., Suite 501, Richmond Hill, Ontario, L4B 1J8.

The Trustee or any successor trustee may resign upon 90 days written notice to Unitholders or may be removed by an Extraordinary Resolution passed at a meeting of Unitholders called for such purpose. Any such resignation or removal will become effective only on the appointment of a successor trustee. If, after notice of resignation has been received from the Trustee, no successor has been appointed within 90 days of such notice, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee. The Declaration of Trust provides that the Trustee will not be liable in carrying out its duties under the Declaration of Trust except in cases where the Trustee fails to act honestly and in good faith with a view to the best interests of the Fund or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee, in its capacity as Manager, is entitled to receive fees from the Fund as described under “**Fees and Expenses**” and to be reimbursed by the Fund for all expenses which are reasonably incurred by the Trustee in connection with the activities of the Fund.

### **Custodian**

CIBC Mellon Trust Company at its office in Toronto, Ontario has been appointed as the custodian of the assets of the Fund, pursuant to a custodial services agreement between, amongst others, the Fund, the Manager and the Custodian, dated October 22, 2013. The Custodian is responsible for safekeeping of all the investments and other assets of the Fund delivered to it (but not those assets of the Fund not directly controlled or held by the Custodian). The Custodian may employ sub-custodians as considered appropriate in the circumstances. 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 pledged to a counterparty and not directly held by the Custodian. In addition, the Custodian calculates the net asset value of the Fund.

### **Auditor**

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

### **Prime Brokers**

Pursuant to institutional client account agreements (collectively, the “**Prime Brokerage Agreements**”) dated October 22, 2013 between the Fund, the Custodian and each of Scotia Capital Inc. and BMO Nesbitt Burns Inc. (each a “**Prime Broker**”), the Prime

Brokers, at their respective offices in Toronto, Ontario, are the prime brokers of the Fund and facilitate the short selling of securities. In connection with the Prime Brokerage Agreements, the Fund and the Custodian have entered into special custody account agreements among the Fund, the Custodian and each of the Prime Brokers (the “**Prime Brokerage Tri-Party Custody Agreements**”) pursuant to which margin provided by the Fund under the Prime Brokerage Agreements may be held by the Custodian in a special custody account over which the Prime Brokers will have control in accordance with applicable Canadian securities laws.

### **Transfer Agent and Registrar**

CST Trust Company is the transfer agent and registrar for the Units and maintains the securities registers at its office in Toronto, Ontario.

### **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 Units.

### **Conflicts of Interest**

#### *Principal Unitholders*

To the knowledge of the Fund, as of March 3, 2017, no person or company owned, directly or indirectly, more than 10% of the Units of the Fund.

As at March 3, 2017, Grip Investments Ltd., which is a corporation controlled by John Carswell, held the following shares in the Manager and Trustee:

<b>Name and Address</b>	<b>Securities Issuer</b>	<b>Type of Security</b>	<b>Type of Ownership</b>	<b>No. of Securities Owned</b>	<b>% of Ownership</b>
Grip Investments Ltd. (John Carswell), Richmond Hill	Lysander Funds Limited	Class A Common Shares	Beneficial and of Record	448,000	59.8%

As of March 3, 2017, the directors, senior officers and staff of the Manager, and the directors and senior officers of its affiliates, owned, directly or indirectly, in aggregate, 96.0% of the outstanding shares of the Manager. Toogood Financial Systems Inc. held the remaining 4.0% of the outstanding shares of the Manager.

#### *Securities Held by Members of the Independent Review Committee*

As of March 3, 2017, the members of the independent review committee did not own, directly or indirectly, more than 10% of the Units of the Fund or more than 10% of the

securities in the Manager or in any person or company that provides services to the Fund or the Manager.

### **Conflicts of Interest**

The directors and officers of the Manager or Canso may be directors, officers, shareholders or Unitholders of one or more issuers in which the Fund may acquire securities. The Manager or Canso and their respective affiliates or associates may be managers or portfolio managers of one or more issuers in which the Fund may acquire securities and may be managers or portfolio managers of funds that invest in the same securities as the Fund. The services of the Manager and Canso are not exclusive to the Fund. The Manager or Canso may act as the manager or investment advisor to other funds and companies and may act as the manager or investment advisor to other funds which invest in debt securities and which are considered competitors of the Fund.

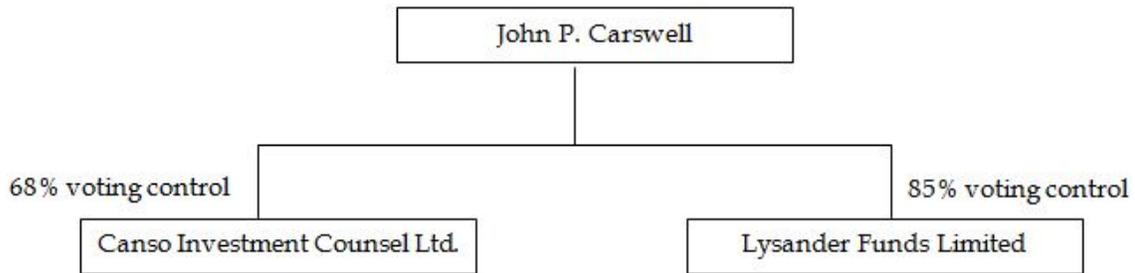
The Declaration of Trust acknowledges that the Trustee may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from parties which are at arm's length for comparable services.

The services of Canso are not exclusive to the Fund. Canso and its affiliates and associates (as defined in the Securities Act (Ontario)) may, at any time, engage in the promotion or management of any other fund, trust or investment portfolio. Since Canso will continue to manage the investments of its other clients, Canso may acquire or dispose of the same investment for the Fund and for one or more of its other clients. However, because of the different investment policies, Canso may be selling an investment for one client and buying the same investment for another client.

