

Annual Management Report of Fund Performance

As at December 31, 2021

Lysander-Canso U.S. Credit Fund



Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

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 Lysander-Canso U.S. Credit Fund (the “Fund”) contains financial highlights for the year ended December 31, 2021 but does not contain the complete financial statements of the Fund. This report should be read in conjunction with the annual financial statements of the Fund for the year ended December 31, 2021. Lysander Funds Limited (the “Manager”) is the manager of the Fund. 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 Lysander Funds Limited, 3080 Yonge St., Suite 3037, Toronto, Ontario, M4N 3N1, by visiting our website at www.lysanderfunds.com or at SEDAR at www.sedar.com.

Unitholders may also contact Lysander Funds Limited 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 achieve long term capital growth of returns consisting of income and some capital gains primarily through investments in U.S. debt and money market securities either denominated in U.S. dollars or hedged to U.S. dollars using forward currency contracts.

Investment Strategies

The Fund’s portfolio manager is Canso Investment Counsel Ltd. (“Portfolio Manager” or “Canso”), a company under common control as the Manager. The Fund’s portfolio positions will primarily be invested in fixed income securities, including those

of foreign issues. The Fund will not be leveraged. More details are contained in the Fund’s simplified prospectus.

During the year Canso employed its bottom-up process to buy and sell securities for the Fund.

Unless otherwise noted, all dollar amounts and returns in this document are expressed in USD.

Risks

The risks of this Fund remain as discussed in the Fund’s most recent simplified prospectus.

Results of Operations

During the year, Canso employed its bottom-up process to buy and sell securities for the Fund. The Fund’s positioning and performance is consistent with the Fund’s fundamental investment objective and strategies.

The Fund returns for the year were 8.47% for Series A and 9.09% for Series F. The Fund return for the period May 18 to December 31, 2021 was 3.42% for Series O.

The net assets of the Fund increased to approximately \$209.3 million at December 31, 2021 from \$69.5 million at the beginning of the year. There were net subscriptions of over \$133.2 million during the year.

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

Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

affected performance beyond what would be reasonably expected or have been described below.

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

Recent Developments

Investors entered the new year concerned with medical, economic and political challenges. In the U.S., the Democrats won control of the Senate, paving the way for the new administration to pass a larger stimulus package. Fiscal policy relief did not immediately allay investor concerns over increased COVID-19 cases and the impact of renewed lockdown measures. However, views changed rapidly as the vaccine rollout gathered pace and the prospect for an economic reopening crystallized. Economists quickly altered forecasts predicting a stronger recovery and higher inflation. Reassurance from the Federal Reserve that short rates would remain near zero, coupled with government support for the economy proved good news for equity markets but less so for bond markets as yields moved sharply higher for much of the year.

As inflation pushed to its highest level since the 1980s, government bond yields rose. Central bankers began to increasingly signal that higher interest rates were on the way some time in 2022. The view that higher inflation was only transient increasingly fell by the wayside as cost pressures and higher wage demands were also drivers of the higher inflation numbers.

In Canada, the housing market continued to be strong. Continued low mortgage rates was the main driver. Higher commodity prices also brightened the prospects for exports and business investment. Low interest rates also propelled risky assets upward and equity markets posted double digit returns for the year.

Signs of rampant speculation were increasingly apparent as the year wore on, whether it was in crypto-currencies, growth in very speculative venture capital deals, or the low and shrinking compensation lenders earned from high yield bonds.

The emergence of the Omicron variant late in the year contributed to a market sell-off, especially in technology names with high valuations and for bonds to regain some of the value lost from earlier in the year. However, the bond rally was short lived and Canso expects selloffs to continue as rising yields will deflate asset values for some time. This will come as a shock to younger investors who have never experienced negative returns from bonds. In Canso's view, the outlook for financial asset returns is not optimistic, with the greatest risk in highly valued or highly levered investments.

The Fund continued to purchase Limited Recourse Capital Notes including new issues from Great West Life, Manulife Financial, and TD Bank. During the year, the weight in BB and below securities decreased to 44.4% from 66.2%. As spreads continue to normalize, the Fund will improve its credit quality by investing in high-quality, and liquid positions, including government guaranteed securities

Canso continues to only take on duration when, in Canso's view, the Fund is being compensated for the incremental interest rate risk. Duration of the Fund was 2.7 years at year end.

