

Annual Management Report of Fund Performance
As at December 31, 2016

Canso Select Opportunities Fund



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A Note About Forward Looking Statements

This annual Management Report of Fund Performance includes certain statements that are “forward looking statements”. All statements, other than statements of historical fact, included in this Management Report of Fund Performance that address activities, events or developments that the Fund expects or anticipates will or may occur in the future, including such things as anticipated financial performance, are forward looking statements. The words “may”, “could”, “would”, “should”, “believe”, “plan”, “anticipate”, “expect”, “intend”, “forecast”, “objective” and similar expressions are intended to identify forward looking statements.

These forward looking statements are subject to various risks and uncertainties, including the risks described in the simplified prospectus of the Fund, which could cause actual financial performance and expectations to differ materially from the anticipated performance or other expectations expressed.

Readers are cautioned not to place undue reliance on these forward looking statements. All opinions contained in forward looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

The Fund has no specific intention of updating any forward looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain research and information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice.

About This Report

This annual management report of fund performance of Canso Select Opportunities Fund (the “Fund”) contains financial highlights but does not contain the complete financial statements of the investment fund. This report should be read in conjunction with the annual financial statements of the Fund for the year ended December 31, 2016. You can get a copy of the financial statements at your request, and at no cost, by calling toll-free 1 877 308 6979, by writing to us at Lysander Funds Limited, 100 York Boulevard Suite 501, Richmond Hill Ontario, L4B 1J8, by visiting our website at www.lysanderfunds.com or at SEDAR at www.sedar.com.

Unitholders may also contact us using one of these methods to obtain a copy of the investment Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Investment objective

Canso Select Opportunities Fund (the “Fund”) is a closed-end investment fund managed by Lysander Funds Limited (the “Manager”). The Class A units of the Fund (“Class A Units”) trade under the symbol SCW.UN on the Toronto Stock Exchange (“TSX”). The Fund also has issued and outstanding Class F units (the “Class F Units” and together with the Class A Units, the “Units”) which are not listed on the TSX. The Fund was created to hold a portfolio of securities (the “Portfolio”) comprised of global debt and equity securities. The Portfolio is managed by Canso Investment Counsel Ltd. (“Canso” or “Portfolio Manager”).

The Fund was created to achieve the following investment objectives (i) to maximize 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 Strategies

The Fund’s positions will include investments primarily in Canadian and global debt and equity securities. Debt securities held by the Fund could include fixed rate bonds and debentures, floating rate notes and bank loans. Equity securities held by the Fund could include common shares, preferred shares and convertible debentures. The Fund may hold cash or cash equivalents or invest in short term bonds or money market instruments for liquidity or defensive purposes. The Fund may invest in fixed-income debt securities of governments, government agencies, supranational agencies and companies when Canso believes the potential return will equal or exceed that available from investments in corporate securities. The Fund is able to short securities, primarily government bonds against its long holdings. This allows it to benefit from the additional yield or capital gain potential of the long positions in the Portfolio, while hedging the interest rate risk of those positions. At the end of the year, the Fund held long positions of 131% of the net asset value of the Fund and short positions that were 31% of the net asset value of the Fund.

Risks

The risks of this Fund remain as discussed in the Fund’s most recent public disclosure documents.

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Results of Operations

The Fund's net asset value increased in the 4th quarter of the year, with strength in its equity and corporate bond holdings. The Class A units returned 6.34% and the Class F units returned 6.33%. At year-end, the Fund had over 72% of its net assets invested in equities. In addition, the Fund held roughly 31.3% of its net asset value in short positions at the end of the period. These primarily consisted of short positions in Government of Canada and US Treasury bonds.

The equity holding in Bombardier moved up smartly as the company provided an upbeat guidance for next year. The company also accessed the public markets to raise funds to redeem upcoming bond maturities. Bombardier's future success is now more assured given the successful performance of its CSeries aircraft and positive feedback from airlines. The rise in yields was positive for the Manulife holding as the reinvestment rates improved for their long duration assets. Additionally, the insurer benefited from stronger equity market returns. Canso also added to the position in The Second Cup. The company entered into a new financing with the Serruya Private Equity, owner of Yogen Frus, Pinkberry and Swensens, to repay its existing credit facility. Canso believes that the Serruya family's experience in franchising and elimination of refinancing risk should be beneficial to Second Cup.