The primary consideration in all portfolio transactions will be prompt execution of orders in an efficient manner at the most favourable price. In selecting and monitoring dealers, Canso considers the dealer's reliability, the quality of its execution services on a continuing basis and its financial condition. When more than one dealer is believed to meet these criteria, preference may be given to dealers who provide research or statistical material or other services to the Fund or to Canso or its affiliates. This allows Canso to supplement its own investment research activities and obtain the views and information of others prior to making investment decisions.

### ***Affiliated Entities***

The following diagram shows the respective relationships between the Manager and any affiliated entity that provides services to the Fund and/or to the Manager with regard to the Fund:



Disclosure of the amount of fees received from the Manager by Canso is contained in the audited financial statements of the Fund.

## Fund Governance

### *Independent Review Committee*

The Manager has appointed the following members to its independent review committee, which will also act as the independent review committee for other funds for which Lysander Funds Limited acts as manager.

***Paul Fahey (Chair):*** Paul Fahey retired in January 2016. Paul has over 35 years experience in the investment industry. Most recently he was Vice-President, Pension Investments at NAV CANADA.

***Jim McGill:*** Jim McGill is retired since 2010 after working for over 30 years in the Canadian investment industry, most recently as Executive Vice President of High Street Asset Management.

***Bill Schultz:*** Bill Schultz retired in 2013 after 40 years in the investment industry in Canada and the United States. Most recently, Mr. Schultz was Vice-President, Institutional Bonds at National Bank Financial.

***Ruth Gould:*** Ruth Gould retired October 31st, 2016 after 31 years as a Fixed Income specialist at RBC Capital Markets. For the past 10 years, Ruth was a Managing Director; Fixed Income and Currencies.

***Merri Jones*** resigned from the Independent Review Committee on November 28, 2016.

The mandate and responsibilities of the independent review committee will be set out in its charter. The independent review committee will be responsible for carrying out those responsibilities required to be undertaken pursuant to NI 81-107, including reviewing each conflict of interest matter referred by the Manager to the independent review committee for its recommendation or approval, conducting regular assessments as required by NI 81-107 and reporting to the Unitholders and Manager on at least an annual basis, as required by NI 81-107.

The independent review committee will prepare a report, at least annually, of its activities for Unitholders which will be available on the Manager's website at [www.lysanderfunds.com](http://www.lysanderfunds.com), or at the Unitholder's request at no cost, by contacting the Manager at 416-640-4275.

### *General*

The Manager is responsible for the governance of the Fund. Please see "**Responsibility for Fund Operations - Manager - Directors and Officers of the Manager**" herein for information regarding members of the Manager's board of directors. Fund governance refers to the policies, practices and guidelines of the Fund that relate to business practices, sales practices and internal conflicts of interest.

The board of directors of the Manager has established appropriate policies, practices and guidelines relating to the business practices, sales practices, risk management controls and internal conflicts of interest as more fully described below.

### *Derivatives and Shorting*

The Fund may invest in or use derivative instruments, other than commodity derivatives, for the purposes of hedging (as defined in NI 81-102) that are consistent with the Investment Objectives and investment strategies of the Fund, including as a hedge against adverse changes in the market price of securities, interest rates or currency exchange rates. For example, the Fund may use derivatives, including foreign exchange hedges, with the intention of offsetting or reducing risks associated with an investment or group of investments. No assurance can be given that the Fund will be hedged from any particular risk from time to time.

The Fund may also short securities from time to time. Short exposure in the Portfolio, for purposes other than hedging (as defined in NI 81-102), will not exceed 10% of the Total Assets (as defined in the Declaration of Trust) determined on a daily marked-to-market basis.

A short sale is effected by selling a security which the Fund does not own. In order to make delivery to the buyer of a security sold short, the Fund must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The Fund must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security.

In accordance with the Investment Restrictions, Canso will not 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. Please see "**Risk Factors**" herein for a description of the risk factors associated with the use of derivatives.

Canso has policies and practice guidelines to manage the risks associated with the use of derivative instruments. Such policies and practice guidelines require that:

- the use of derivative instruments be consistent with the Fund's Investment Objectives and policies;
- the risks associated with the use of derivatives be adequately described in the Fund's public disclosure documents;
- authorized officers or directors of Canso approve the parameters, including trading limits, under which derivatives trading is to be permitted for the Fund and that such parameters comply with applicable securities legislation; and
- the operational, monitoring and reporting procedures in place ensure that all derivatives transactions are completely and accurately recorded, in accordance with their approved use, and within the limits and regulatory restrictions prescribed for the Fund.

These policies and practice guidelines are reviewed as necessary by the Chief Investment Officer of Canso.

#### *Securities Lending and Similar Arrangements*

As of the date hereof, the Fund has not engaged in any securities lending activities, however, the Fund may in the future lend securities to securities borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and such borrower. Under any such securities lending agreement: (i) the borrower will pay to the Fund a negotiated securities lending fee and will make compensatory payments to the Fund equal to any distributions received by the borrower on the securities borrowed; (ii) the Custodian or a sub-custodian of the Fund is appointed as agent to the Fund to administer the securities lending transaction; (iii) the securities loans must qualify as "**securities lending arrangements**" for the purposes of the Tax Act; and (iv) the Fund will receive collateral security. Please see "**Risk Factors**" herein for a description of the risk factors associated with the use of securities lending.

#### *Proxy Voting Policies and Procedures*

Canso is authorized to exercise all rights and privileges incidental to ownership for the Portfolio. The Fund has adopted Canso's proxy voting policy (the "**Proxy Voting Policy**"), which provides general guidance, in compliance with applicable legislation, for the voting of proxies. In connection with any meeting at which the Fund as a holder of debt securities is entitled to vote, Canso may retain a third party service provider to provide proxy analysis, vote recommendations and vote execution services on behalf of Canso, all in accordance with the Proxy Voting Policy. However, the ultimate decision as to how to cast a vote rests with Canso, based on what Canso believes to be in the best interests of the Fund.

