

**Financial Statements**

December 31, 2019

Canso Credit Income Fund



## Independent Auditor's Report

To the Unitholders of Canso Credit Income Fund (the "Fund")

### Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information which comprises the Management Report of Fund Performance.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Darroch.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
March 24, 2020

# Canso Credit Income Fund

Financial Statements December 31, 2019

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# Canso Credit Income Fund

## Statements of Financial Position

As at	31-Dec-19	31-Dec-18
<b>Assets</b>		
Financial assets at fair value through profit or loss*	\$ 233,252,346	\$ 225,441,186
Cash and cash equivalents	1,299,961	5,300,727
Accrued Interest	1,396,499	1,765,253
Dividends receivable	45,501	75,039
Options contracts	375	-
Receivable on forward exchange contracts	419,419	-
<b>Total assets</b>	<b>\$ 236,414,101</b>	<b>\$ 232,582,205</b>
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss at inception*	\$ 78,960,371	\$ 74,786,443
Accrued management fees	99,217	100,516
Other accrued expenses	167,028	227,575
Distributions payable to holders of redeemable units	571,321	602,150
Payable on forward exchange contracts	-	854,848
<b>Total liabilities</b>	<b>\$ 79,797,937</b>	<b>\$ 76,571,532</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$ 156,616,164</b>	<b>\$ 156,010,673</b>
<b>Net assets attributable to holders of redeemable units, per class</b>		
Class A	\$ 142,866,229	\$ 138,957,999
Class F	13,749,935	17,052,674
<b>Total net assets</b>	<b>\$ 156,616,164</b>	<b>\$ 156,010,673</b>
<b>Number of redeemable units outstanding</b>		
Class A	12,603,943	12,986,466
Class F	1,109,959	1,467,453
<b>Net assets attributable to holders of redeemable units per unit</b>		
Class A	\$ 11.34	\$ 10.70
Class F	12.39	11.62
* Financial assets at fair value through profit or loss at cost	\$ 150,254,170	\$ 157,765,910

## Statements of Comprehensive Income

For the years ended	31-Dec-19	31-Dec-18
<b>Income</b>		
Interest for distribution purposes	\$ 9,036,444	\$ 7,733,220
Dividend Income	842,419	831,466
Derivative income	772,574	(1,392,928)
Other Income	7,409	1,605
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on investments sold	(1,557,624)	3,324,989
Net realized gain (loss) on options	(1,065)	-
Net realized gain (loss) on foreign currency	(68,355)	33,566
Net other gain (loss)	(542,207)	(261,914)
Change in (depreciation) unrealized on investments	12,423,614	(12,256,662)
<b>Total operating income</b>	<b>\$ 20,913,209</b>	<b>\$ (1,986,658)</b>
<b>Expenses</b>		
Management fees	\$ 1,180,803	\$ 1,279,386
Performance fees	-	12,585
Interest expense, short positions	1,894,304	1,526,808
Stock borrow costs	327,203	302,483
Service expense	544,800	588,037
Dividend expense, short positions	484,933	353,626
Harmonized sales tax	119,133	164,645
Fund valuation fees	47,734	33,179
Legal fees	15,980	24,276
Regulatory and listing expense	25,840	19,155
Commissions and other portfolio transaction costs	12,330	32,594
Audit fees	13,012	(8,862)
Administration fees	17,836	31,549
Registration and other filing fees	6,691	17,067
Transfer agent	13,450	13,450
Trustee fees	6,317	8,297
Independent review committee fees	1,914	1,240
Other expenses	8,627	3,745
<b>Total operating expenses</b>	<b>\$ 4,720,907</b>	<b>\$ 4,403,260</b>
<b>Change in net assets attributable to holders of redeemable units from operations</b>	<b>\$ 16,192,302</b>	<b>\$ (6,389,918)</b>
<b>Change in net assets attributable to holders of redeemable units, per class</b>		
Class A	\$ 14,534,797	\$ (5,780,223)
Class F	1,657,505	(609,695)
<b>Change in net assets attributable to holders of redeemable units per unit</b>		
Class A	\$ 1.14	\$ (0.44)
Class F	1.28	(0.40)

# Canso Credit Income Fund

## Statements of Changes in Net Assets Attributed to Holders of Redeemable Units

### All Classes

For the years ended	31-Dec-19	31-Dec-18
Net assets attributable to holders of redeemable units, beginning of year	\$ 156,010,673	\$ 173,198,177
Change in net assets attributable to holders of redeemable units from operations	16,192,302	(6,389,918)
<b>Distributions to unitholders of redeemable units</b>		
From net investment income	\$ (344,710)	\$ (2,144,713)
From return of capital	(6,664,406)	(5,140,460)
	<b>\$ (7,009,116)</b>	<b>\$ (7,285,173)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued		
Class A	\$ 2,684,593	\$ 979,698
Class F	-	-
Cost of units redeemed		
Class A	(6,945,607)	(2,759,815)
Class F	(4,316,681)	(1,732,296)
Change in net assets attributable to holders of redeemable units for the year	605,491	(17,187,504)
<b>Net assets attributable to holders of redeemable units, end of year</b>	<b>\$ 156,616,164</b>	<b>\$ 156,010,673</b>

### Class A

For the years ended	31-Dec-19	31-Dec-18
Net assets attributable to holders of redeemable units, beginning of year	\$ 138,957,999	\$ 153,037,953
Change in net assets attributable to holders of redeemable units from operations	14,534,797	(5,780,223)
<b>Distributions to unitholders of redeemable units</b>		
From net investment income	\$ (315,440)	\$ (1,932,322)
From return of capital	(6,050,113)	(4,587,292)
	<b>\$ (6,365,553)</b>	<b>\$ (6,519,614)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued due to conversion F to A		
	\$ 2,684,593	\$ 979,698
Cost of units redeemed	(6,945,607)	(2,759,815)
	<b>\$ (4,261,014)</b>	<b>\$ (1,780,117)</b>
Change in net assets attributable to holders of redeemable units for the year	\$ 3,908,230	\$ (14,079,954)
<b>Net assets attributable to holders of redeemable units, end of year</b>	<b>\$ 142,866,229</b>	<b>\$ 138,957,999</b>