The net assets of the Fund were \$65.4 million at December 31, 2016 from \$88.4 million at the beginning of the period. This was due to cash distributions of \$3.8 million redemptions of \$23.4 million.

There were no unusual changes to the components of revenue and expenses of the Fund and there were no unusual events or transactions, economic changes or market conditions that affected performance beyond what would be reasonably expected.

The Fund did not borrow money during the period except for immaterial short-term cash overdrafts.

Recent Developments

Canso purchased the equity of Empire Company as their subsidiary, Sobey's, ran into operational and integration problems related to the acquisition of Safeway Canada from three years ago. This has resulted in declining profitability and an increase in leverage ratios. As the company reported disappointing quarterly results, they were downgraded to below investment grade by some of the bond rating agencies. Canso believes that the company's stock price already reflects much of the market worries. Sobey's remains the second largest food retailer in Canada with a recognizable brand suite and a supportive controlling shareholder. In addition, the company is

taking steps to address its problems, including bringing in a new CEO.

There have been no changes to the Manager or Portfolio Manager, or change of control of the Manager, or of the Fund. There have been no actual or planned reorganizations, mergers or similar transactions.

There were changes to the membership of the Fund's Independent Review Committee ("IRC"). Merri Jones resigned on November 28, 2016 and on January 31, 2017, Ruth Gould was appointed as an IRC member.

Related Party Transactions

The Manager provides or arranges for 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 Manager receives a management fee for these services. The fee is calculated based on a percentage of the net asset value of the Fund as disclosed in the simplified prospectus.

The Fund paid \$663,016 (excluding HST) in management fees to the Manager for the period ended December 31 2016 (December 31 2015 - \$992,152).

The Manager is also entitled to receive a performance fee from the Fund (the "Performance Fee") under certain conditions as described in the Prospectus. For the period ended December 31, 2016, the performance fee accrued payable by the Fund was Nil (December 31, 2015 - Nil).

The Portfolio Manager is responsible for all investment advice provided to the Fund including providing investment analysis and recommendations, making investment decisions and arranging for the acquisition and disposition of portfolio investments. Fees for providing these services is included in the management fee. The Manager will also pay to Canso a percentage of any Performance Fee that the Manager receives from the Fund, such percentage to be agreed upon between the Manager and the Portfolio Manager from time to time.

The Manager paid \$331,508 (excluding HST) to the Portfolio Manager for the period ended December 31 2016 (December 31 2015 - \$516,675) including crystallized performance fees, is applicable.

The Fund did not rely on any approval, positive recommendation or standing instruction from its IRC with respect to any related party transactions.

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Financial Highlights

Class A

Period ended	31-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13
Net assets per unit¹				
Net assets, beginning of year	\$ 9.91	\$ 11.09	\$ 10.10	\$ 10.00*
Operations:				
Total revenue	0.48	0.47	0.66	0.12
Total expenses	(0.31)	(0.31)	(0.65)	(0.10)
Realized gains (losses)	(0.02)	2.04	0.20	(0.02)
Unrealized gains (losses)	0.10	(2.85)	1.27	0.79
Total increase (decrease) from operations ²	\$ 0.25	\$ (0.65)	\$ 1.48	\$ 0.79
Distributions:				
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -
From dividends	-	-	-	-
From capital gains	-	(1.37)	(0.20)	-
From return of capital	(0.50)	-	(0.30)	(0.08)
Total Distributions ^{2 3}	\$ (0.50)	\$ (1.37)	\$ (0.50)	\$ (0.08)
Net assets, end of year ^{2 3}	\$ 9.96	\$ 9.91	\$ 11.09	\$ 10.10
Ratios and supplemental data				
Net asset value ⁴ (000's)	\$ 59,387	\$ 81,396	\$ 93,860	\$ 85,301
Units outstanding	5,962,769	8,211,297	9,466,388	8,445,844
Management expense ratio ⁵	% 2.04	% 1.49	% 4.35	% 3.08
Management expense ratio before waivers or absorption	2.04	1.49	4.35	3.08
Portfolio turnover rate ⁶	23.1	48.4	59.5	37.6
Trading expense ratio ⁷	0.18	0.25	0.07	0.50
Net asset value per unit, end of year	9.96	9.91	11.09	10.10
Closing Market price per unit ¹	\$ 9.51	\$ 9.59	\$ 10.77	\$ 10.50

Notes

* The Fund commenced operations on October 22, 2013.