The Proxy Voting Policy generally provides for voting in favour of management's recommendations, unless there are specific circumstances for voting against and/or Canso believes that the Fund's best interests would be better served by voting against such recommendations. Canso will also document the reasons for a decision to cast a proxy vote

in a manner that deviates from any standing policy. The Proxy Voting Policy includes policies and procedures for dealing with non-routine matters, including corporate restructurings, mergers and acquisitions, proposals affecting security holder rights and executive compensation. These matters will usually be addressed on a case-by-case basis with a focus on the best interests of the Fund and the potential impact of the vote on the value of the Fund. The Proxy Voting Policy also includes policies and procedures for dealing with potential conflicts of interest, and if required, such matters will be referred to the independent review committee for final determination.

The policies and procedures that the Fund follows when voting proxies relating to the Portfolio will be available on request, at no cost, by writing to the Manager at 100 York Blvd., Ste. 501, Richmond Hill, Ontario L4B 1J8.

The Fund's voting record, if any, for the previous year ended June 30 will be available free of charge to any Unitholder of the Fund upon request at any time after August 31 of such year and will be made available on the Manager's website at [www.lysanderfunds.com](http://www.lysanderfunds.com).

#### *Short-Term Trading*

The Class A Units trade on the TSX, therefore the Manager does not have policies and procedures in place to monitor, detect and deter short-term trading.

### **Fees and Expenses**

#### **Fees and Expenses of the Fund**

##### *Management Fee*

The Manager receives a Management Fee from the Fund equal to 1.00% per annum of the net asset value of the Fund, calculated and payable monthly in arrears, plus applicable taxes.

The Manager will pay to Canso a percentage of the Management Fee for the investment advisory and portfolio management services it provides for the Fund, as agreed between the Manager and Canso from time to time. See "**Fees and Expenses of the Manager - Investment Advisory Fee**".

##### *Performance Fee*

Subject to certain terms and conditions more fully described below, the Manager will also receive from the Fund, for each fiscal year of the Fund, a performance fee (the "**Performance Fee**"). The Performance Fee shall be calculated and accrue monthly and be paid annually, if earned. The amount of the Performance Fee shall be determined as of December 31 of each year (the "**Determination Date**"). The Performance Fee for a given fiscal year will be an amount for each Unit of the Fund then outstanding equal to 20% of the amount by which the sum of (i) the net asset value of per Unit (calculated without taking into account the accrual of a Performance Fee and any taxes thereon) at the end of such

fiscal year and (ii) the distributions paid per Unit during the previous 12 months, exceeds 105% of the Threshold Amount (as defined herein) (the “**Hurdle Rate**”), plus applicable taxes. For any partial fiscal year and with respect to Interim Performance Fees (as defined herein), the Hurdle Rate will be pro-rated. Notwithstanding the foregoing, no Performance Fee will be received by the Manager, unless the net asset value per Unit is greater than \$10.00 following payment of the Performance Fee on the Determination Date.

The “**Threshold Amount**” is the greatest of: (i) \$10.00; (ii) the net asset value per Unit of the Fund on the Determination Date for the previous fiscal year (after payment of such Performance Fee); and (iii) the net asset value per Unit of the Fund on the Determination Date in the last fiscal year in which a Performance Fee was paid (after payment of such Performance Fee).

Notwithstanding the foregoing, where Units of the Fund are redeemed on a particular Monthly Redemption Amount Calculation Date or Annual Redemption Amount Calculation Date during a fiscal year of the Fund (other than on the last Business Day of a fiscal year), the Fund shall pay the Manager a Performance Fee determined as though the Monthly Redemption Amount Calculation Date or Annual Redemption Amount Calculation Date, as applicable, was the Determination Date in respect of such Units. Any Performance Fee so determined (the “**Interim Performance Fees**”) shall be payable to the Manager on the applicable Redemption Amount Calculation Date.

The Manager will pay to Canso a percentage of any Performance Fee or Interim Performance Fee for the investment advisory and portfolio management services it provides for the Fund, as agreed between the Manager and Canso from time to time.

#### ***Ongoing Expenses of the Fund***

The Fund pays for all of its expenses incurred in connection with its operation and administration. The Fund is also responsible for its costs of portfolio transactions and any extraordinary expenses that may be incurred from time to time. The expenses paid by the Fund may be obtained from the Fund’s annual and semi-annual financial statements.

#### ***Additional Services***

Any arrangements for additional services between the Fund and the Manager, or any affiliate thereof, that have not been described herein will be on terms that are no less favourable to the Fund than those available from arm’s length persons (within the meaning of the Tax Act) for comparable services and the Fund will pay all expenses associated with such additional services.

#### **Fees and Expenses of the Manager**

##### ***Investment Advisory Fee***

The Manager will pay to Canso a percentage of the Management Fee for the investment advisory and portfolio management services it provides for the Fund, as agreed between the Manager and Canso from time to time.

The Manager will also pay to Canso a percentage of any Performance Fee or Interim Performance Fees as agreed upon between the Manager and Canso from time to time.

### **Canadian Federal Income Tax Considerations**

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. 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, holds Units as capital property and has not entered into a "**derivative forward agreement**", as defined in the Tax Act, in respect of the Units. 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 by them treated as capital property by making an irrevocable election in accordance with the Tax Act.

This summary is based on the current provisions of the Tax Act, an understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") published in writing prior to the date hereof, 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. No views are expressed 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 investor. Investors 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. In the event the Fund were not to qualify as a mutual fund trust under the Tax Act at any time, the income tax consequences described below would in some respects be materially and

adversely different. Provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act, the Units will be qualified investments under the Tax Act for trusts governed by Registered Plans.

This summary is also based on the assumption that the Fund will at no time be a SIFT trust. Provided the Fund complies with the Investment Restrictions, the Fund should not hold any investment that would result in the Fund being a SIFT trust.

If the Fund were not to qualify as a mutual fund trust at all times, the income tax considerations as described herein would in some respects be materially and adversely different.