### Class F

For the years ended	31-Dec-19	31-Dec-18
Net assets attributable to holders of redeemable units, beginning of year	\$ 17,052,674	\$ 20,160,224
Change in net assets attributable to holders of redeemable units from operations	1,657,505	(609,695)
<b>Distributions to unitholders of redeemable units</b>		
From net investment income	\$ (29,270)	\$ (212,391)
From return of capital	(614,293)	(553,168)
	<b>\$ (643,563)</b>	<b>\$ (765,559)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued due to conversion F to A		
	\$ (2,684,593)	\$ (979,698)
Cost of units redeemed	(1,632,088)	(752,598)
	<b>\$ (4,316,681)</b>	<b>\$ (1,732,296)</b>
Change in net assets attributable to holders of redeemable units for the year	\$ (3,302,739)	\$ (3,107,550)
<b>Net assets attributable to holders of redeemable units, end of year</b>	<b>\$ 13,749,935</b>	<b>\$ 17,052,674</b>

# Canso Credit Income Fund

## Statements of Cash Flows

For the years ended	31-Dec-19	31-Dec-18
<b>Cash flows from (used in) operating activities</b>		
Change in net assets attributable to holders of redeemable units	\$ 16,192,302	\$ (6,389,918)
Adjustments for:		
Foreign exchange (gain) loss on cash	68,355	(33,566)
Net realized (gain) loss on sale of investments and derivatives	1,557,624	(3,324,989)
Net realized (gain) loss on sale of options	1,065	-
Net change in unrealized (appreciation) depreciation of investments and derivatives	(12,423,614)	12,256,662
Purchase of investments	(135,192,913)	(89,480,578)
Proceeds from the sale of investments	141,145,964	90,935,239
Interest receivable	368,754	(671,472)
Dividends receivable	29,538	23,764
Other liabilities	(61,846)	(2,041,215)
<b>Net cash from (used in) operating activities</b>	<b>\$ 11,685,229</b>	<b>\$ 1,273,927</b>
<b>Cash flows from (used in) financing activities</b>		
Distributions paid to holders of redeemable units	\$ (7,039,945)	\$ (7,297,344)
Amounts paid on redemption of redeemable units	(8,577,695)	(3,519,300)
<b>Net cash from (used in) financing activities</b>	<b>\$ (15,617,640)</b>	<b>\$ (10,816,644)</b>
Foreign exchange (loss) on cash and cash equivalents	\$ (68,355)	\$ 33,566
(Decrease) Increase in cash and cash equivalents during the year	(3,932,411)	(9,542,717)
Balance of cash and cash equivalents, beginning of year	5,300,727	14,809,878
<b>Cash and cash equivalents at the end of year</b>	<b>\$ 1,299,961</b>	<b>\$ 5,300,727</b>
<b>Supplementary disclosures on cash flow from operating activities</b>		
Interest received	\$ 9,405,198	\$ 7,061,748
Interest expense, short positions	1,894,304	1,526,808
Dividends received	871,957	855,230
Dividend expense, short positions	484,933	353,626

## Schedule of Investment Portfolio as at December 31, 2019

Par Value/Number of Shares		Average Cost (\$)	Fair Value (\$)
<b>Bonds held long</b>			
22,100,000	AT&T Inc., Callable, 4.85%, 2047/05/25	\$ 22,590,853	\$ 23,498,099
13,546,000	Bank of Montreal, Series '14', Floating Rate, 2.16%, 2023/02/01	13,527,655	13,593,140
3,460,000	Bank of Nova Scotia, Variable Rate, 2.19%, 2085/08/31	2,981,588	3,522,103
182,845	Bell Canada, Zero Coupon, 2023/06/15	163,332	165,587
182,845	Bell Canada, Zero Coupon, 2026/06/15	139,802	148,246
182,845	Bell Canada, Zero Coupon, 2026/12/15	136,180	144,863
182,845	Bell Canada, Zero Coupon, 2027/06/15	131,771	141,634
182,845	Bell Canada, Zero Coupon, 2027/12/15	127,038	138,105
182,845	Bell Canada, Zero Coupon, 2028/06/15	123,844	136,009
182,845	Bell Canada, Zero Coupon, 2028/12/15	116,099	131,966
2,626,906	Black Press Group Ltd., Callable, 12.00%, 2024/03/31	2,626,906	2,626,906
100,000	Bombardier Inc., Callable, 6.00%, 2022/10/15	126,048	129,960
3,701,400	ClearStream Energy Services Inc., 8.00%, 2026/03/23	3,701,400	3,331,260
1,166,000	Element Fleet Management Corp., Convertible, Callable, 4.25%, 2020/06/30	1,128,390	1,171,480
311,000	Element Fleet Management Corp., Convertible, Callable, 4.25%, 2024/06/30	311,000	357,152
1,931,000	Enbridge Inc., Callable, 5.75%, 2039/09/02	2,211,343	2,400,793
8,221,000	Enbridge Inc., Callable, 4.57%, 2044/03/11	8,549,265	9,008,194

