

Annual Management Report of Fund Performance
As at December 31, 2017

Canso Credit Income 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 Credit Income 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 smi-annual financial statements of the Fund for the year ended December 31, 2017. 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

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. The Fund is managed by Canso Investment Counsel Ltd. (“Canso” or “Portfolio Manager”).

Investment Strategies

The Portfolio’s holdings are not restricted by credit ratings. In addition, Canso engages in short selling of securities primarily to hedge credit and interest rate risk. This allows the Portfolio to be positioned more defensively in both rising interest rate environments and credit downturns.

Risks

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

Results of Operations

From the inception date of the Fund, Canso has positioned the Fund to isolate and take advantage of wide credit spreads, primarily by shorting Government of Canada bonds against long corporate bond positions. The net effect of these long/short positions is to help insulate the Fund against an increase in interest rates, which Canso expects over the medium term, and to exploit attractive credit spreads of the corporate bond positions.

The Fund had positive returns for the year of 7.5% for Class A units and 7.7% for Class F units. At year-end, the Fund held roughly 30.5% of its net asset value in short positions. These primarily consisted of short positions in Government of Canada bonds.

The Fund's performance was driven by two main factors:

- (i) Tightening credit spreads led to outperformance of many of the Fund’s corporate bond positions, especially long maturity bonds; and,
- (ii) Certain individual bond holdings continued to perform well as the market responded positively to their issuers’ improved financial metrics. These included Navient and Bombardier.

The net assets of the Fund were \$173.1 million at December 31, 2017 from \$216.0 million at the beginning of the year. This was

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mainly due to cash distributions of \$8.9 million and redemptions of approximately \$48.0 million. Due to the redemptions, future revenue is likely to decline.

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

Recent Developments

Bond returns varied significantly in 2017 based on term to maturity. Long term bonds performed well as their yields declined, while short term bonds lagged as their yields tended to rise. Despite the historic tax overhaul bill passed by the U.S. Congress, yields on longer term Treasury bonds remained stubbornly low. The Federal Reserve raised interest rates three times in the year and signaled that further tightening is expected in 2018. The Federal Reserve believes that the labour market has strengthened and economic activity has been rising at a strong pace. They expect inflation to stabilize around its 2% objective over the medium term.

The Bank of Canada increased its “Key Interest Rate” twice in the year and signaled that further rate increases were in store in 2018. The Canadian economy performed well, with the unemployment rate falling to a 40 year low. Corporate bonds remained attractive for investors as the combination of higher running yields and spread tightening caused corporate bonds to outperform Government issues.

Canso believes the U.S. economy is demonstrating strong job gains and improving household spending. The weakness in the U.S. dollar and tax cuts should benefit corporations. Protectionist policies proposed by the new U.S. government may lead to weakness in emerging markets. The economic outlook in Europe is also showing optimism. Canso remains concerned about consumer debt levels and stretched house prices in Canada. The recent measures introduced by the government to control the ‘frothy’ housing market are timely but may erode the valuation of the single largest asset in Canadian households. Canadian households are vulnerable to a sharp rise in interest rates and an increase in unemployment. Additional uncertainties to the economy arise from Ontario’s minimum wage hike and the North American Free Trade Agreement (NAFTA) negotiations. However, the Canadian dollar has responded positively to the strength in oil prices and to a declining spread between Canadian and U.S. interest rates.

The largest purchases in the year were of high quality floating rate notes and senior short term fixed rate notes of Canadian banks. Canso has been deliberately increasing the credit quality of the bond positions in the Fund, believing that the additional yield offered on lower quality credits has declined to the point where it is unattractive in most cases. This led to sales of lower

rated issues such as Bombardier, Navient, and Teck Resources where Canso believes the bonds are fully valued. Canso also reduced the position in the equity of Bombardier.

Canso also believes there is significant price risk in longer maturity bonds from the prospect of rising interest rates. This risk has been moderated by concentrating the portfolio in bonds with short maturities and with floating rate notes and by selling Government bonds short to offset interest rate risk in certain corporate bond holdings. At year-end, the Fund’s interest rate sensitivity, as measured by effective duration, was 1.6 years.

At year end, the Fund held long positions that were approximately 130% of the net asset value of the Fund with short positions of approximately 30% and the yield-to-maturity (before allowing for any expenses) was 3.8% versus 2.5% at the end of the prior year.

