

# **Canso Select Opportunities Corporation**

## **Management's Discussion and Analysis For the Three Months Ended March 31, 2020**

Management's Discussion and Analysis ("MD&A") provides a review of Canso Select Opportunities Corporation's ("CSOC" or the "Corporation") interim financial results for the three months ended March 31, 2020 and assesses factors that may affect future results. The financial condition and results of operations are analyzed noting the significant factors that impacted the interim statements of financial position, interim statements of comprehensive income, interim statements of changes in equity, and interim statements of cash flows of CSOC. As such, this MD&A should be read in conjunction with the interim financial statements and notes thereto. The interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") to provide information about CSOC.

The following MD&A is the responsibility of management and is dated May 26, 2020. The Board of Directors carries out its responsibility for the review of this disclosure through its Audit Committee, comprised of independent directors and CSOC's Chief Financial Officer. The Audit Committee has reviewed and recommended approval of the MD&A by the Board of Directors. The Board of Directors has approved this disclosure.

### **Business of the Corporation**

CSOC is an Ontario-based investment corporation. CSOC's investment objective is to provide capital gains and dividend income to its shareholders. Consistent with this objective, the Corporation evaluates potential investments in debt, public and private equity and other securities. The deployment of funds to new investments depends on both the attractiveness of new investment opportunities and the availability of capital as generated from the realization of value from existing portfolio investments.

### **Recent Developments**

At CSOC's Annual General and Special Meeting on May 26, 2020 minority shareholders of CSOC approved the sale of certain of its assets consisting of 112,668 Series 4 Class A Preferred Shares of Hubba Inc. to Skunkworks Investment Corporation for a total cash consideration of US\$1,823,249.91 (the "Transaction"). In addition, the Transaction received approval of the TSX Venture Exchange. The Transaction is expected to close on or about May 28, 2020.

The Transaction frees up capital and provides the Corporation with funds with which to diversify its portfolio base. As at March 31, 2020, the Hubba position accounted for approximately 30.73% of the Corporation's portfolio assets. The Transaction reduces the Hubba position to 7.97% of the Corporation's portfolio assets. The Corporation wanted to reduce this position and use the gross proceeds of the Transaction to pursue several investment opportunities currently under investigation and for general working capital purposes. See "Subsequent Events" for more information.

On February 27, 2020 Xplornet Communications Inc. announced Stonepeak had entered into a binding agreement with Xplornet and its shareholders, through which Stonepeak agreed to

acquire a controlling stake in Xplornet. The transaction is subject to regulatory approval. CSOC owns 3,300 Series C Warrants of Xplornet and plans to exercise these warrants and subsequently tender its shares to the Stonepeak bid. The transaction is expected to close in 2020.

## **Overall Performance**

### *General Factors*

The Corporation's ability to generate capital gains and to pay dividends depends on the performance of the holdings in its portfolio. Each company in the portfolio is unique. Portfolio companies vary from early stage start-up enterprises, to private companies in more advanced stages of development and publicly traded companies operating in mature industries. Depending on the company, there may be many paths to long-term value creation including, but not limited to, additional funding rounds, initial public offering, acquisition or sale, or general improvement in financial and operating performance.

The performance of these portfolio companies depends on a variety of factors, which include but are not limited to, economic conditions, interest rate levels and investor confidence as indicated by equity market performance.

In early 2020, as a result of the COVID-19 outbreak, stock markets plummeted and risk premiums soared. The Bank of Canada and Federal Reserve cut overnight rates to 0.25%, levels not seen since the aftermath of the Credit Crisis in 2008. Both Central Banks announced additional measures designed to ensure liquidity in financial markets. Governments around the globe enacted sweeping fiscal policy responses designed to provide near and medium-term relief to individuals and businesses. At this point it is uncertain at what point economic activity will return to pre-crisis levels.

It is impossible to predict the length and severity of the COVID-19 crisis. Companies in which CSOC is invested will be impacted to varying degrees by the reduction in economic activity. Although equity and credit markets recovered somewhat from the initial selloff it is likely lower valuations for public equities and corporate bonds will persist for some time. Valuations for marketable investments in CSOC's portfolio are likely to be impacted by these events. Valuations for private investments in CSOC's portfolio are also likely to be impacted.

### *Specific Factors*

For the three months ended March 31, 2020 CSOC reported a net loss of \$1,226,355 for a loss of \$0.44 per Class A Multiple Voting Shares and Class B Subordinate Voting Shares respectively. The loss was predominately the result of \$1,458,455 in unrealized losses on equity investments in Clearstream Energy Services Inc., M-Split, Second Cup Ltd. and Yellow Pages Limited.

## **Summary of Investment Portfolio**

The deployment of funds to new investments depends on both the attractiveness of new investment opportunities and the availability of capital as generated from the realization of value from existing portfolio investments. The availability of funds for dividends depends on the

generation of income or capital from existing portfolio investments and the meeting of certain statutory financial requirements permitting the payment of dividends.

