Semi-Annual Management Report of Fund Performance

As at June 30, 2018

Canso Credit Income Fund

A Note About Forward Looking Statements

This semi-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 semi-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-semi-annual financial statements of the Fund for the year ended June 30, 2018. 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.

Investment Strategies

The Fund is managed by Canso Investment Counsel Ltd. ("Canso" or "Portfolio Manager"). 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 2.02% for Class A units and 2.22% for Class F units. At the end of the period, the Fund held approximately 40.4% 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 and,

(ii) Certain individual bond holdings continued to perform well as the market responded positively to their issuers' improved financial metrics. These included Sobey's and Yellow Pages.

The net assets of the Fund were $169.5 million at June 30, 2018 compared to $173.1 million at the beginning of the period. This was partly due to cash distributions of approximately $3.6 million and net redemptions of approximately $3.5 million.

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

Recent Developments

The upward trajectory in yields reversed course in June as Canada, Mexico and the EU implemented their retaliatory tariffs for the US steel and aluminum tariffs imposed by the Trump administration. This, combined with the possibility of tariffs on imported vehicles into the US, the threat of retaliation for the retaliatory tariffs, and July's start of US tariffs on Chinese goods with Beijing retaliating, began to look like a global trade war. The Bank of Canada raised rates in January and then stayed on hold for the remainder of the period while the Federal Reserve continued to push their administered rates higher. The Canadian central bank is expected to follow the US rate hikes, but more cautiously given Canadian economic uncertainty.

In this environment, Government of Canada bonds outperformed and longer duration Provincials lagged. Credit yield spreads widened but the higher yield of corporate bonds allowed them to come close to matching the return of the Canada index. Within the corporate bond segment, BBB rated bonds were the strongest performers.

Canso continues to believe the US economy is demonstrating strong job growth. Protectionist trade policies are creating strength in the US dollar. Canso remains concerned about consumer debt levels and stretched house prices in Canada, especially in Toronto and Vancouver. Measures introduced to restrict mortgage lending 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.

The US Federal Reserve maintained its intent to return monetary policy and yields to a 'normal' level by keeping the door open for further rate hikes during this year. The Fed clearly wants to see interest rates higher, especially given the huge stimulus coming from US tax cuts. The Fed also projected that inflation is expected to rise over the medium term towards its 2% target as economic activity expands and the labour market strengthens further.

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 many cases. As an example, Canso purchased a position in a Lloyds Bank PLC ("Lloyds") CAD$ new issue 5-year floating rate bond late in the period. Lloyds is the largest retail bank in the United Kingdom. It is the principal operating subsidiary of Lloyds Banking Group. Lloyds Banking Group returned to full private ownership in May 2017. Lloyds' operations focus on retail and small and medium enterprises in the UK and are considered best in class. Lloyds benefits from a strong management team who have capably addressed the legacy issues facing the bank post the 2008 credit crisis. Lloyds' credit quality benefits from regulatory changes under the UK's ringfencing regime designed to separate banks' riskier capital markets businesses from more traditional banking operations. The bank is separating out its capital markets business into a stand-alone entity and this is nearly complete. This leaves the retail segment as the core business inside Lloyds. The bonds issued by Lloyds are also not subject to Canadian bail-in legislation. Canso believes the credit spread inherent in the purchase price appropriately compensates for the risk of this highly rated institution.

The largest purchases in the period were of high quality floating rate notes of Canadian banks. Canso also added to the positions in BB rated Teva Pharmaceuticals opportunistically.

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 the end of the period, the Fund's interest rate sensitivity, as measured by effective duration, was 1.1 years and the Fund is 40% invested in floating rate notes.

At the of the period, the Fund held long positions that were approximately 140% of the net asset value of the Fund with short positions of approximately 40% and the yield-to- maturity (before allowing for any expenses) was 4.6% versus 3.8% at the end of the prior period.

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 no changes to the membership of the Fund's Independent Review Committee ("IRC").

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 $648,857 (excluding HST) in management fees to the Manager for the period ended June 30, 2018 (June 30, 2017 - $804,446).

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 period ended June 30, 2018, the performance fee accrued payable by the Fund was $541,337 (excluding HST) (June 30, 2017 - 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 $302,800 (excluding HST) to the Portfolio Manager for the period ended June 30, 2018 (June 30, 2017 - $375,408) including performance fees, if applicable.

The Manager relied, or may rely on standing instructions from the IRC in respect of securities traded amongst mutual funds, closed end funds, managed accounts or pooled funds managed by the Manager or an affiliate of the Manager. In such cases the Manager is required to comply with the Manager’s written policies and procedures presented to the IRC and provide periodic reports to the IRC in accordance with National Instrument 81-107.