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# Canso Credit Income Fund

## Schedule of Investment Portfolio as at December 31, 2019

Par Value/Number of Shares		Average Cost (\$)	Fair Value (\$)	Par Value/Number of Shares		Average Cost (\$)	Fair Value (\$)
<b>Bonds held long</b>							
<i>Cont'd</i>							
12,487,000	Ford Credit Canada Co., Floating Rate, 5.19%, 2024/03/21	12,487,000	12,847,125	130,800	Loblaw Cos. Ltd., Zero Coupon, 2027/02/17	96,000	100,911
2,819,000	General Electric Capital Corp., 5.88%, 2038/01/14	3,775,506	4,450,074	130,800	Loblaw Cos. Ltd., Zero Coupon, 2027/08/17	94,773	98,278
3,890,000	Honda Canada Finance Inc., Floating Rate, 2.30%, 2020/12/18	3,891,834	3,897,430	130,800	Loblaw Cos. Ltd., Zero Coupon, 2028/02/17	90,401	96,452
1,390,000	Kraft Canada Inc., Floating Rate, 3.02%, 2020/07/06	1,405,804	1,395,741	130,800	Loblaw Cos. Ltd., Zero Coupon, 2028/08/17	87,307	90,685
5,764,000	Kraft Heinz Food Co., Callable, 4.88%, 2049/10/01	7,482,426	7,901,813	1,487,000	Loblaw Cos. Ltd., Zero Coupon, 2033/02/17	769,726	863,664
7,604,000	Lloyds Bank PLC, Floating Rate, 2.53%, 2023/07/11	7,604,000	7,569,853	6,077,000	Navient Corp., Series 'A', 5.63%, 2033/08/01	6,216,270	6,795,403
130,800	Loblaw Cos. Ltd., Zero Coupon, 2020/02/17	130,383	130,396	641,311	NHA MBS Merrill Lynch Canada Inc., Variable Rate, 2.06%, 2020/06/01	639,419	641,288
130,800	Loblaw Cos. Ltd., Zero Coupon, 2020/08/17	128,670	128,783	2,718,488	NHA MBS Merrill Lynch Canada Inc., Variable Rate, 2.26%, 2020/08/01	2,693,886	2,722,485
130,800	Loblaw Cos. Ltd., Zero Coupon, 2021/02/17	126,814	127,292	1,829,505	NHA MBS Merrill Lynch Canada Inc., 1.06%, 2022/05/01	1,823,157	1,834,500
130,800	Loblaw Cos. Ltd., Zero Coupon, 2021/08/17	124,768	125,450	5,718,000	Pembina Pipeline Corp., Series '11', Callable, 4.75%, 2048/03/26	5,714,340	6,305,586
130,800	Loblaw Cos. Ltd., Zero Coupon, 2022/02/17	122,197	123,118	3,520,554	Postmedia Network Inc., Callable, 8.25%, 2023/07/15	3,520,906	3,520,554
130,800	Loblaw Cos. Ltd., Zero Coupon, 2022/08/17	119,979	120,955	7,191,000	Royal Bank of Canada, Floating Rate, 2.41%, 2020/03/23	7,176,279	7,197,544
130,800	Loblaw Cos. Ltd., Zero Coupon, 2023/02/17	117,430	118,779	3,610,000	Royal Bank of Canada, Floating Rate, Callable, 2.19%, 2085/06/29	3,215,425	3,647,410
130,800	Loblaw Cos. Ltd., Zero Coupon, 2023/08/17	114,880	117,181	308,000	SES GLOBAL Americas Holdings G.P., 5.30%, 2044/03/25	346,775	389,911
130,800	Loblaw Cos. Ltd., Zero Coupon, 2024/02/17	112,386	114,672	10,968,000	Shaw Communications Inc., Callable, 6.75%, 2039/11/09	13,397,169	14,795,103
130,800	Loblaw Cos. Ltd., Zero Coupon, 2024/08/17	109,997	112,483	471,000	SNC-Lavalin Group Inc., Series '1', 2.69%, 2020/11/24	464,327	470,384
130,800	Loblaw Cos. Ltd., Zero Coupon, 2025/02/17	107,343	110,092	596,000	SNC-Lavalin Group Inc., Series '3', Floating Rate, 2.51%, 2021/03/02	583,338	594,230
130,800	Loblaw Cos. Ltd., Zero Coupon, 2025/08/17	104,326	108,101	252,000	SNC-Lavalin Group Inc., Series '4', Callable, 3.24%, 2023/03/02	245,794	247,839
130,800	Loblaw Cos. Ltd., Zero Coupon, 2026/02/17	101,399	106,108				
130,800	Loblaw Cos. Ltd., Zero Coupon, 2026/08/17	98,715	103,367				

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# Canso Credit Income Fund

## Schedule of Investment Portfolio as at December 31, 2019

Bonds held long			Bonds held short			Term Loans			Equities held Long						
Par Value/Number of Shares	Average Cost (\$)	Fair Value (\$)	Par Value/Number of Shares	Average Cost (\$)	Fair Value (\$)	Par Value/Number of Shares	Average Cost (\$)	Fair Value (\$)	Par Value/Number of Shares	Average Cost (\$)	Fair Value (\$)				
<b>Bonds held long</b>			<b>Bonds held short</b>			<b>Term Loans</b>			<b>Equities held Long</b>						
<i>Cont'd</i>															
3,225,000	Sobeys Inc., Callable, 6.64%, 2040/06/07	3,349,012	4,107,332	(1,530,000)	United States Treasury Bond, 3.38%, 2048/11/15	(2,197,947)	(2,400,751)								
5,938,000	SSL ROBOTICS LLC (Maxar Technologies Inc.) 144A 9.750% 12/31/2023 DD 12/02/19	7,693,908	8,393,111	(3,673,000)	United States Treasury Bond, 2.88%, 2049/05/15	(5,526,452)	(5,265,493)								
9,657,456	Strait Crossing Development Inc., 6.17%, 2031/09/15	10,167,553	10,700,573	<b>Total bonds held short</b>			<b>\$ (74,781,607)</b>	<b>\$ (76,728,481)</b>							
975,000	Stuart Olson Inc., Convertible, Callable, Restricted, 7.00%, 2024/09/20	975,000	885,203	<b>Total of bonds (76.5%)</b>			<b>\$ 112,711,040</b>	<b>\$ 119,737,350</b>							
7,527,000	TransCanada PipeLines Ltd., Callable, 4.34%, 2049/10/15	7,614,087	8,199,080	<b>Term Loans</b>											
3,159,000	TransCanada PipeLines Ltd., Variable Rate, Callable, 4.18%, 2067/05/15	3,705,139	3,433,548		Asterix Inc., Term Loan, 2023/03/31	\$ 1,469,388	\$ 1,470,877								
2,234,000	UniCredit SPA, Floating Rate., 5.98%, 2022/01/14	2,968,539	3,037,796		Maxar Technologies Ltd., Term Loan, 2024/10/05	2,143,165	2,470,944								
453,000	UniCredit SPA, 3.75%, 2022/04/12	557,049	602,192	<b>Total of Term Loans (2.5%)</b>			<b>\$ 3,612,553</b>	<b>\$ 3,941,821</b>							
4,032,000	Videotron Ltd., Callable, 5.63%, 2025/06/15	4,146,240	4,345,740	<b>Equities held Long</b>											
1,955,607	Yellow Pages Ltd., Convertible, 8.00%, 2022/11/30	2,182,457	1,994,719	90,800	Bank of Montreal, Preferred, Class 'B', Series '26', Floating Rate, Perpetual	\$ 2,141,064	\$ 2,212,796								
<b>Total bonds held long</b>			<b>\$ 187,492,647</b>	<b>\$ 196,465,831</b>	306,500	BCE Inc., Preferred, Series 'AE', Floating Rate, Perpetual	4,887,971	4,713,970							
<b>Bonds held short</b>						58,300	BCE Inc., Preferred, Series 'AK', Variable Rate, Convertible, Perpetual	699,809	812,119						
(6,673,000)	AT&T Inc., Callable, 4.55%, 2049/03/09	\$ (9,585,675)	\$ (9,625,516)	474,700	Bombardier Inc., Class 'B'	951,452	916,171								
(9,805,000)	Government of Canada, 1.50%, 2023/06/01	(9,753,132)	(9,748,745)	603,256	BZ Holdings Inc., Preferred, Series 'C'	3,374,244	3,528,955								
(1,644,000)	Government of Canada, 8.00%, 2027/06/01	(2,706,072)	(2,355,219)	731,344	BZ Holdings Inc., Warrants, 2028/12/21	-	9								
(4,406,000)	Government of Canada, 5.75%, 2029/06/01	(6,357,343)	(5,933,612)	90,000	Canadian Life Cos. Split Corp., 6.25%, Preferred, Series 'B'	931,500	947,700								
(6,244,000)	Government of Canada, 3.50%, 2045/12/01	(7,953,736)	(8,473,520)	190,321	ClearStream Energy Services Inc.	65,661	8,564								
(26,714,000)	Government of Canada, 2.75%, 2048/12/01	(30,472,446)	(32,673,702)	3,760	ClearStream Energy Services Inc., Preferred	3,760,300	3,760,000								
(172,000)	United States Treasury Bond, 3.00%, 2048/08/15	(228,804)	(251,923)	296	ClearStream Energy Services Inc., Preferred, Restricted	-	296,000								
				8,100	Enbridge Inc., Preferred, Series 'N', Variable Rate, Perpetual	136,485	143,289								
				121,134	M Split Corp., 7.50%, Preferred, Class 'I', Series 'B'	669,871	642,010								