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”). 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 \$1,453,816 (excluding HST) in management fees to the Manager for the year ended December 31, 2017 (December 31, 2016 - \$1,671,556).

The Manager is also entitled to receive a performance fee from the Fund (the “Performance Fee”) under certain conditions as described in the Annual Information Form. For the year ended December 31, 2017, the performance fee accrued payable by the Fund was \$1,805,427 (excluding HST) (December 31, 2016, 2016 - \$726,725).

The Portfolio Manager is responsible for all investment advice provided to the Fund including providing investment analysis and recommendations, making investment decisions and

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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 \$2,122,788 (excluding HST) to the Portfolio Manager for the year ended December 31, 2017 (December 31, 2016 - \$1,361,440) including performance fees, if 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

Year ended	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014	31-Dec-2013
Net assets per unit¹					
Net assets, beginning of year	\$ 11.32	\$ 10.75	\$ 11.43	\$ 10.71	\$ 10.00
Operations:					
Total revenue	0.78	0.76	0.26	-	-
Total expenses	(0.41)	(0.26)	(0.11)	(0.12)	(0.11)
Realized gains (losses)	0.21	(0.46)	4.66	0.15	0.11
Unrealized gains (losses)	0.21	0.95	(5.00)	1.18	1.21
Total increase (decrease) from operations²	\$ 0.79	\$ 0.99	\$ (0.19)	\$ 1.21	\$ 1.21
Distributions:					
From income (excluding dividends)	\$ (0.52)	\$ (0.48)	\$ -	\$ -	\$ -
From dividends	(0.02)	-	-	-	-
From capital gains		-	(3.55)	-	-
From return of capital		(0.02)	-	(0.50)	(0.50)
Total distributions^{2 3}	\$ (0.54)	\$ (0.50)	\$ (3.55)	\$ (0.50)	\$ (0.50)
Net assets, end of year^{2 3}	\$ 11.65	\$ 11.32	\$ 10.75	\$ 11.43	\$ 10.71
Ratios and supplemental data					
Net asset value ⁴ (thousands)	\$ 153,038	\$ 194,815	\$ 212,656	\$ 223,935	\$ 206,327
Units outstanding	13,139,530	17,208,747	19,783,017	19,586,958	19,261,249
Management expense ratio ⁵	% 2.73	% 2.33	% 1.77	% 3.18	% 5.87
Portfolio turnover rate ⁶	43.11	31.33	128.59	5.42	5.94
Trading expense ratio ⁷	0.01	0.03	-	-	-
Net asset value per unit, end of year	11.65	11.32	10.75	11.43	10.71
Closing Market price per unit ⁴	\$ 11.32	\$ 10.86	\$ 10.50	\$ 12.05	\$ 10.97

Notes

- The information is derived from the Fund's audited annual financial statements. All per unit figures presented are referenced to net assets determined in accordance to IFRS.
- 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.
- Distributions were paid in cash. Total distributions in 2015 and 2017 were paid in cash (\$0.50/unit) and the remainder was paid as a special non-cash distribution.
- This information is provided at the end of the period shown.
- For the years 2012-2014 the management expense ratio is based on total expenses of both the Fund and Canso Credit Trust (excluding commissions and other portfolio transaction costs but including initial issuance costs) for the stated period and is expressed as an annualized percentage of monthly average net asset value during the period.
- 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.
- 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

Year ended	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014	31-Dec-2013
Net assets per unit¹					
Net assets, beginning of year	\$ 12.14	\$ 11.47	\$ 12.10	\$ 11.27	\$ 10.46
Operations:					
Total revenue	0.85	0.82	0.27	-	-
Total expenses	(0.41)	(0.26)	(0.07)	(0.08)	(0.07)
Realized gains (losses)	0.20	(0.49)	5.01	0.16	0.11
Unrealized gains (losses)	0.27	0.97	(5.34)	1.29	1.25
Total increase (decrease) from operations²	\$ 0.91	\$ 1.04	\$ (0.13)	\$ 1.37	\$ 1.29
Distributions:					
From income (excluding dividends)	\$ (0.53)	\$ (0.43)	\$ -	\$ -	\$ -
From dividends	(0.03)	-	-	-	-
From capital gains		-	(3.95)	-	-
From return of capital		(0.07)	-	(0.50)	(0.50)
Total distributions^{2 3}	\$ (0.56)	\$ (0.50)	\$ (3.95)	\$ (0.50)	\$ (0.50)
Net assets, end of year^{2 3}	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10	\$ 11.27
Ratios and supplemental data					
Net asset value ⁴ (thousands)	\$ 20,160	\$ 21,279	\$ 28,009	\$ 32,630	\$ 34,120
Units outstanding	1,606,525	1,753,184	2,442,940	2,696,472	3,027,762
Management expense ratio ⁵	% 2.51	% 2.11	% 1.33	% 2.73	% 5.42
Portfolio turnover rate ⁶	43.11	31.33	128.59	5.42	5.94
Trading expense ratio ⁷	0.01	0.03	-	-	-
Net asset value per unit, end of year	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10	\$ 11.27