### *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. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Fund or the Unitholder is entitled in that year to enforce payment of the amount. The Fund intends to deduct, in computing its income for each taxation year, an amount in respect of distributions to Unitholders sufficient to ensure that the Fund will generally not be liable for income tax under Part I of the Tax Act (after taking into account all other available deductions and all available credits and refunds). 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 (the “**Capital Gains Refund**”). The Capital Gains Refund in a particular taxation year may not completely offset the tax liability of the Fund, if any, for such taxation year which may arise upon the sale or other disposition of a security in the Portfolio in connection with the redemption of Units.

The Fund will be required to include in computing income for a taxation year, all interest on debt obligations that accrued to it before the end of the year, or becomes receivable or is received by it before the end of the year except to the extent that such interest was included in income in a previous taxation year.

The Fund will be required to include in its income for a taxation year all dividends received or considered to be received in the year on shares of corporations and, generally, taxable distributions received or considered to be received on other securities.

Upon the actual or deemed disposition of a security, the Fund will realize a capital gain (or capital loss) to the extent the proceeds of disposition net of any amounts included as interest on the disposition of the security and any reasonable costs of disposition exceed (or are less than) the adjusted cost base of such security unless the Fund was considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Fund has acquired the security in a transaction or transactions considered

to be an adventure or concern in the nature of trade. The Fund will purchase securities in the Portfolio with the objective of earning interest or other distributions thereon and participating in the long term capital appreciation of the securities in the Portfolio, and will take the position that gains and losses realized on the disposition of Portfolio Securities are capital gains and capital losses.

One-half of the amount of any capital gain (a “**taxable capital gain**”) realized by the Fund in a taxation year on the disposition of securities that are capital property of the Fund must be included in computing the Fund’s income for the year, and one-half of the amount of any capital loss (an “**allowable capital loss**”) realized by the Fund in a taxation year must be deducted against any taxable capital gains realized by the Fund in the year. Allowable capital losses for a taxation year in excess of taxable capital gains must be carried back and deducted by the Fund in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net realized taxable capital gains in accordance with the provisions of the Tax Act.

The Portfolio may include securities that are not denominated in Canadian dollars. Proceeds of disposition of securities, dividends, distributions, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars using the appropriate exchange rates determined in accordance with the detailed rules in the Tax Act in that regard. The Fund may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars.

Generally, the Fund will include gains and deduct losses on income account in connection with investments made through certain derivatives, including certain short sales of securities, except where such derivatives are used to hedge securities held on capital account provided there is sufficient linkage or the short sale is a hedge against identical securities of the Fund that are capital property, and will recognize such gains or losses for tax purposes at the time they are realized by the Fund. In accordance with the CRA’s published administrative practice, gains or losses realized on such derivatives hedging securities held on capital account will be treated and reported for purposes of the Tax Act on capital account provided there is sufficient linkage and they are not “**derivative forward agreements**” within the meaning of the Tax Act.

The Fund may derive income or gains from investments in countries other than Canada and, as a result, may be liable to pay tax to such countries. To the extent that such foreign tax paid qualifies as an income or profits tax (for example, withholdings on foreign source interest) and does not exceed 15% of such amount and has not been deducted in computing the Fund’s income, the Fund may designate a portion of its foreign source income in respect of a Unitholder so that such income and a portion of the foreign tax paid by the Fund may be regarded as foreign source income of, and foreign tax paid by, the Unitholder for the purposes of the foreign tax credit provisions of the Tax Act. To the extent that such foreign tax paid by the Fund exceeds 15% of the amount included in the Fund’s income from such investments, such excess may generally be deducted by the Fund in computing its income for the purposes of the Tax Act.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income. The Fund may generally deduct

any 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. Any losses of the Fund may not be allocated to Unitholders but may be carried forward and back and deducted in computing the taxable income of the Fund in accordance with the detailed rules of the Tax Act.

### *Taxation of Unitholders*

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 (whether in cash or in Units) in the taxation year including any portion of amounts paid on a redemption of Units treated as distributions of income or the taxable portion of any amounts paid on such redemption treated as distributions of net realized capital gains by the Fund. The non-taxable portion of the Fund's net realized capital gains paid or payable 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, such as a return of capital of the Fund, will generally not be included in the Unitholder's income. Such an 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: (i) the net realized taxable capital gains of the Fund, (ii) income of the Fund from foreign sources as is paid or payable to a Unitholder and (iii) taxable dividends received or deemed to be received by the Fund, will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. A Unitholder will generally be entitled to foreign tax credits in respect of foreign taxes under and subject to detailed foreign tax credit rules under the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply, including the enhanced gross-up and dividend tax credit for eligible dividends designated by taxable Canadian corporations.

On the disposition or deemed disposition of a Unit, including a redemption, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition excluding any portion of amounts paid on redemption treated as distributions of income or gains by the Fund exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. For the purpose of determining the adjusted cost base of Units to a Unitholder, when Units are acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units of that class owned by the Unitholder as capital property immediately before that time. The cost of Units acquired as a distribution by the Fund to a Unitholder will generally be equal to the amount of the distribution. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units and will not affect the aggregate adjusted cost base to a Unitholder of Units.

Based on counsel's understanding of the CRA's current administrative position, a conversion of Class F Units into Class A Units will not constitute a disposition of such Class F Units for the purposes of the Tax Act.

A taxable capital gain realized on the disposition of Units, or paid to the Unitholder out of the Fund's net realized capital gains and so designated by the Fund, will be included in the Unitholder's income and one-half of any capital loss realized by a Unitholder must be deducted from taxable capital gains subject to and 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 as taxable dividends from taxable Canadian corporations, and taxable capital gains realized on the disposition of Units, may increase the Unitholder's liability, if any, for alternative minimum tax.

### *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.

Notwithstanding the foregoing, if the Units are "**prohibited investments**" for the purposes of a tax-free savings account, registered retirement savings plan, or registered retirement income fund, a holder of the account or annuitant of the plan, as the case may be, 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 annuitant, or in which the holder or annuitant 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 or annuitant, either alone or together with persons with whom the holder or annuitant does not deal at arm's length. Unitholders are advised to consult their own tax advisors in this regard.