CSOC's corporate structure provides a permanent capital base allowing the realization of value from its existing portfolio over time. In the first quarter of 2020 we continued the long-term value creation process. The sale of CSOC's remaining position in Ford Credit Canada Co. notes funded in part the purchase of equity in Neptune Acquisition GP Inc.. Neptune Acquisition purchased the Canadian business of Maxar Technologies Inc.

A strategic priority is shifting the mix of the portfolio from a majority of private investments to a more balanced mix of public and private investments. We expect to continue to effect changes to the portfolio composition during 2020.

CSOC's investments with a market value in excess of 10% of portfolio market value are described below.

### ***Hubba, Inc.***

Hubba is a private company operating a business to business (B2B) product network connecting producers of branded products with retailers and other key influencers. The company facilitates commercial relationships between active members of the Hubba community driving growth in their respective businesses. CSOC held 149,994 Hubba, Inc. Class A, Series 4 Preferred Shares purchased on September 2, 2015.

### ***Xplornet Communications***

Xplornet, a private company, is a Canadian rural-focused broadband service provider of facilities based broadband Internet access service and related subscription services to subscribers located in rural areas across Canada that typically do not have access to cable or fibre broadband infrastructure. CSOC held 3,300 Series C Warrants detached from originally issued bonds.

### ***Yellow Pages Limited***

Yellow Pages (TSX: Y), is a digital media and marketing solutions provider in Canada, offering targeted tools to local businesses, national brands and consumers allowing them to interact and transact within today's digital economy. CSOC held 177,523 common shares with an initial purchase in January 5, 2015.

Prior to September 30, 2019 we showed CSOC and CSOF's portfolios separately. From a practical point of view the portfolio is managed on a consolidated basis. As such the table on the next page is the consolidated CSOC portfolio. Note 8 to the Financial Statements provides a segmented breakdown.

Description	Average Cost \$	Fair Value \$	% of Portfolio
<b>Total Marketable Investments</b>	<b>11,277,843</b>	<b>4,064,120</b>	<b>36.22%</b>
Cash	(218,396)	(212,671)	-1.90%
<b>Common Equity Held Long</b>	<b>8,901,794</b>	<b>2,413,134</b>	<b>21.51%</b>
ClearStream Energy Services Inc.	2,012,939	158,173	1.41%
Second Cup Ltd.	3,400,936	877,152	7.82%
Torstar Corporation	1,392,200	90,767	0.81%
Yellow Pages Limited	2,095,719	1,287,042	11.47%
<b>Options</b>	<b>61,480</b>	<b>35,160</b>	<b>0.31%</b>
Genworth MI Canada Inc.	61,480	35,160	0.31%
<b>Fixed Income Held Long</b>	<b>1,623,699</b>	<b>1,689,854</b>	<b>15.06%</b>
Exxon Mobil Corporation	317,811	391,199	3.49%
Kraft Heinz Foods Co.	645,171	646,883	5.77%
Maxar Technologies Inc.	603,717	630,562	5.62%
Stuart Olson Inc.	57,000	21,210	0.19%
<b>Fixed Income Held Short</b>	<b>(721,931)</b>	<b>(881,005)</b>	<b>-7.85%</b>
US Treasury Bond	(721,931)	(881,005)	-7.85%
<b>Preferred Shares</b>	<b>1,631,197</b>	<b>1,019,648</b>	<b>9.09%</b>
BCE Inc.	44,010	31,840	0.28%
BMO Laddered Preferred Share Index ETF	137,771	104,976	0.94%
Bombardier Inc.	299,124	209,890	1.87%
Canadian Life Companies Split	78,572	70,560	0.63%
Enbridge Inc.	220,912	156,807	1.40%
Manulife Financial Corp.	6,744	4,720	0.04%
M-Split	838,474	436,755	3.89%
TC Energy Corporation	5,590	4,100	0.04%
<b>Total Private Investments</b>	<b>6,018,164</b>	<b>7,548,731</b>	<b>67.28%</b>
<b>Common Equity Held Long</b>	<b>705,559</b>	<b>713,432</b>	<b>6.36%</b>
Brill Power Limited	105,559	113,432	1.01%
Neptune Acquisition GP Inc.	400,000	400,000	3.57%
Reformulary Group Inc.	200,000	200,000	1.78%
<b>Fixed Income Held Long</b>	<b>1,473,537</b>	<b>141,243</b>	<b>1.26%</b>
HashTag Paid Inc.	132,837	141,243	1.26%
Telepath Networks, Inc.	1,340,700	0	0.00%
<b>Warrants</b>	<b>141,651</b>	<b>1,665,685</b>	<b>14.85%</b>
BZ Holdings Inc. (formerly Purch Group Inc.)	0	0	0.00%
Telepath Networks, Inc.	0	0	0.00%
Xplornet Communications	141,651	1,665,685	14.85%
<b>Preferred Shares</b>	<b>3,697,416</b>	<b>5,028,370</b>	<b>44.82%</b>
BZ Holdings Inc. (formerly Purch Group Inc.)	918,783	1,070,522	9.54%
ClearStream Energy Services Inc.	729,400	510,300	4.55%
Hubba, Inc.	2,049,233	3,447,548	30.73%
<b>Grand Total Marketable and Private Investments</b>	<b>\$17,296,006</b>	<b>\$11,612,850</b>	<b>100.00%</b>
Other Assets, Net of Liabilities		(392,716)	
<b>CSOC'S Investments at Fair Value</b>		<b>\$11,220,134</b>	