Financial Highlights

Class A

Period ended		30-Jun-18		31-Dec-2017		31-Dec-2016		31-Dec-2015		31-Dec-2014		31-Dec-2013
Net assets per unit[1]												
Net assets, beginning of period	$	11.65	$	11.32	$	10.75	$	11.43	$	10.71	$	10.00
Operations:												
Total revenue		0.21		0.78		0.76		0.26		-		-
Total expenses		(0.19)		(0.41)		(0.26)		(0.11)		(0.12)		(0.11)
Realized gains (losses)		0.18		0.21		(0.46)		4.66		0.15		0.11
Unrealized gains (losses)		0.04		0.21		0.95		(5.00)		1.18		1.21
Total increase (decrease) from operations[2]	**$**	**0.24**	**$**	**0.79**	**$**	**0.99**	**$**	**(0.19)**	**$**	**1.21**	**$**	**1.21**
Distributions:												
From income (excluding dividends)	$	(0.25)	$	(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]	**$**	**(0.25)**	**$**	**(0.54)**	**$**	**(0.50)**	**$**	**(3.55)**	**$**	**(0.50)**	**$**	**(0.50)**
Net assets, end of period[2 3]	**$**	**11.63**	**$**	**11.65**	**$**	**11.32**	**$**	**10.75**	**$**	**11.43**	**$**	**10.71**

Ratios and supplemental data												
Net asset value[4] (thousands)	$	150,546	$	153,038	$	194,815	$	212,656	$	223,935	$	206,327
Units outstanding		12,941,382		13,139,530		17,208,747		19,783,017		19,586,958		19,261,249
Management expense ratio[5]	%	2.21	%	2.73	%	2.33	%	1.77	%	3.18	%	5.87
Portfolio turnover rate[6]		25.28		43.11		31.33		128.59		5.42		5.94
Trading expense ratio[7]		0.02		0.01		0.03		-		-		-
Net asset value per unit, end of period		11.63		11.65		11.32		10.75		11.43		10.71
Closing Market price per unit[4]	$	11.84	$	11.32	$	10.86	$	10.50	$	12.05	$	10.97

Notes

1 The information is derived from the Fund's unaudited semi-annual and/or 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. A portion of the 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 2013-2014 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.

Class F

Period ended	30-Jun-18	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014	31-Dec-2013
Net assets per unit[1]						
Net assets, beginning of period	$ 12.55	$ 12.14	$ 11.47	$ 12.10	$ 11.27	$ 10.46
Operations:						
Total revenue	0.23	0.85	0.82	0.27	-	-
Total expenses	(0.19)	(0.41)	(0.26)	(0.07)	(0.08)	(0.07)
Realized gains (losses)	0.19	0.20	(0.49)	5.01	0.16	0.11
Unrealized gains (losses)	0.04	0.27	0.97	(5.34)	1.29	1.25
Total increase (decrease) from operations[2]	**$ 0.27**	**$ 0.91**	**$ 1.04**	**$ (0.13)**	**$ 1.37**	**$ 1.29**
Distributions:						
From income (excluding dividends)	$ (0.25)	$ (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]	**$ (0.25)**	**$ (0.56)**	**$ (0.50)**	**$ (3.95)**	**$ (0.50)**	**$ (0.50)**
Net assets, end of period[2 3]	**$ 12.58**	**$ 12.55**	**$ 12.14**	**$ 11.47**	**$ 12.10**	**$ 11.27**

Ratios and supplemental data						
Net asset value[4] (thousands)	$ 19,000	$ 20,160	$ 21,279	$ 28,009	$ 32,630	$ 34,120
Units outstanding	1,510,590	1,606,525	1,753,184	2,442,940	2,696,472	3,027,762
Management expense ratio[5]	% 1.95	% 2.51	% 2.11	% 1.33	% 2.73	% 5.42
Portfolio turnover rate[6]	25.28	43.11	31.33	128.59	5.42	5.94
Trading expense ratio[7]	0.02	0.01	0.03	-	-	-
Net asset value per unit, end of period	$ 12.58	$ 12.55	$ 12.14	$ 11.47	$ 12.10	$ 11.27

Notes

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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.

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.

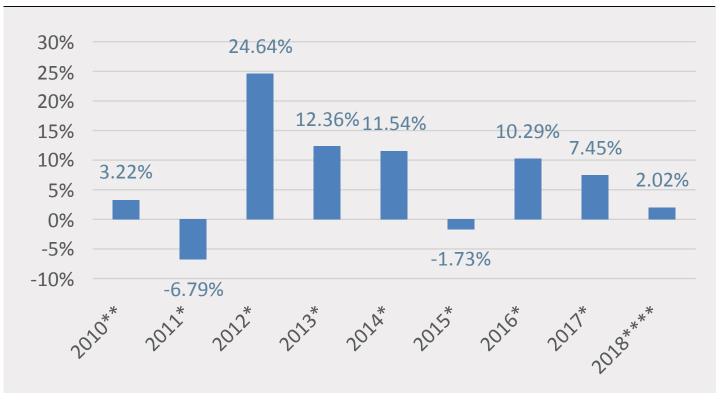
Service fees or trailing commissions ("Service Amount") are calculated and paid after the end of each calendar quarter, equal to 0.40% per annum of the net asset value attributable to the Class A Units of the Fund. The Manager paid the Service Amount to brokers based on the number of Class A Units of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