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# Canso Credit Income Fund

## Schedule of Investment Portfolio as at December 31, 2019

Par Value/Number of Shares			Average Cost (\$)	Fair Value (\$)	Par Value/Number of Shares			Average Cost (\$)	Fair Value (\$)
<b>Equities held Long</b>									
<i>Cont'd</i>									
						Other assets less liabilities (0.7%)			1,023,853
					<b>Net assets</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>156,616,164</b>
2,200	Manulife Financial Corp., Preferred, Class '1', Series '15', Variable Rate, Perpetual		37,091	38,302					
2,300	Manulife Financial Corp., Preferred, Class '1', Series '25', Variable Rate, Perpetual		42,849	45,402					
2,700	TC Energy Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual		27,621	33,021					
3,000	TC Energy Corp., Preferred, Series '7', Variable Rate, Convertible, Perpetual		44,340	50,040					
270,300	Thomson Reuters Corp., Preferred, Series 'II', Floating Rate		3,584,087	3,565,257					
998	Xplornet Communications Inc., Preferred, Class 'F'		1,030,195	1,226,711					
8,404	Xplornet Communications Inc. Warrants Series A Sept 30, 2020 144A		39,402	798,827					
6,970	Xplornet Communications Inc. Warrants Series C Oct 25, 2023 Restricted		406,398	3,289,401					
641,959	Yellow Pages Ltd.		12,447,585	5,816,150					
<b>Total equities held long</b>			<b>\$ 35,277,925</b>	<b>\$ 32,844,694</b>					
<b>Equities held short</b>									
(39,280)	Genworth MI Canada Inc.		\$ (1,341,805)	\$ (2,231,890)					
<b>Total equities held short</b>			<b>\$ (1,341,805)</b>	<b>\$ (2,231,890)</b>					
<b>Total of equities (19.5%)</b>			<b>\$ 33,936,120</b>	<b>\$ 30,612,804</b>					
<b>Options</b>									
25	Genworth MI Canada Inc. - Jan 2020 @ CAD \$42.23		\$ 6,525	\$ 375					
<b>Total Options (0.0%)</b>			<b>\$ 6,525</b>	<b>\$ 375</b>					
<b>Transaction costs</b>									
	Transaction costs		\$ (12,068)	\$					
<b>Total transaction costs</b>			<b>\$ -</b>	<b>\$</b>					
<b>Total investment portfolio (97.5%)</b>			<b>\$ 150,254,170</b>	<b>\$ 154,292,350</b>					
	Cash and cash equivalents (0.8%)		\$	\$ 1,299,961					

# Canso Credit Income Fund

## Foreign Exchange Contracts

CounterParty	Settlement Date	Buy	Par Value	Sell	Par Value	Forward Rate	Current Rate	Unrealized Appreciation (Depreciation)
Canadian Imperial Bank of Commerce <sup>1</sup>	3/18/2020	CAD \$	31,138,914	USD \$	23,696,000	0.761	0.771	\$ 419,419

### Notes

<sup>1</sup> Credit rating of counterparty is A+.

# Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

## 1. Formation of Fund

The address of the Canso Credit Income Fund's (the "Fund") registered office is 3080 Yonge St., Suite 3037, Toronto, Ontario.

Lysander Funds Limited (the "Manager" or "Lysander") is the manager of the Fund and is responsible for providing or arranging the provision of all general management and administrative services required by the Fund in its day-to-day operations, including but not limited to, calculating and reporting the net asset value of the Fund and its classes, preparing all offering documents, unitholder recordkeeping and other administrative services.

The Fund is a closed-end investment fund established under the laws of the Province of Ontario on June 28, 2010 pursuant to a declaration of trust. The Manager is an affiliate of the portfolio manager, Canso Investment Counsel Limited, ("Portfolio Manager" or "Canso"), a company under common control as the Manager.

On June 28, 2010, the Fund was settled and issued an initial Class A Unit to the Manager for cash consideration of \$10.00.

An initial public offering of 11,395,678 Class A Units and 2,604,322 Class F Units (collectively, the "Units") at a price of \$10.00 per Unit was completed on July 16, 2010. The Class A Units commenced trading on the Toronto Stock Exchange on July 16, 2010 under the symbol PBY.UN. The Class F Units are designed for fee-based and/or institutional accounts and are not listed on a stock exchange, but are convertible into Class A Units on a monthly basis.

The Fund's objective is to (i) maximize total returns for unitholders while reducing risk and (ii) provide unitholders with monthly cash distributions by taking long and short positions in a portfolio of primarily of corporate bonds and other income securities.

## 2. Basis of Presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by Lysander's board of directors on March 19, 2020.