### *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.

## **Remuneration of Directors, Officers and Independent Review Committee Members**

The officers of the Manager receive their remuneration from the Manager. The directors of the Manager do not receive any director fees. Compensation for members of the independent review committee is pro-rated across all funds for which Lysander is the fund manager. The maximum fee in respect of all funds for which Lysander is the fund manager is currently \$13,760 (excluding applicable taxes) for the chair and \$11,000 (excluding applicable taxes) per member per annum. The expenses of the directors of the Manager and the premiums for directors' and officers' insurance coverage for the directors and officers of the Manager are paid by the Manager. The fees and other reasonable expenses of members of the independent review committee, as well as premiums for insurance coverage for such members, are paid by the Fund and other applicable investment funds managed by the Manager on a pro rata basis. In addition, the Fund has agreed to indemnify the members of the independent review committee against certain liabilities. The total amount of the fees and expenses of the Independent Review Committee members paid by the Fund for the year ended December 31, 2016 was Nil.

### *Remuneration of the Trustee*

The Trustee is not entitled to receive fees from the Fund so long as the Trustee is also the manager of the Fund. The Trustee is entitled to be reimbursed by the Fund for all expenses which are reasonably incurred by it in connection with the activities of the Fund.

## **Material Contracts**

The only material contracts entered into by the Fund or the Manager, other than during the ordinary course of business, are as follows:

- (a) the Declaration of Trust;
- (b) the Management Agreement;
- (c) the Investment Advisory Agreement;
- (d) the Custodian Agreement;
- (e) the Prime Brokerage Agreements;
- (f) Prime Brokerage Tri-Party Custody Agreements; and
- (g) the Recirculation Agreement.

Copies of the foregoing documents may be examined during normal business hours at the principal office of the Fund. Hard copies of the Declaration of Trust may be obtained at any time from the Manager on written request.

## **Legal and Administrative Proceedings**

The Manager is not aware of any material ongoing, pending or threatened legal or administrative proceedings to which the Fund or the Manager is a party.

## **Risk Factors**

Certain risk factors relating to the Fund and the Units are described below. Additional risks and uncertainties not currently known to the Manager or Canso, or that are currently considered immaterial, may also impair the operations of the Fund. 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 will be able to achieve its 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. Changes in the relative weightings between the various types of securities making up the fund 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 Unit with respect to the Class A Units and there can be no assurance that the Class A Units will trade at a price equal to the net asset value per Unit with respect to the Class A Units.

### *Class F Units*

Class F Units will not be listed on any stock exchange. It is expected that 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 or all of their investment.

### *Credit Risk*

Credit risk refers to an issuer's ability to make timely payments of interest and principal. To the extent that the Fund invests in non-investment grade securities, it is subject to a higher level of credit risk than a fund that invests only in investment grade securities. The credit quality of non-investment grade securities is considered speculative by recognized rating agencies with respect to the issuer's continuing ability to pay interest and principal. Lower- grade securities may have less liquidity and a higher incidence of default than higher-grade securities. The Fund may incur higher expenses to protect the Fund's interest in such securities. The credit risks and market prices of lower-grade securities

generally are more sensitive to negative issuer developments, such as reduced revenues or increased expenditures, or adverse economic conditions, such as a recession, than are higher-grade securities.

### *General Risks of Investing in Bonds*

Generally, bonds will decrease in value when interest rates rise and increase in value when interest rates decline. The net asset value of the Fund will fluctuate with interest rate changes and the corresponding changes in the value of the securities in the Portfolio. The value of bonds 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 may not pay interest or their issuers may default on their obligations to pay interest and/or principal amounts. Certain of the bonds 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.

### *Equity Securities*

To the extent that the Fund holds equity investments, it will be influenced by stock market conditions in those jurisdictions where the securities held by the Fund are listed for trading and by the risks inherent in investments in equity securities, including the risk that the financial condition of the issuers in which the Fund invests may become impaired. 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.

### *Foreign Investment Risk*

To the extent that the Fund invests in securities of foreign issuers, it will be affected by world economic factors and in many cases by the value of the Canadian dollar as measured against foreign currencies. Obtaining complete information about potential investments from foreign markets may also be of greater difficulty. Foreign issuers may not follow certain standards that are applicable in North America, such as accounting, auditing, financial reporting and other disclosure requirements. Political climate may differ, affecting stability and volatility in foreign markets. As a result, the Fund's value may fluctuate to a greater degree by investing in foreign securities, than if the Fund limits its investments to Canadian securities.

### *Emerging Market Risk*

The Fund may invest in countries that are considered to be emerging market countries at the time of purchase. Investments in the securities of issuers in emerging market countries could involve risks not associated with investments in the securities of issuers in developed countries. Emerging markets can be substantially more volatile, and

substantially less liquid, than more developed markets such as Canada. Emerging markets could be subject to greater political and economic instability, uncertainty regarding the existence of trading markets and more governmental limitations on foreign investment than most developed markets.

There may be less information publicly available with regard to emerging market issuers and such issuers are not subject to the uniform accounting, auditing and financial reporting standards applicable to Canadian issuers. There may be no single centralized securities exchange on which securities are traded in emerging market countries and there may be a lack of established political, business and social frameworks to support the existing securities markets. In addition, the systems of corporate governance to which companies in emerging markets are subject may be less advanced than that to which Canadian issuers are subject, and therefore, shareholders in such companies may not receive many of the protections available to shareholders in Canada.

Securities laws in many emerging market countries are relatively new and unsettled. In addition, laws regarding foreign investment in emerging market securities, securities regulation, title to securities and shareholder rights may change quickly and unpredictably. Further, the enforcement of systems of taxation at federal, regional and local levels in emerging market countries may be inconsistent and subject to sudden change.

Investments in foreign markets also carry potential exposure to the risk of political upheaval, acts of terrorism and war, and/or expropriation by governments, all of which could have an adverse impact on the value of the securities.