Past Performance

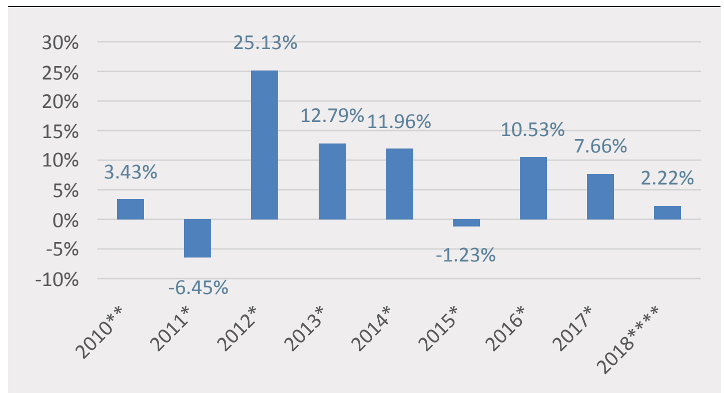
The following charts and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown assumes that cash distributions made by the Fund in the years shown were reinvested in additional units of the Fund.

Year-by-Year Returns

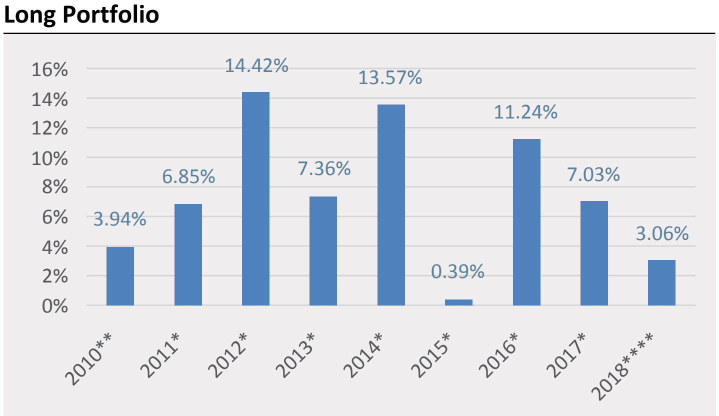
Class A



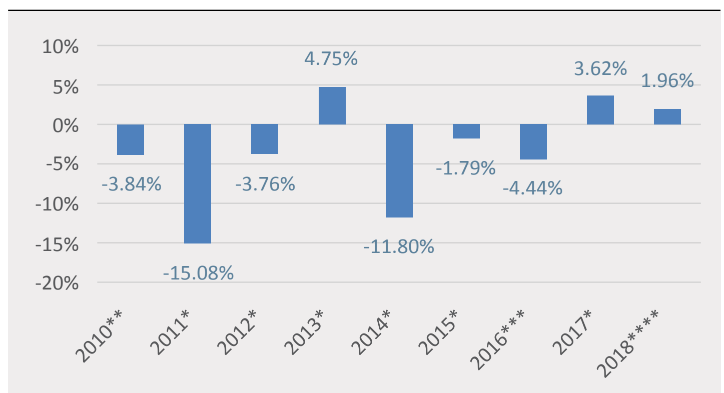
Class F



Long Portfolio



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, **** For the period January 1 to June 30

Summary of Investment Portfolio

Top 25 Issuers		% of NAV
Long positions:		
Toronto Dominion Bank (Debt)	%	12.4
Teck Resources Ltd. (Debt)		9.6
Royal Bank of Canada (Debt)		8.7
Bank of Montreal (Debt)		8.6
Shaw Communications Inc. (Debt)		8.1
Strait Crossing Development Inc. (Debt)		6.7
AT&T Inc. (Debt)		6.4
Enbridge Inc. (Debt)		6.2
Loblaw Companies Ltd (Debt)		4.8
Purch Group Inc. (Equity)		4.8
Lloyds Bank PLC (Debt)		4.5
Navient Corp. (Debt)		4.0
Yellow Pages Digital & Media Solutions Ltd (Equity)		3.9
BCE Inc. (Equity)		3.8
Pembina Pipeline Corp. (Debt)		3.4
Teva Pharmaceutical Finance Netherlands III BV (Debt)		3.1
Xplornet Communications Inc. (Equity)		3.1
Thomson Reuters Corp.		3.1
Honda Canada Finance Inc. (Debt)		3.0
Bank of Nova Scotia (Equity)		2.9
Postmedia Network Inc. (Debt)		2.9
Metropolitan Life Global Funding I (Debt)		2.8
Short positions:		
Genworth MI Canada Inc. (Equity)		(4.6)
United States Treasury Bond (Debt)		(6.6)
Government of Canada (Debt)		(29.2)
Total	**%**	**76.4**
Total Portfolio Long Positions	%	140.4
Total Portfolio Short Positions		(40.4)

Asset Mix		% of NAV
Canadian Bonds - Corporate	%	95.7
Foreign Bonds - Corporate		21.9
Canadian Equities		22.7
Foreign Equities		4.8
Canadian Equities - Short		(4.6)
Canadian Government Debt - Short		(29.2)
Foreign Government Debt - Short		(6.6)
Cash and Cash Equivalents		1.4
Other Assets less Liabilities		(6.1)
Total	**%**	**100.0**

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