## 3. Significant Accounting Policies

The significant accounting policies of the Fund are as follows:

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term investments in an active market with original maturities of three months or less, bank overdrafts and money market funds with daily liquidity and all highly liquid financial instruments that mature within three months of being purchased.

### Financial instruments

The Fund accounts for its financial instruments in accordance with IFRS 9 Financial Instruments ("IFRS 9"), which include cash and cash equivalents, investments at fair value through profit or loss, accrued interest, reimbursement receivable, subscriptions receivable, redemption payable, due to/from investment dealer, receivable/payable from forward exchange contracts and accrued expenses.

### Financial assets and financial liabilities at fair value through profit or loss ("FVTPL"):

#### Financial Assets

The Fund classifies its investments in debt and equity securities and open-ended investment funds based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

These financial assets are managed and their performance is evaluated on a fair value basis. The Fund also manages these financial assets with the objective of realizing cash flows through sales. The Fund has not taken the option to irrevocably designate any of its equity securities at fair value through other comprehensive income ("FVOCI"). Consequently, these financial assets are mandatorily measured at FVTPL.

#### Financial Liabilities

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future or on initial recognition are a part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short term profit-taking.

All derivatives and short positions are included in this category and mandatorily measured at FVTPL.

The Fund does not apply general hedge accounting to any of its derivatives positions.

Financial assets and financial liabilities at amortized cost:

The financial assets and liabilities measured at amortized cost include cash collateral posted on derivative positions, accrued income, due to and from brokers and other short term receivables and payables.

# Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

IFRS 9 introduced the expected credit loss model ("ECL") as the new impairment model for financial assets measured at amortized cost. At each reporting date, the Fund measures the loss allowance on cash collateral held, amounts due from broker, accrued income and other short term receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to the 12 month expected credit losses. Given the short-term nature of the receivables and the high credit quality, the Fund has determined that the expected credit loss allowances are not material or considered impaired.

The Fund classifies financial instruments carried at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified as Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is reclassified as Level 3. The Manager assesses transfers at the time of an event that may cause reason for re-assessment of levelling. The classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes observable requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources. The classification of the Fund's financial instruments within the fair value hierarchy as at December 31, 2019 and December 31, 2018, as applicable, is disclosed in the notes to the financial statements of the Fund. Significant transfers between levels are also disclosed in the notes to the financial statements of the Fund, where applicable. The reconciliation of level 3 fair value measurements for the years ended December

31, 2019 and December 31, 2018, if applicable, are included in the notes to the financial statements of the Fund.

## Recognition/Derecognition

At initial recognition, financial assets and liabilities are measured at fair value. Transaction costs on financial assets and liabilities at fair value through profit or loss are expensed as incurred in the statement of comprehensive income.

Subsequent to initial recognition, financial assets and liabilities at fair value through profit or loss are measured at fair value.

Gains and losses arising from changes in their fair value are included in the statement of comprehensive income for the year in which they arise. Dividend or interest income earned on financial assets at fair value through profit or loss and dividend or interest expense on the financial liabilities at fair value through profit or loss are disclosed in a separate line item in the statement of comprehensive income.

Financial assets are derecognized when the contractual rights to the cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership. Financial liabilities at fair value through profit or loss are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Investment transactions are accounted for on a trade date basis. Realized gains and losses on the disposition of investments, and unrealized appreciation and depreciation of investments, are determined on an average cost basis and are included in the statement of comprehensive income.

Realized gains and losses related to options are included in net realized gain/(loss) on options at fair value through profit or loss. Realized gains and losses relating to written options may arise from expiration of written options whereby realized gains are equivalent to the premium received and from the exercise of written covered call options in addition to the realized gain or losses from disposition of the related investments at the exercise price of the option.

## Fair value measurements

The securities in the Fund's portfolio are measured at FVTPL. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the year-end date. The quoted market price used for financial assets and financial liabilities of the Fund is the last traded price provided such price is within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Fund will determine the points within the bid-ask spread that are most representative of the fair value. A financial instrument is regarded as quoted in an active market if quoted

## Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques commonly used by market participants making the maximum use of observable inputs and relying as little as possible on unobservable inputs. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

Where available, valuation techniques use market observable assumptions and inputs. If such data is not available, inputs may be derived by reference to similar assets in active markets, from recent prices for comparable transactions or from other observable market data. When measuring fair value, the Fund selects the non-market-observable inputs to be used in its valuation techniques, based on a combination of historical experience, derivation of input levels based on similar products with observable price levels and knowledge of current market conditions and valuation approaches. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk. Unlisted debt securities are valued based on observable inputs such as the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data and using standard market convention practices. Unlisted debt securities for which current quotations are not readily available are valued using another valuation technique as described below.

The Fund uses widely recognized valuation techniques for determining the fair value of financial instruments that are not actively traded and quoted. The most frequently applied valuation techniques include: i) discounted value of expected cash flows, ii) relative value, iii) option pricing methodologies, iv) private placement financing technique v) internally

developed models and vi) market activity. In some cases, it may be reasonable and appropriate to value at cost, where there has been no material subsequent event affecting value. Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. When using such valuation techniques, expected future cash flows are estimated using an observed or implied market price for the future cash flows or by using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models. Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued. Option pricing models incorporate assumptions regarding the behavior of future price movements of an underlying referenced asset or assets to generate a probability-weighted future expected payoff for the option. The resulting probability-weighted expected payoff is then discounted using discount factors generated from industry standard yield curve modeling techniques and models. The option pricing model may be implemented using a closed form analytical formula or other mathematical techniques (e.g., binomial tree or Monte Carlo simulation). For more complex instruments and instruments for which there is no active market, fair values may be estimated using a combination of observed transaction prices, if any, consensus pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services. Private placement financings are instances where a company raises capital through an offering of additional securities in the private markets. Pertinent details of such offering, including the terms of such offering, the issue price, and total capital raised are considered when assessing the reasonability that the issue price of such offering approximates fair value. In contrast to public offerings on a recognized exchange, private placement financings are not available to the general public. The Fund also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry. Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation. In situations where there is limited market activity for the asset or liability near the measurement date, the most recent transaction price may be used.

# Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

## Income recognition

Dividend income is recognized when the Fund's right to receive the payment has been established, normally being the ex-dividend date. Dividend income is recognized gross of withholding tax, if any.

The interest income for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. The interest income for distribution purposes is the tax basis of calculating the interest received and which is subject to tax.

## Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## Accounting estimates

In the application of the Fund's accounting policies, the Fund is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The most significant estimates relate to the valuation of investments. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the years of the revision and future years if the revision affects both current and future years.

## Net assets attributable to holders of redeemable units

Units issued and outstanding represent the capital of the Fund, with units in each class representing an equal and rateable share in the assets allocated to each class. The management fee rates are different for each of the classes. Please refer to Note 7 for discussion of management fee rates. The redeemable units are classified as financial liabilities and are measured at the redemption amounts.

Units of the Fund may be purchased or redeemed at a price per unit equal to the net asset value ("NAV") of a unit of the applicable class of the Fund on each valuation date.

## Net asset value per unit

The net asset value per unit of each class of units of the Fund is computed by dividing the NAV of a class of units by the total number of units of the class outstanding at the time. The Fund's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its NAV for transactions with holders of redeemable units.

## Foreign currency translation

Foreign currency amounts are translated into the Fund's functional currency as follows: fair value of investments, forward currency contracts and other financial assets and liabilities, at the closing rate of exchange on each business day; income and expenses, and purchases, sales and settlements of investments, at the rate of exchange prevailing on the respective dates of such transactions.

## Foreign currency forward contracts

The value of the foreign currency forward contracts is the gain or loss that would be realized if the position in the forward contract was closed out in accordance with its terms. The unrealized gains or losses on the forward contract are reported as part of the change in unrealized appreciation or depreciation on forwards in the statement of comprehensive income. Foreign currency forward contracts manage exposure to foreign currency gains and losses arising from short and long-term investments denominated in foreign currencies.

## Taxation

The Fund is a mutual fund trust within the meaning of the Income Tax Act (Canada). The Fund is subject to tax on its net taxable income, including net realized capital gains, for the calendar year which is not paid or payable to its unitholders as of the end of the calendar year. It is the intention of the Fund to pay all of its net taxable income and net realized capital gains so that the Fund will not be subject to income taxes other than foreign withholding taxes, if applicable. Therefore, no provision for income taxes has been made in these financial statements.

As at December 31, 2019, the Fund had \$1,148,491 (December 31, 2018 - \$2,696,782) net capital losses and no non-capital losses (December 31, 2018 - Nil).

## Distributions

The Fund makes distributions monthly, please refer to the Fund's Prospectus. These are recognized in the statement of changes in net assets attributable to holders of redeemable units.

# Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

## Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

### *Determination of Functional Currency*

'Functional currency' is the currency of the primary economic environment in which the Fund operates. If indicators of the primary economic environment are mixed, then the Fund uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events, and conditions. The Fund's subscriptions and redemptions are denominated in Canadian Dollars ("CAD"). Accordingly, the Fund has determined that the functional currency of the Fund is CAD unless noted otherwise.

### *Fair Value Measurement of Derivatives and Securities Not Quoted in an Active Market*

The Fund may hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined as disclosed in Fair Value Measurement section in Note 3.

## Future changes in accounting standards

As of December 31, 2019, there are no future standards that could have a material or significant impact on the Fund.

## 4. Expenses

The Fund is responsible for the payment of all expenses related to its operations, including but not limited to audit fees, Independent Review Committee fees, fund administration fees, filing fees, redeemable unitholder reporting and custodian fees plus harmonized sales tax. At their discretion, the Manager or the Portfolio Manager may pay certain of the expenses of the Fund but any such payments shall not oblige the Manager or the Portfolio Manager to make similar future payments. All expenses are recognized in the statement of comprehensive income on the accrual basis.

## 5. Forward Agreement

The forward purchase and sale agreement dated July 16, 2010 entered into between the Fund and the Counterparty (the "Forward Agreement") was settled on its scheduled termination date of June 30, 2015 (the "Termination Date") in accordance with its terms and the Fund did not enter into a new forward agreement. After the Termination Date, the Fund did invest its assets directly in securities of the kind that comprise the investment portfolio of Canso Credit Trust, the reference fund of

the Fund, using the same, or substantially the same, investment strategies as those employed by Canso Credit Trust prior to the Termination Date.

## 6. Issuance and Redemption of Units

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal undivided interest in the net assets of the Fund. Each unit entitles the holder to the same rights and obligations as a holder of any other unit and no holder of units is entitled to any privilege, priority or preference in relation to any other holder of units. Each holder of units is entitled to one vote for each whole unit held and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, if any. On termination or liquidation of the Fund, the holders of outstanding units 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. The units of the Fund are issued and redeemed at their NAV.

The Fund received approval from the Toronto Stock Exchange ("TSX") for a normal course issuer bid for the period from July 17, 2017 to July 16, 2018. Pursuant to the issuer bid, the Fund was permitted to purchase up to 1,310,810 units for cancellation. The Fund may only repurchase units when the NAV per unit exceeds its trading price on the TSX.

During the years ended December 31, 2019 and 2018, the number of units redeemed and outstanding was as follows:

### Class A

For the years ended	31-Dec-19	31-Dec-18
Units outstanding at beginning of year	12,986,466	13,139,530
Units converted from Class F to Class A	242,224	84,505
Units redeemed	(624,747)	(237,569)
<b>Units outstanding at end of year</b>	<b>12,603,943</b>	<b>12,986,466</b>

### Class F

For the years ended	31-Dec-19	31-Dec-18
Units outstanding at beginning of year	1,467,453	1,606,525
Units converted from Class F to Class A	(222,369)	(78,172)
Units redeemed	(135,125)	(60,900)
<b>Units outstanding at end of year</b>	<b>1,109,959</b>	<b>1,467,453</b>

## 7. Related Party Transactions

The Manager is responsible for the day-to-day management of the Fund and its investment portfolio in compliance with the Fund's constating documents. The Manager pays for certain

# Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

investment management services and provides certain administrative services required by the Fund. As compensation for its services the Manager is entitled to receive a management fee.

The Manager receives management fee from the Fund equal to an annualized rate of 0.75% on Class A and F Units which is calculated daily and payable monthly in arrears, plus applicable taxes. In addition, the Fund pays a service fee amount which is a trailer fee and is calculated daily and paid after the end of each calendar quarter at an annualized rate of 0.40% per annum of the net asset value attributable to the Class A Units.

The total management fees earned by the Manager for the year ended December 31, 2019 was \$1,180,803 (December 31, 2018 - \$1,279,386), of which \$99,217 (December 31, 2018 - \$100,516) was payable at December 31, 2019.