#### *Non-investment Grade Securities*

The Fund may invest a portion of its assets in non-investment grade securities. Such instruments may be issued by companies that are in financial difficulty, and may be in, or emerging from, bankruptcy proceedings or other legally-mandated forms of liquidation proceedings. To the extent that the Fund purchases distressed or bankrupt securities or junk bonds or other high yield instruments, such investments also entail a higher risk of loss of capital. In addition, non-investment grade instruments generally represent a higher credit risk. Distressed securities carry with them a higher credit risk as well as a higher “**deal risk**” (i.e. the process of restructuring the issuer of distressed securities may result in those securities being converted into a security or securities having lower potential value and/or higher risk). The length and complexity of bankruptcy and other insolvency proceedings may make it difficult for the Fund to realize upon its investments when it desires. Such proceedings may be governed by Canadian, U.S. or non-North American bankruptcy regimes.

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

The value of the Units will vary according to the value of the securities included in the Fund. The value of the securities included in the Fund will be influenced by factors which are not within the control of the Fund, the Manager or Canso, 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. 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 Fund 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*

Despite a very rocky start to 2016 and a shock affirmative vote for the Brexit camp in mid-2016, U.S. equity markets ended the year higher following the election of Donald Trump in November 2016. Under a Trump administration, the expectation is for tax cuts, increased infrastructure spending and higher government deficits. In addition, with the U.S. already basically at full employment and inflation trending higher, the U.S. Federal Reserve raised the target range for its federal funds rate by a quarter-point in December 2016 to 0.5%-0.75%. The U.S. Federal Reserve also set the stage for further rate increases in 2017.

These policies have been viewed by the market as positive economically, but also inflationary for the U.S. and as a result both credit and equity markets rallied strongly in the fourth quarter of 2016. For the year, equity markets were up strongly in North America with the Dow gaining 16.5%, the S&P 500 up 12.0% and the TSX up 21.3%. Returns in European markets were positive but more muted than North America. In the bond markets narrower credit spreads were offset by higher interest rates in most major markets globally. Rising bond yields pushed bond prices down, with the biggest effect on bonds with longer maturities. Overall, yields on Canada bonds rose roughly 0.5% from very low levels. However, Canso believes that interest rates are likely to rise further in the medium term putting further pressure on bond prices. The Fund had much greater exposure to the equity markets throughout 2016 and maintains that exposure through the first two months of 2017.

The Fund will continue to focus on undervalued securities in both the debt and equity markets. We will likely continue to maintain a high weight in equities in the Portfolio as the names we hold represent very good value in our view. With respect to the bond portion of the Portfolio, Canso has become more cautious and moved to increase quality. We have reduced some of the Fund's long-short positions and also some of its high yield holdings as we are not being paid to take risk in the credit markets.

As with any market cycle, however, there are always opportunities. In Canso's view there is a very real possibility of market disruption, in both equities and bonds, due to economic or political policies under the Trump administration. In addition, Canso continues to believe the Canadian economy could come under pressure in the medium term due to a correction in an overheated housing market, or due to pressure on government finances. Canso has expressed their negative view on the housing market through select short positions in financial companies exposed to the housing market. Canso have a number of highly liquid equities in the Portfolio that will allow Canso to move quickly into more

attractive opportunities should they arise. Given Canso's view on interest rates, Canso will continue to insulate the Portfolio by hedging long corporate bond positions with short positions in Canada bonds. In the high yield space Canso will continue to be very selective in its holdings to positions that are well structured and/or very attractively priced.

### *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 Canso wishes to do so, thereby requiring the Fund 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.

### *Composition of the Fund*

The composition of the securities included in the Fund 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 Fund being less diversified than anticipated. Overweighting investments in certain sectors or industries involves risk that the Fund will suffer a loss because of declines in the prices of securities in those sectors or industries.

### *Interest Rate Fluctuations*

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

### *Illiquid Securities*

Some of the securities in which the Fund intends to invest are thinly traded or traded only in negotiated transactions with investment dealers or brokers. It is possible that the Fund may not be able to sell or repurchase significant portions of its positions without facing substantially adverse prices. The Fund may invest a portion of its assets in illiquid securities. If the Fund is required to sell securities before its intended investment horizon, for example as a result of redemptions, the performance of the Fund could suffer. The Fund will be affected by those securities that are difficult to sell because they may be small

companies with limited outstanding securities or they may be unknown to investors and are not traded regularly. Difficulty in selling securities may result in a loss or a costly delay. There is no assurance that an adequate market will exist for the securities included in the Fund and it cannot be predicted whether the securities included in the Fund will trade at a discount to, a premium to, or at their respective par or net asset values.

### *Use of Derivatives*

The Fund may invest in and use derivative instruments for hedging and non-hedging purposes to the extent considered appropriate by Canso taking into account factors including transaction costs. There can be no assurance that the Fund's derivatives trading strategies will be effective. The Fund 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 Fund of margin deposits in the event of the bankruptcy of the dealer with whom the Fund 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 Fund to close out its positions may also be affected by exchange imposed daily trading limits on options and futures contracts. If the Fund is unable to close out a position, it will be unable to realize its profit or limit its losses until such time as the futures or forward contract terminates, as the case may be. The inability to close out futures and forward positions could also have an adverse impact on the Fund's ability to use derivative instruments to effectively hedge the Fund.

The use of hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent Canso's assessment of certain market movements is incorrect, the risk that the use of hedges could result in losses greater than if the hedging had not been used. Hedging arrangements may have the effect of limiting or reducing the total returns to the Fund if Canso's expectations concerning future events or market conditions prove to be incorrect. In addition, the costs associated with a hedging program may outweigh the benefits of the arrangements in such circumstances.

The Fund will not necessarily be hedged at any particular time or against any particular risk. To the extent the Fund is unhedged, the value of the Fund's assets, or the assets to which it is exposed, will fluctuate with the value of its positions. The unhedged positions of the Fund may decrease in value, causing the Fund losses and a decrease in the net asset value of the Fund.