1 The information is derived from the Fund's audited annual financial statements. All per unit figures presented in the 2016, 2015, 2014 and 2013 periods are referenced to net assets determined in accordance to IFRS.

2 Net assets and distributions are based on the actual numbers of units outstanding at the relevant time. The increase (decrease) in operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

3 Distributions were paid in cash. Total distributions in 2015 were paid in cash (\$0.50/unit) and the remainder was paid as a special non-cash distributions.

4 This information is provided at the end of the period shown.

5 The management expense ratio is based on the total expenses of the period ended and is expressed as an annualized percentage of daily average net asset values during the period. The 2015 MER has been restated to exclude income on short positions as in the comparative years.

6 The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover rate is calculated based on the lesser of purchases or sales of securities divided by the weighted average market value of portfolio securities, excluding short term securities.

7 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

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Class F

Period ended	31-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13
Net assets per unit¹				
Net assets, beginning of year	\$ 10.24	\$ 11.43	\$ 10.35	\$ 10.00*
Operations:				
Total revenue	0.49	0.49	0.69	0.12
Total expenses	(0.31)	(0.32)	(0.62)	(0.17)
Realized gains (losses)	(0.02)	2.15	0.20	(0.02)
Unrealized gains (losses)	0.14	(2.96)	1.31	0.81
Total increase (decrease) from operations ²	\$ 0.30	\$ (0.64)	\$ 1.58	\$ 0.74
Distributions:				
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -
From dividends	-	-	-	-
From capital gains	-	(1.46)	(0.20)	-
From return of capital	(0.50)	-	(0.30)	(0.08)
Total Distributions ^{2 3}	\$ (0.50)	\$ (1.46)	\$ (0.50)	\$ (0.08)
Net assets, end of year ^{2 3}	\$ 10.31	\$ 10.24	\$ 11.43	\$ 10.35
Ratios and supplemental data				
Net asset value ⁴ (000's)	\$ 5,564	\$ 7,019	\$ 8,781	\$ 8,166
Units outstanding	539,581	685,166	768,216	789,156
Management expense ratio ⁵	% 2.04	% 1.47	% 3.88	% 6.57
Management expense ratio before waivers or absorption	2.04	1.47	4.44	6.57
Portfolio turnover rate ⁶	23.1	48.4	59.5	37.6
Trading expense ratio ⁷	0.18	0.25	0.07	0.50
Net asset value per unit, end of year	\$ 10.31	\$ 10.24	\$ 11.43	\$ 10.35

Notes

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3 Distributions were paid in cash. Total distributions in 2015 were paid in cash (\$0.50/unit) and the remainder was paid as a special non-cash distributions.

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Management Fees

The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

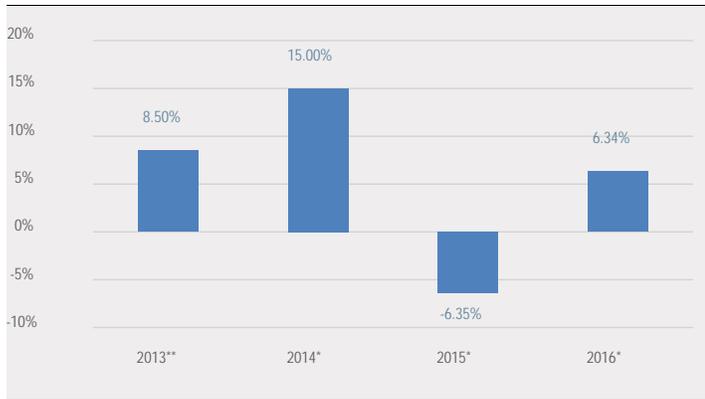
In consideration for such services, the Manager receives a monthly management fee, based on the net asset value of each Class, calculated daily and payable monthly. The Fund pays a management fee of 1.00% per annum for Class A and Class F units.