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 series, 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 USD \$1,380,664 (including HST) in management fees to the Manager for the year ended December 31, 2021 (December 31, 2020 - USD \$421,441).

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 are included in the management fee.

The Manager paid CAD \$855,203 (including HST) to the Portfolio Manager for the year ended December 31, 2021 (December 31, 2020 - CAD \$267,459).

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

Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

periodic reports to the IRC in accordance with National Instrument 81-107.

Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

Financial Highlights

Series A

Year ended	31-Dec-2021 (USD)	31-Dec-2020 (USD)	31-Dec-2019 (USD)	31-Dec-2018 (USD)	31-Dec-2017 (USD)
Net assets per unit¹					
Net assets, beginning of year	\$ 11.53	\$ 9.88	\$ 9.40	\$ 9.78	\$ 9.59
Operations:					
Total revenue	0.46	0.49	0.37	0.32	0.36
Total expenses	(0.18)	(0.16)	(0.15)	(0.15)	(0.16)
Realized gains (losses)	0.60	0.10	(0.04)	0.06	0.09
Unrealized gains (losses)	(0.13)	1.66	0.54	(0.42)	0.08
Total increase (decrease) from operations²	\$ 0.75	\$ 2.09	\$ 0.72	\$ (0.19)	\$ 0.36
Distributions:					
From income (excluding dividends)	\$ (0.26)	\$ (0.31)	\$ (0.27)	\$ (0.22)	\$ (0.18)
From dividends	(0.04)	(0.01)	-	-	-
From capital gains	(0.53)	-	-	-	-
Total distributions^{2 3}	\$ (0.83)	\$ (0.32)	\$ (0.27)	\$ (0.22)	\$ (0.18)
Net assets, end of year^{2 3}	\$ 11.83	\$ 11.53	\$ 9.88	\$ 9.40	\$ 9.78

Ratios and supplemental data					
Net asset value ⁴	\$ 22,011,234	\$ 8,483,661	\$ 3,683,051	\$ 2,526,963	\$ 2,821,663
Units outstanding	1,860,127	735,635	372,651	268,691	288,432
Management expense ratio ⁵	% 1.50	% 1.53	% 1.56	% 1.51	% 1.66
Management expense ratio before waivers or absorption	1.50	1.53	1.56	1.51	1.66
Portfolio turnover rate ⁶	28.50	85.23	44.97	63.67	53
Trading expense ratio ⁷	0.01	0.02	-	-	-
Net asset value per unit, end of year	\$ 11.83	\$ 11.53	\$ 9.88	\$ 9.40	\$ 9.78

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) from 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 or reinvested in additional units, or both.
- This information is provided at the end of the period shown.
- 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 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.

Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

Series F

Year ended	31-Dec-2021 (USD)	31-Dec-2020 (USD)	31-Dec-2019 (USD)	31-Dec-2018 (USD)	31-Dec-2017 (USD)
Net assets per unit¹					
Net assets, beginning of year	\$ 11.5	\$ 9.85	\$ 9.33	\$ 9.66	\$ 9.47
Operations:					
Total revenue	0.46	0.48	0.37	0.32	0.35
Total expenses	(0.11)	(0.10)	(0.10)	(0.09)	(0.11)
Realized gains (losses)	0.61	0.10	(0.03)	0.06	0.09
Unrealized gains (losses)	(0.15)	1.6	0.54	(0.41)	0.06
Total increase (decrease) from operations²	\$ 0.81	\$ 2.08	\$ 0.78	\$ (0.12)	\$ 0.39
Distributions:					
From income (excluding dividends)	\$ (0.30)	\$ (0.35)	\$ (0.27)	\$ (0.22)	\$ (0.24)
From dividends	(0.04)	(0.01)	-	-	-
From capital gains	(0.49)	-	-	-	-
Total distributions^{2 3}	\$ (0.83)	\$ (0.36)	\$ (0.27)	\$ (0.22)	\$ (0.24)
Net assets, end of year^{2 3}	\$ 11.84	\$ 11.5	\$ 9.85	\$ 9.33	\$ 9.66
Ratios and supplemental data					
Net asset value ⁴	\$ 182,445,386	\$ 61,070,481	\$ 32,612,431	\$ 25,642,093	\$ 25,484,068
Units outstanding	15,412,945	5,309,423	3,311,921	2,749,678	2,637,839
Management expense ratio ⁵	% 0.93	% 0.97	% 1.00	% 0.97	% 1.09
Management expense ratio before waivers or absorption	0.93	0.97	1.00	0.97	1.09
Portfolio turnover rate ⁶	28.5	85.23	44.97	63.67	53
Trading expense ratio ⁷	0.01	0.02	-	-	-
Net asset value per unit, end of year	\$ 11.84	\$ 11.5	\$ 9.85	\$ 9.33	\$ 9.66