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

Some or all of the assets of the Fund may be held in one or more margin accounts due to the fact that the Fund may 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 Fund in such accounts, which may result in a potential loss of such assets. As a result, the assets of the Fund 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 Fund 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 Fund may engage in securities lending. Although the Fund will receive collateral for the loans and such collateral will be marked-to-market, the Fund 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 Fund may employ leverage. For example, the Fund 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 Fund's net assets will decrease. The use of leverage, which exposes the borrower to changes in price at a ratio higher than 1:1 in reference to the amount invested, magnifies both the favourable and the unfavourable effects of price movements in investments. The leveraged capital structures of the Fund and entities in which the Fund may make investments increases exposure to adverse economic factors such as rising interest rates, downturns in the economy and/or deterioration in the condition of the entity or its industry. Such increased exposure to adverse economic factors may decrease the overall return on investment realized by the Fund and ultimately Unitholders, from the overall return on investment that may have been realized if leveraged capital structures had not been used by the Fund or the entities in which it may invest. 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 Fund and which could result in a loss for the Fund. There can be no assurance that the leveraged investment strategies employed by the Fund will enhance returns.

### *Currency Exposure*

As the Portfolio will be invested in securities, including those traded in United States dollars, the net asset value of the Fund, when measured in Canadian dollars, will, to the extent it has not been hedged against, be affected by changes in the value of the United States dollar relative to the Canadian dollar. No assurance can be given that the Fund will not be adversely affected by changes in foreign exchange rates or other factors. The use of hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent Canso'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.

### *Reliance on Canso*

Canso will manage the Fund in a manner consistent with the investment objectives and the investment restrictions of the Fund. The officers of Canso who will be primarily responsible for the management of the Fund 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 Fund.

### *Taxation of the Fund*

If the Fund ceases to qualify as a “**mutual fund trust**” under the Tax Act, the income tax considerations described under the heading “**Canadian Federal Income Tax Considerations**” would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the Unitholders.

In determining its income for tax purposes, the Fund will treat gains or losses on the disposition of securities in the Portfolio as capital gains and losses. The Fund may use derivative instruments for hedging and non-hedging purposes. Subject to the discussion below regarding the DFA Rules, gains or losses realized on such derivatives will be treated and reported for purposes of the Tax Act on capital account provided there is sufficient linkage. Designations with respect to the Fund’s income and capital gains will be made and reported to Unitholders on this basis. The CRA’s practice is not to grant advance income tax rulings on the characterization of items as capital gains or income and no advance income tax ruling has been requested or obtained. If the foregoing dispositions or transactions of the Fund are not on capital account, the net income of the Fund for tax purposes and the taxable component of distributions to Unitholders could increase.

The Tax Act contains rules (the “**DFA Rules**”) that target certain financial arrangements (referred to as “**derivative forward agreements**”) that seek to reduce tax by converting, through the use of derivative contracts, the return on an investment that would otherwise have the character of ordinary income to a capital gain. The DFA Rules are broadly drafted, and could apply to other agreements or transactions (including certain forward currency contracts). If the DFA Rules were to apply to certain derivatives to be utilized by the Fund, gains realized in respect of such derivatives could be treated as ordinary income rather than capital gains.

To the extent that the Fund invests in securities of foreign issuers, distributions received by the Fund may be subject to foreign withholding tax and the Fund may be subject to other foreign taxes.

The Fund is formed to provide investors with exposure to portfolio investments and is subject to investment restrictions intended to ensure that it will not be a SIFT Trust. If the Fund were considered to be a SIFT Trust, the income tax considerations described under the heading “**Canadian Federal Income Tax Considerations**” would be materially and adversely different in certain respects.

Pursuant to certain rules in the Tax Act, if the Fund experiences a “**loss restriction event**”, the Fund (i) will be deemed to have a year-end for tax purposes (which would result in an unscheduled distribution of the Fund’s net income and net realized capital gains, if

any, at such time to Unitholders so that the Fund would not be liable for income tax on such amounts under Part I of the Tax Act), and (ii) will become subject to the loss restriction rules generally applicable to a corporation that experiences an acquisition of control, including a deemed realization of any unrealized capital losses and restrictions on its ability to carry forward losses. Generally, the Fund would be subject to a loss restriction event if a person becomes a “**majority-interest beneficiary**”, or a group of persons becomes a “**majority-interest group of beneficiaries**”, of the Fund, as those terms are defined in the Tax Act. Generally, a person would be a majority-interest beneficiary of the Fund if it, together with persons and partnerships with whom it is affiliated, owns Units representing more than 50% of the fair market value of all Units of the Fund. The Tax Act provides relief from the application of the loss restriction event rules to a trust that qualifies as an “**investment fund**”. The Fund expects that it will qualify at all times as an investment fund at all times but, if at any time, it were to cease to qualify, it could never again qualify as there is no “**fresh-start**” rule.

### *Exchange of Tax Information*

The Fund is required to comply with due diligence and reporting obligations imposed under amendments to the Tax Act that implemented the Canada-United States Enhanced Tax Information Exchange Agreement. As long as Units continue to be listed on the TSX or registered in the name of CDS, the Fund should not have any U.S. reportable accounts and, as a result, it should not be required to provide information to the CRA in respect of Unitholders. However, dealers through which Unitholders hold their Units are subject to due diligence and reporting obligations with respect to financial accounts that they maintain for their clients. Unitholders may be requested to provide information to their dealer in order to allow the dealer to identify U.S. persons holding Units. If a Unitholder is a U.S. person (including a U.S. citizen or green card holder who is resident in Canada) or if the Unitholder does not provide the requested information, the Unitholder’s dealer will be required by the Tax Act to report certain information about the Unitholder’s investment in the Fund to the CRA, unless the Units are held by a registered plan. The CRA is expected to provide that information to the U.S. Internal Revenue Service.