Notes

- 1 The information is derived from the Fund's audited annual financial statements. All per unit figures presented 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 and 2017 were paid in cash (\$0.50/unit) and the remainder was paid as a special non-cash distribution.
- 4 This information is provided at the end of the period shown.
- 5 For the years 2012-2014 the management expense ratio is based on total expenses of both the Fund and Canso Credit Trust (excluding commissions and other portfolio transaction costs but including initial issuance costs) for the stated period and is expressed as an annualized percentage of monthly average net asset value during the period.
- 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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Management Fees

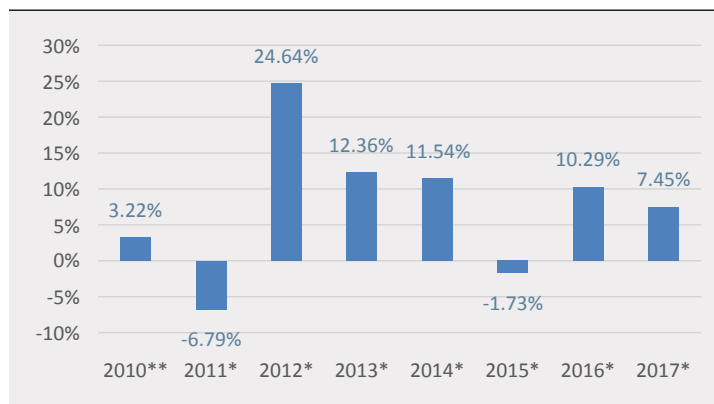
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section "Related Party Transactions" above.

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 0.75% per annum for Class A and Class F units.

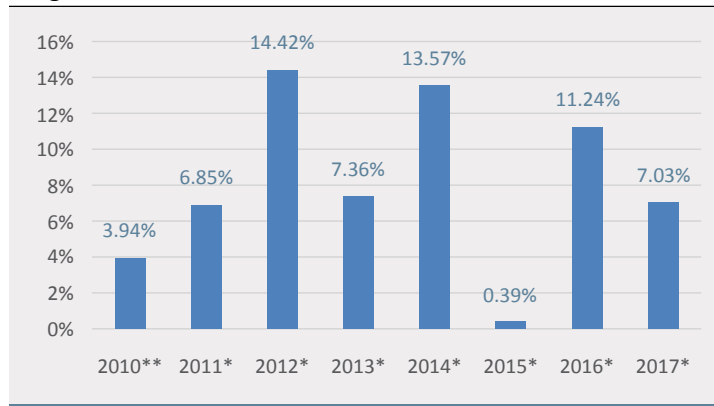
Service fees or trailing commissions ("Service Amount") are calculated and paid after the end of each calendar quarter, equal to 0.40% per annum of the net asset value attributable to the Class A Units of the Fund. The Manager paid the Service Amount to brokers based on the number of Class A Units of the Fund held by clients of such brokers at the end of the relevant quarter.