Notes

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Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

Series O*

Period ended	31-Dec-2021 (USD)	
Net assets per unit¹		
Net assets, beginning of period	\$	10.00
Operations:		
Total revenue		0.23
Total expenses		(0.01)
Realized gains (losses)		0.28
Unrealized gains (losses)		(0.23)
Total increase (decrease) from operations²	\$	0.27
Distributions:		
From income (excluding dividends)	\$	(0.33)
From dividends		(0.03)
From capital gains		(0.47)
Total distributions^{2 3}	\$	(0.83)
Net assets, end of period^{2 3}	\$	9.64
Ratios and supplemental data		
Net asset value ⁴	\$	4,901,575
Units outstanding		508,562
Management expense ratio ⁵	%	0.09
Management expense ratio before waivers or absorption		0.09
Portfolio turnover rate ⁶		28.5
Trading expense ratio ⁷		0.01
Net asset value per unit, end of period	\$	9.64

Notes

* Series O commenced operations on May 18, 2021

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Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

Management Fees

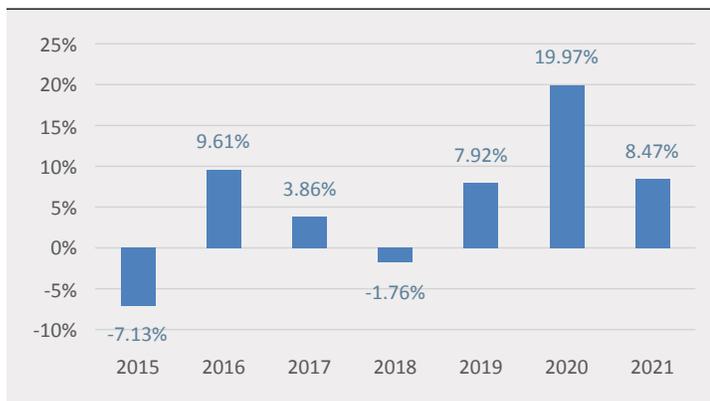
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

In consideration for such services, the Manager receives a management fee, based on the net asset value of each Series, calculated daily and payable monthly. The Fund pays a management fee of 1.25% per annum for Series A units and 0.75 % per annum for Series F units. No management fee is charged to the Fund with respect to Series O units, but investors are charged a negotiated management fee.

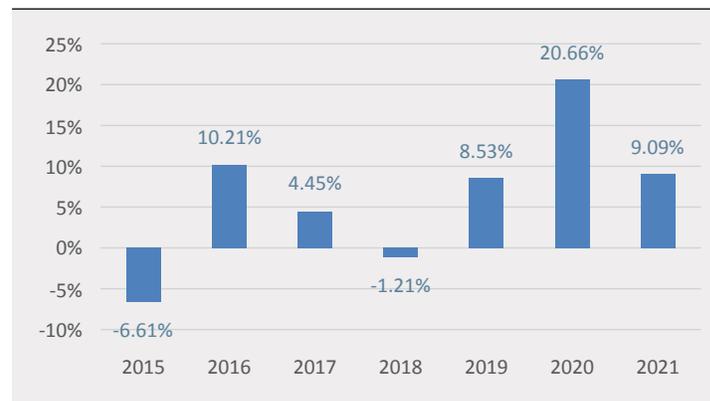
Service fees or trailing commissions of a maximum of 0.50% per annum are paid on Series A units to dealers. This comprises 40% of the management fee of Series A units.