Past Performance

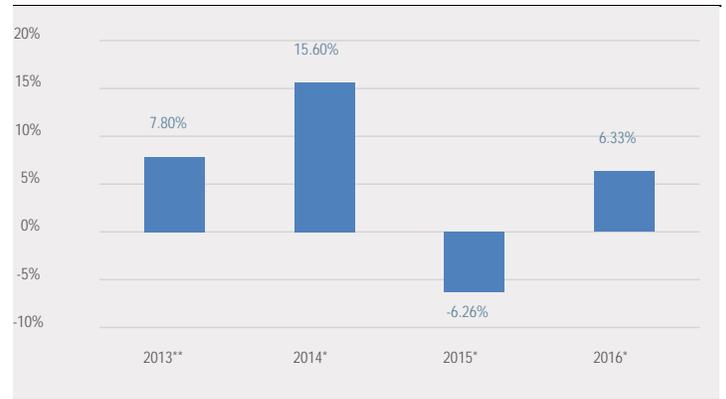
The following charts and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown assumes that cash distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

Year-by-Year Returns

Class A



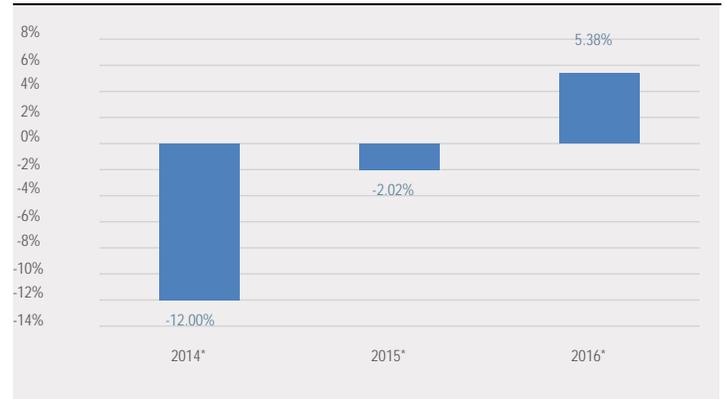
Class F



Long Portfolio



Short Portfolio



* For the period January 1 to December 31, ** For the period October 22 to December 31

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Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated.

For years ended December 31, 2016		1 Year		3 Year ²		Since Inception ³
Annual Compound Return						
Class A ¹	%	6.34	%	4.62	%	7.05
Class F ¹		6.33		4.82		7.01
Long Portfolio ¹		9.14		6.72		7.15
Short Portfolio ¹		5.38		24.95		27.31
Index ³	%	5.00	%	5.00	%	5.00

Notes

1 Returns are based on the net asset value per unit of the relevant series of the Fund and assume that all distributions were reinvested.

2 Compound period returns are annualized.

3 Period from October 22, 2013 to December 31, 2016. Since inception returns are annualized.

4 The Fund aims to exceed an absolute annual return of 5% per annum. The Fund earns a performance fee if its annual return exceeds 5%, subject to the terms described in the Fund's prospectus. Therefore an annual return of 5% has been used as the Fund's benchmark.

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Summary of Investment Portfolio

		% of NAV			% of NAV
Top 25 Issuers			Asset Mix		
Long positions:			Canadian Bonds - Corporate	%	44.0
Navient Corp (Debt)	%	10.3	Foreign Bonds - Corporate		10.3
Enbridge Inc (Debt)		10.0	Canadian Equities		46.4
Slm Corp (Equity)		8.8	Foreign Equities		30.4
Hubba Inc (Equity)		7.4	Canadian Equities - Short		(4.2)
Xplornet Communications Inc (Debt)		7.4	Canadian Government Debt - Short		(14.3)
Loblaw Companies Limited (Debt)		6.1	Foreign Government Debt - Short		(12.8)
Yellow Pages Limited (Equity)		6.1	Cash and cash equivalents		0.2
Commerzbank AG (Equity)		5.7	Total	%	100.0
Strait Crossing Development (Debt)		5.2			
Potash Corp Of Saskatchewan (Equity)		5.1			
Royal Bank Of Scotland Group P (Equity)		5.0			
Shaw Communications Inc (Debt)		4.7			
Imvescor Restaurant Group Inc (Equity)		4.4			
Apple Inc (Equity)		4.3			
Manulife Financial Corp (Equity)		4.0			
Bombardier Inc (Equity)		3.9			
Techmedianetwork Inc (Purch Group Inc) (Equity)		3.5			
Second Cup Ltd Canada (Equity)		3.2			
Unicredit Spa (Equity)		3.1			
Empire Co Ltd (Equity)		2.9			
Bank Of Nova Scotia (Equity)		2.7			
Telepath Networks Inc (Debt)		2.1			
Short positions:					
Genworth MI Canada Inc (Equity)		(2.5)			
U S Treasury Bond (Debt)		(12.8)			
Government Of Canada (Debt)		(14.3)			
Total	%	86.3			
Total Portfolio Long Positions	%	131.3			
Total Portfolio Short Positions		(31.3)			



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