## Performance Fees:

Subject to certain terms and conditions as described in the Fund's Annual Information Form dated on or about March 25, 2018, the Manager is entitled to receive a Performance Fee (the "Performance Fee") equal to 20% of the Fund's outperformance of the FTSE TSE All Corporate Bond Index as described in the Fund's Annual Information Form.

Performance fees are calculated and accrued monthly and paid annually, if earned. For the year ended December 31, 2019, the Performance Fee accrued by the Fund was Nil (December 31, 2018 - \$12,585).

During the year ended December 31, 2019, the Manager paid the Portfolio Manager, an affiliate of the Manager, \$551,041 (December 31, 2018 - \$607,116) for managing the portfolio of the Fund. As at December 31, 2019 the amount payable to the Portfolio Manager was \$46,301 (December 31, 2018 - \$56,976).

## 8. Fair Value Hierarchy

The following fair value hierarchy table presents information about the Fund's assets measured at fair value, as described in Note 3, as at December 31, 2019 and December 31, 2018:

As at December 31, 2019	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Fixed income	\$ -	\$ 200,407,652	\$ -	\$ 200,407,652
Equities	19,944,791		12,899,903	32,844,694
Options	375	-	-	375
Receivable on currency forward contracts	-	419,419	-	419,419
<b>Total</b>	<b>\$ 19,945,166</b>	<b>\$ 200,827,071</b>	<b>\$ 12,899,903</b>	<b>\$ 233,672,140</b>
<b>Financial Liabilities</b>				
Fixed income sold short	\$ -	\$ 76,728,481	\$ -	\$ 76,728,481
Equities sold short	2,231,890	-	-	2,231,890
<b>Total</b>	<b>\$ 2,231,890</b>	<b>\$ 76,728,481</b>	<b>\$ -</b>	<b>\$ 78,960,371</b>
<b>As at December 31, 2018</b>				
<b>Financial Assets</b>				
Fixed income	\$ -	\$ 189,268,267	\$ -	\$ 189,268,267
Equities	23,452,038	-	12,720,881	36,172,919
<b>Total</b>	<b>\$ 23,452,038</b>	<b>\$ 189,268,267</b>	<b>\$ 12,720,881</b>	<b>\$ 225,441,186</b>
<b>Financial Liabilities</b>				
Fixed income sold short	\$ -	\$ 67,382,407	\$ -	\$ 67,382,407
Equities sold short	7,404,036	-	-	7,404,036
Payable on currency forward contracts	-	854,848	-	854,848
<b>Total</b>	<b>\$ 7,404,036</b>	<b>\$ 68,237,255</b>	<b>\$ -</b>	<b>\$ 75,641,291</b>

# Canso Credit Income Fund

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As at	31-Dec-19		31-Dec-18	
<b>Level 3 reconciliation</b>				
Balance, beginning of year	\$	12,720,881	\$	12,869,887
Purchases		71,070		82,906
Sales		-		-
Transfers In		-		3,760,300
Transfers Out		-		-
Realized gains and losses		-		(4,090,691)
Change in unrealized appreciation/depreciation		107,952		98,479
<b>Balance, end of year</b>	<b>\$</b>	<b>12,899,903</b>	<b>\$</b>	<b>12,720,881</b>

The Portfolio Manager's internal valuation team is comprised of individuals from across the functional areas of the firm (Trading, Settlements, Research, Portfolio Management, Compliance, and Fund Administration) who have broad and deep experience in the fair value techniques for debt and equity investments. The team reports to the Chief Investment Officer of the Portfolio Manager and the internal valuation team's valuation processes and results are reviewed by the Portfolio Manager's management on an ongoing basis. Security valuations are discussed on a case-by-case basis with a view to establish the most suitable valuation method. During the year ended December 31, 2019, there were no transfers between levels. (December 31, 2018 - \$3,760,300 transferred from level 2 to level 3).

The following sections provides information regarding Level 3 securities. It includes a summary of the valuation techniques used and the sensitivity of the fair value of these securities to changes in input values.

#### BZ Holdings Inc., Preferred, Series 'C'

Price: \$4.51 USD

Valuation Technique: Internal Model which uses a combination of three techniques: 1) discounted value of expected cash flows, 2) relative value and 3) option pricing methodologies. The output of the model is compared to recent private placement funding rounds to confirm its reasonability.

Unobservable Inputs: The primary unobservable inputs for this security include financial statement data, recent private offering valuation multiples of competitors, and liquidation preference rights.

Change in input values: A reasonably possible change in the key inputs to the model could result in an increase or decrease of 12%, or an increase or decrease in the security price of \$0.54 USD.

#### BZ Holdings Inc., Warrants, 2028/12/21

Price: \$0.00 USD

Valuation Technique: Internal Model which uses a combination of three techniques: 1) discounted value of expected cash flows, 2) relative value and 3) option pricing methodologies. The output of the model is compared to recent private placement funding rounds to confirm its reasonability.

Unobservable Inputs: The primary unobservable inputs for this security include financial statement data, recent private offering valuation multiples of competitors, and liquidation preference rights.

Change in input values: A reasonably possible change in the key inputs to the model could result in an increase or decrease of 0%, or an increase or decrease in the security price of \$0.

#### ClearStream Energy Services Inc., Preferred

Price: \$1,000.00

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The last transacted price unless there is a material subsequent event that warrants a review. The preferred shares were issued on Jan 16, 2018 at \$1,000. There have been no subsequent material events affecting value.

Change in input values: A reasonably possible change to the value of the next private placement financing could result in an increase or decrease of 30%, or an increase or decrease in the security price of \$300.00

# Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

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ClearStream Energy Services Inc., Preferred, Restricted

Price: \$1,000.00

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The last transacted price unless there is a material subsequent event that warrants a review. The preferred shares were issued on June 27, 2019 at \$1,000. There have been no subsequent material events affecting value.

Change in input values: A reasonably possible change to the value of the next private placement financing could result in an increase or decrease of 30%, or an increase or decrease in the security price of \$300.00.

Xplornet Communications Inc., Preferred, Class 'F'

Price: \$1,228.57

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The primary unobservable input for this security is the last price where the common shares were traded in a private sale transaction.

Change in input values: A reasonably possible change to the value of the next private placement financing could result in an increase or decrease of 30%, or an increase or decrease in the security price of \$368.57.