Canada has signed the OECD Multilateral Competent Authority Agreement and Common Reporting Standard (“**CRS**”) which provides for the implementation of the automatic exchange of tax information applicable to residents of jurisdictions other than Canada or the United States. The CRS will be effective in Canada as of July 1, 2017 with the first exchanges of financial account information beginning in 2018. As long as Units continue to be registered in the name of CDS, the Fund should not have any reportable accounts and, as a result, should not be required to provide information to the CRA in respect of its Unitholders. However, under the CRS, Unitholders will be required to provide certain information including their tax identification numbers to their dealer for the purpose of such information exchange unless their investment is held within a plan trust. The CRA is expected to provide that information to the taxing authority of the relevant participating jurisdiction, if any, in CRS.

### *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 any securities held by the Fund.

### *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 or Unitholders.

### *Conflicts of Interest - the Fund*

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. 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 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 and the Manager.

### *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.

### *Valuation of the Fund*

Valuation of the Fund may involve uncertainties and judgement determinations, and, if such valuations should prove to be incorrect, the net asset value of the Fund could be adversely affected. The Manager may face a conflict of interest in valuing securities held by the Fund because the values assigned will affect the calculation of the Management Fee and Performance Fee payable by the Fund to it.

### *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.

Other closed-end funds with annual redemption rights similar to the redemption rights in respect of the Units have experienced significant redemptions on annual redemption dates in the past.

### *Suspension of Redemptions*

The Fund may suspend the redemption of Units or payment of redemption proceeds (i) 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 Fund (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 (ii) for any period of time as provided by applicable securities legislation or policies of securities regulatory authorities. If redemptions are suspended, Unitholders may experience reduced liquidity or no liquidity at all.

### *Operating History*

The Fund is a newly organized investment trust with no previous operating history prior to the completion of its initial public offering on October 22, 2013. There is a public market for the Class A Units but there can be no assurance that an active public market for the Class A Units will be sustained. There is no public market for the Class F Units.

### *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.

### *Cybersecurity Risk*

With the increased use of technologies such as the Internet to conduct business, the Manager and the Fund have become potentially more susceptible to operational and information security risks through breaches in cybersecurity. In general, a breach in cybersecurity can result from either a deliberate attack or an unintentional event. Cybersecurity breaches may involve, among other things, infection by computer viruses or other malicious software code or unauthorized access to the Manager’s or the Fund’s digital information systems, networks or devices through “**hacking**” or other means, in each case for the purpose of misappropriating assets or sensitive information (including, for example, personal unitholder information), corrupting data or causing operational disruption or failures in the physical infrastructure or operating systems that support the Manager or the Fund. Cybersecurity risks also include the risk of losses of service resulting from external attacks that do not require unauthorized access to the Manager’s or the Fund’s systems, networks or devices. Any such cybersecurity breaches or losses of service may cause the Manager or the Fund to lose proprietary information, suffer data corruption or lose operational capacity, which, in turn, could cause the Manager or the Fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss. While the Fund and the Manager have

established business continuity plans and risk management systems designed to prevent or reduce the impact of cybersecurity attacks, there are inherent limitations in such plans and systems due in part to the ever-changing nature of technology and cybersecurity attack tactics, and there is a possibility that certain risks have not been fully identified and/or for which adequate preparations have not been made.

In addition, cybersecurity failures by or breaches of the Manager's or the Funds' third-party service providers may disrupt the business operations of the service providers and of the Manager or the Fund. These disruptions may result in financial losses, the inability of Fund unitholders to transact business with the Fund and the inability of the Fund to process transactions, the inability of the Fund to calculate its net asset value, violations of applicable privacy and other laws, rules and regulations, regulatory fines, penalties, reputational damage, reimbursement or other compensatory costs and/or additional compliance costs associated with implementation of any corrective measures. Cybersecurity risks may also impact issuers of securities in which a Fund invests, which may cause the Fund's investments in such issuers to lose value.

### *Nature of Units*

The Units are neither fixed income nor traditional 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.

### *Performance Fees*

The estimated Performance Fee, if any, payable to the Manager will be accrued each month as a liability of the Fund, ultimately reducing the net asset value per Unit of the Fund. The redemption price received by an investor whose Units are redeemed will reflect an accrual for any Performance Fees, based on any increase in net asset value per Unit from the beginning of the fiscal year through the date of redemption. However, the accrual of Performance Fees may subsequently be reversed if the Fund's performance declines and no adjustment to a redemption price will be made after it has been fixed.

### **Impact of the Canadian Securities Administrators' Modernization of Investment Fund Product Regulation Project on the Fund**

The Canadian Securities Administrators (the "**CSA**") have adopted amendments to NI 81-102 as part of Phase 2 of the CSA's implementation of the Modernization of Investment Fund Product Regulation Project (the "**Modernization Project**"). The Modernization Project extends the application of certain sections of NI 81-102 to non-redeemable investment funds, including but not limited to, introducing fundamental investment restrictions and operating requirements for non-redeemable investment funds. The Declaration of Trust will be amended to comply with the amendments to NI 81-102. Pursuant to section 13.3(4)(c) of the Declaration of Trust, neither Unitholder approval nor notice to Unitholders of the proposed amendments to the Declaration of Trust will be

required because the amendments will be made to bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators.

## **Other Material Information**

### *Changes in Accounting Standards*

The final version of IFRS 9, Financial Instruments, was issued by the International Accounting Standards Board in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held.

The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however, it is available for early adoption. In addition, the own credit risk changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

## CANSO SELECT OPPORTUNITIES FUND

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Additional information about the Fund is available in the Fund's management report of fund performance and financial statements. You can receive a copy of these documents at no cost by calling collect (416) 640-4275, or from your dealer or by e-mail at [information@lysanderfunds.com](mailto:information@lysanderfunds.com). These documents and other information about the Fund, such as information circulars and material contracts, are also available on the Manager's website at [www.lysanderfunds.com](http://www.lysanderfunds.com) or at [www.sedar.com](http://www.sedar.com).