Year-by-Year Returns

Class A



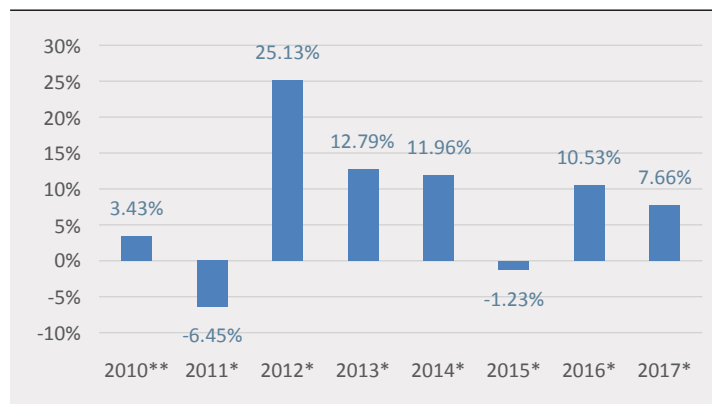
Long Portfolio



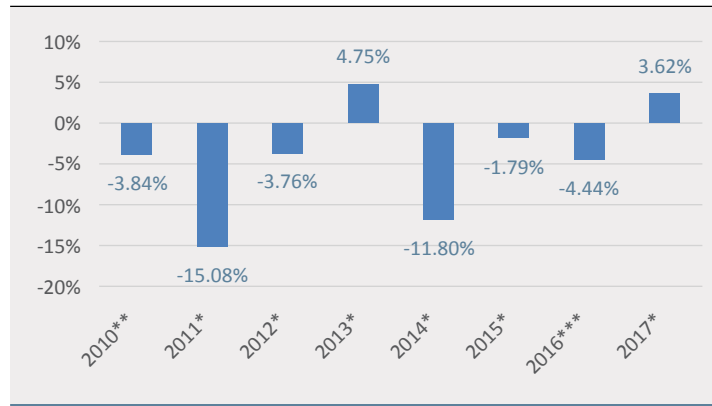
Past Performance

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 years shown were reinvested in additional units of the Fund.

Class F



Short Portfolio



* For the period January 1 to December 31, ** For the period July 16 to December 31, *** Restated performance for short portfolio for January 1 to December 31

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Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated, compared with the FTSE TMX Canada Universe All Corporate Bond Index (the "Index"). The Index is divided into sub-indices based on credit rating: a combined AAA/AA sector, a single A sector, and a BBB sector. The returns of the Index are calculated without the deduction of fees and expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

For years ended December 31, 2017		1 Year	3 Year ²	5 Year ²	Since Inception ³
Annual Compound Return					
Class A ¹	%	7.45	% 5.22	% 7.86	% 7.88
Class F ¹		7.66	5.54	8.24	8.24
Long Portfolio ¹		7.03	6.13	7.82	8.00
Short Portfolio ¹		3.62	(0.90)	(2.10)	(4.30)
FTSE TMX Canada All Corporate Bond Index ⁴	%	3.38	% 3.27	% 3.63	% 4.77

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 July 16, 2010 to December 31, 2017. Since inception returns are annualized.

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Summary of Investment Portfolio

% of NAV			% of NAV		
Top 25 Issuers			Asset Mix		
Long positions:			Canadian Bonds - Corporate	%	82.5
Toronto-Dominion Bank (Debt)	%	9.7	Foreign Bonds - Corporate		14.0
Cash and cash equivalents		8.6	Canadian Equities		21.4
Royal Bank Of Canada (Debt)		7.7	Foreign Equities		4.5
Strait Crossing Development (Debt)		6.7	Canadian Equities - Short		(4.6)
At&T Inc (Debt)		6.4	Canadian Government Debt - Short		(25.9)
Enbridge Inc (Debt)		6.1	Cash and cash equivalents		8.6
Videotron Ltd (Debt)		5.4	Other assets less liabilities		(0.5)
Honda Canada Finance Inc (Debt)		4.8	Total	%	100.0
Shaw Communications Inc (Debt)		4.8			
NHA MBS Merrill Lynch Cda Inc (Debt)		4.5			
Techmedianetwork Inc. (Purch Group Inc.) (Equity)		4.5			
Navient Corp (Debt)		3.9			
Bombardier Inc (Equity)		3.7			
BCE Inc (Equity)		3.6			
Clearstream Energy Svc Inc (Debt)		3.6			
Yellow Pages Limited (Equity)		3.6			
Xplornet Communications Inc (Equity)		3.0			
Manufacturers Life Ins Co (Debt)		3.0			
Postmedia Network Inc New (Debt)		2.9			
Bank Of Nova Scotia (Equity)		2.8			
Metropolitan Life Gbl Fdg I (Debt)		2.7			
Thomson Reuters Corp (Equity)		2.5			
Loblaw Companies Ltd (Debt)		2.5			
Short positions:					
Genworth MI Canada Inc (Equity)		(4.6)			
Government Of Canada (Debt)		(25.9)			
Total	%	76.5			
Total Portfolio Long Positions	%	130.5			
Total Portfolio Short Positions		(30.5)			



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