Xplornet Comm Inc. Warrants Series A Sept 30, 2020 144A

Price: \$95.05

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The primary unobservable input for this security is the last price where the common shares were traded in a private sale transaction.

Change in input values: A reasonably possible change to the value of the next private placement financing could result in an increase or decrease of 30%, or an increase or decrease in the security price of \$28.51.

Xplornet Comm Inc. Warrants Series C Oct 25, 2023 Restricted

Price: \$471.94

Valuation Technique: The private placement financing technique.

Unobservable Inputs: The primary unobservable input for this security is the last price where the common shares were traded in a private sale transaction.

Change in input values: A reasonably possible change to the value of the next private placement financing could result in an increase or decrease of 30%, or an increase or decrease in the security price of \$141.58.

## 9. Risk Management

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The Fund's activities expose it to a variety of financial risks in the normal course of operations. These include credit risk, liquidity risk, and market risk. The value of the investments in the Fund's portfolio can fluctuate as a result of changes in interest rates, general economic conditions, supply and demand conditions relating to specific securities, or news relating to a specific issuer. In order to manage risk, the Portfolio Manager will diversify the portfolio based on industry and credit rating category. Significant risks that are relevant to the Fund are discussed below.

### Credit risk

Credit risk is the risk of financial loss that could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The Fund's main exposure to credit risk consists of investments in debt instruments, such as bonds. The Fund is also exposed to counterparty risk from other assets, such as amounts due from brokers or subscriptions receivable. To manage this risk, the Portfolio Manager monitors the Fund's credit exposure and counterparty credit ratings.

The Fund measures credit risk and lifetime ECLs related to these trade receivables using historical analysis and forward looking information in determining the ECL.

As at December 31, 2019 and 2018, the Fund had directly invested in debt instruments with the following credit ratings:

# Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

As a % of net assets		31-Dec-19	31-Dec-18
<b>Credit exposure</b>			
AAA	%	16.6	28.7
AA		6.8	10.0
A		8.0	9.2
BBB		70.2	41.9
Below BBB		21.1	28.8
Not Rated		5.3	2.7

## Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations, including any redemption of units for cash. The Fund is exposed to possible daily redemptions at the then current NAV per unit. Liquidity risk is managed by investing a significant portion of the Fund's assets in investments that are traded in an active market and that can be readily sold. All liabilities of the Fund are due within one year.

The following table presents the Fund's liabilities according to their maturity date as at December 31, 2019 and December 31, 2018:

As at 31-Dec-2019	Less Than One Month	1-3 Months	3 Months - 1 Year
<b>Liquidity exposure</b>			
Fixed income sold short	\$ -	\$ -	\$ 76,728,481
Equities sold short	-	-	2,231,890
Accrued management fees	99,217	-	-
Other accrued expenses	-	167,028	-
Distributions payable to holders of redeemable units	571,321	-	-

As at 31-Dec-2018	Less Than One Month	1-3 Months	3 Months - 1 Year
<b>Liquidity exposure</b>			
Fixed income sold short	\$ -	\$ -	\$ 67,382,407
Equities sold short	-	-	7,404,036
Accrued management fees	100,516	-	-
Other accrued expenses	-	227,575	-
Distributions payable to holders of redeemable units	602,150	-	-
Payable on forward exchange contracts	-	854,848	-

## Market risk

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a fund asset will fluctuate because of changes in market interest rates. If applicable, to manage interest rate risk, the Portfolio Manager monitors exposures and maintains the portfolio duration within the limits specified in the investment policies and objectives of the Fund. If applicable, the Fund has calculated the sensitivity analysis below. Actual results may differ materially from this analysis.

The table below summarizes the Fund's exposure to interest rate risks based on the remaining term to maturity of the investments:

	Less than 1 year	1-3 years	3-5 years	> 5 years	Total
<b>Interest rate exposure</b>					
Fixed income and term loans					
December 31, 2019 - Long	\$ 66,000,736	\$ 5,058,186	\$ 20,601,288	\$ 108,747,442	\$ 200,407,652
December 31, 2019 - Short	-	-	9,748,745	66,979,736	76,728,481

## Canso Credit Income Fund

Notes to the financial statements for December 31, 2019 and 2018

	Less than 1 year	1-3 years	3-5 years	> 5 years	Total
<b>Interest rate exposure</b>					
Fixed income and term loans					
December 31, 2018 - Long	\$ 4,535,605	\$ 45,365,190	\$ 27,781,066	\$ 111,586,406	\$ 189,268,267
December 31, 2018 - Short	-	-	10,063,299	57,319,108	67,382,407

If interest rates had increased or decreased by 1% at December 31, 2019, with all other variables remaining constant, net assets of the interest bearing financial instruments of the Fund would have decreased or increased by approximately \$2,526,788 (December 31, 2018 - \$1,231,211).

### Currency risk

Currency risk arises when the value of investments denominated in currencies other than CAD fluctuate due to changes in exchange rates. If applicable, the currency risk will typically be hedged by entering into foreign currency forward contracts, however some moderate currency exposure may be assumed if deemed to be beneficial to the Fund. If applicable, the Fund has calculated the sensitivity analysis below. Actual results may differ materially from this analysis.

The table below summarizes the Fund's net exposure (after hedging, if there are any) to currency risk as at:

	31-Dec-19	31-Dec-18
<b>Currency exposure</b>		
US Dollars	% 0.5	% (1.8)

As at December 31, 2019, if the Canadian dollar had strengthened or weakened by 1% in relation to the above currencies, with all other factors remaining constant, the Fund's net asset may have decreased or increased by 0.01% (December 31, 2018 : -0.02%).

### Price risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or market segment. If applicable, this risk is managed through a careful selection of securities and other financial instruments within the parameters of the investment strategy and by maintaining a well-diversified portfolio. Exposure to price risk arises from investments in equity securities. If applicable, the Fund has calculated the sensitivity analysis below. Actual results may differ materially from this analysis.

As at December 31, 2019, approximately 20% (December 31, 2018 - 18%) of the Fund's net assets were invested in these asset types. If prices of these investments had increased or decreased by 5% with all other factors remaining constant, net assets would have increased or decreased, by approximately \$1,530,659 (December 31, 2018 - \$1,438,444).

Subsequent to year end, the spread of the COVID-19 virus has impacted equity markets significantly and the continued volatility and ultimate impact on markets cannot be predicted. At March 19, 2020 the NAV of the Fund has declined by 17.1% since December 31, 2019.



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