Year-by-Year Returns

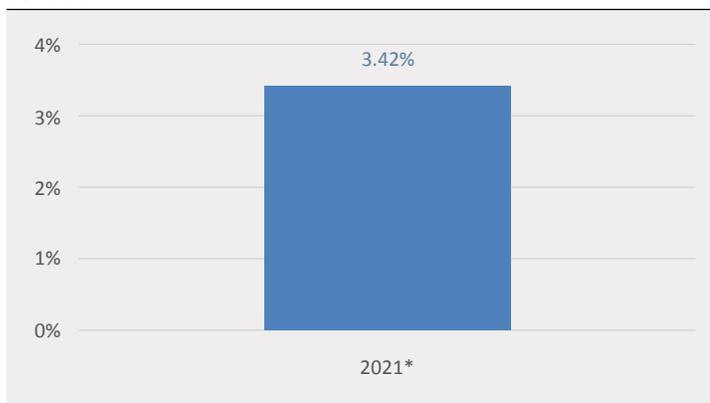
Series A



Series F



Series O



Past Performance

The commencement date of being distributed under a prospectus for Series A and Series F was December 30, 2014. Accordingly, returns are shown for the relevant period/years as indicated below.

The performance information assumes that any distributions are reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the series will perform in the future.

* For the period May 18 to December 31

Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated, compared with the ICE BofAML US Corporate Master-Total Return Index (the "Index"). 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, 2021		1 Year		3 Year ²		5 Year ²		Since Inception ³
Annual Compound Return								
Series A ¹	%	8.47	%	11.99	%	7.56	%	5.54
Series F ¹		9.09		12.62		8.07		6.13
Series O ¹		-		-		-		3.42
ICE BofAML US Corporate Master-Total Return Index ³	%	(0.95)	%	7.50	%	5.28	%	4.51

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 Series A and Series F period from December 30, 2014 to December 31, 2021. Series O period from May 18, 2021 to December 31, 2021. Since inception returns are annualized.

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Lysander-Canso U.S. Credit Fund

Annual Management Report of Fund Performance as at December 31, 2021

Summary of Investment Portfolio

	% of NAV		% of NAV
Top 25 Issuers		Asset Mix	
Air Canada	6.9	U.S. Fixed Income	36.3
Royal Bank Of Canada	5.5	Canadian Equities	0.1
Spirit Aerosystems Inc	4.9	Canadian Fixed Income	47.8
Occidental Petroleum Corporation	4.6	Cash and Cash Equivalents	2.9
American Airlines Inc.	4.3	Foreign Fixed Income	4.7
Manulife Financial Corporation	4.2	Preferred Shares	6.9
Bank Of Nova Scotia	3.8	Other Assets less Liabilities	1.3
Met Life Global Funding I	3.8	Total	100.0
Bombardier Inc	3.6	Sector	
Avis Budget Group, Inc.	3.4	Cash and Cash Equivalents	2.9
Maxar Technologies Inc	3.4	Communication Services	1.9
Cash and Cash Equivalents	2.9	Consumer Discretionary	2.3
NatWest Group plc	2.7	Energy	10.5
Transcanada Pipelines	2.6	Federal	6.7
Delta Air Lines Inc	2.6	Financials	40.5
Honda Canada Finance Inc	2.4	Industrials	30.0
Great-West Lifeco Inc	2.3	Information Technology	3.9
AMC Entertainment Holdings Inc.	2.1	Other Assets less Liabilities	1.3
JP Morgan Chase & Co	2.1	Total	100.0
Ford Credit Canada Company	2.0		
Canadian Imperial Bank of Commerce	1.9		
Scotia Capital Inc NHA MBS (97518704)	1.8		
GE Capital Corporation Ltd	1.8		
Enbridge Inc (Equity)	1.7		
Boeing Co.	1.7		
Total	79.0		



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