## Summary of Quarterly Results

The following table shows selected financial information in CAD\$ about CSOC for the most recently completed seven quarters of the Corporation:

Description	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020
Total Revenue Per Share	(\$0.13)	(\$0.58)	\$0.09	(\$0.05)	(\$0.22)	\$0.06	(\$0.49)
Realized Gains (Losses) Per Share	\$0.00	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.05)	\$0.02
Unrealized Gains (Losses) Per Share	(\$0.13)	(\$0.57)	\$0.10	(\$0.05)	(\$0.21)	\$0.11	(\$0.52)
Total Shareholder's Equity	\$15,141,485	\$13,617,007	\$13,785,727	\$13,593,521	\$13,015,272	\$13,114,933	\$11,888,578
Equity per Class A Share	\$5.45	\$4.90	\$4.96	\$4.89	\$4.68	\$4.72	\$4.28
Equity per Class B Share	\$5.45	\$4.90	\$4.96	\$4.89	\$4.68	\$4.72	\$4.28

The variations shown in the table above relate to the timing of investment decisions and do not reflect any general trends or seasonality. For each quarterly period, the financial data has been prepared in accordance with IFRS and the Canadian Dollar has been the presentation and functional currency.

## Discussion of Operations

For the three months ended March 31, 2020 CSOC reported a net loss of \$1,226,355 for a loss of \$0.44 per Class A Shares and Class B Shares respectively. The loss in 2020 is the result of \$1,458,455 unrealized losses on investments primarily on holdings in Clearstream Energy Services Inc., M-Split, Second Cup Ltd. and Yellow Pages Limited.

The net assets of the Corporation were \$11,888,578 at March 31, 2020 versus \$13,114,933 at December 31, 2019 or \$4.28 per CSOC Class and Class B Share versus \$4.72 per CSOC Class A Share and Class B Share.

## CSOC Tax Status

On September 4, 2018, the Fund completed a plan of arrangement (the "Arrangement") with the Corporation whereby the Corporation issued Class A Multiple Voting Shares and Class B Subordinate Voting Shares of CSOC in exchange for the outstanding units of the Fund and the Fund became a wholly-owned investment of CSOC.

The Fund has a pool of tax loss carry forwards that can be utilized to shelter gains of the Fund so long as the trust continues to be maintained and certain other conditions are met. If the Fund were to be wound-up into CSOC at a time when it had losses, such losses would expire unutilized. Consequently, the current intention is to maintain the continued existence of the Fund until such time as all or substantially all of the losses of the Fund are utilized, or so long as the benefits associated with maintaining and utilizing such losses (e.g. current and potential cash tax savings) outweighs the cost of maintaining the Fund. As the holding period for many of these investments of the Fund is measured in years, and the Fund has tax losses, the "transitional period" could be several months to a year or more. Any new investments will be made directly by CSOC.

## Liquidity

Liquidity risk is managed by maintaining a portion of the Corporation's assets in investments traded in an active market that can be readily sold. All liabilities of the Corporation are due within one year.

The securities of the Corporation are listed on the TSX Venture Exchange under the ticker CSOC.A and CSOC.B and have daily liquidity.

## Subsequent Events

At CSOC's Annual General and Special Meeting on May 26, 2020 minority shareholders of CSOC approved the sale of certain of its assets consisting of 112,668 Series 4 Class A Preferred Shares of Hubba Inc. to Skunkworks Investment Corporation for a total cash consideration of US\$1,823,249.91 (the "Transaction").

The Transaction frees up capital and provides the Corporation with funds with which to diversify its portfolio base. As at March 31, 2020, the Hubba position accounted for approximately 30.73% of the Corporation's portfolio assets. The Transaction reduces the Hubba position to 7.97% of the Corporation's portfolio assets. The Corporation wanted to reduce this position and use the gross proceeds of the Transaction to pursue several investment opportunities currently under investigation and for general working capital purposes.

John Carswell, a director of CSOC, beneficially owns, directly or indirectly, or exercises control or direction over, approximately 45% of the voting rights of CSOC. In addition, John Carswell, a director of Skunkworks, directly and indirectly beneficially owns, in the aggregate, more than 50% of the securities of Skunkworks. As such, the Transaction is deemed to be a "related party transaction" as defined under Multilateral Instrument 61-101—Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Transaction is exempt from the formal valuation requirements of MI 61-101 pursuant to subsections 5.5(b) of MI 61-101 as the Corporation is not listed on a specified market. However, pursuant to MI 61-101, the Transaction is subject to minority shareholder approval (i.e., approval by a majority of the votes cast at a meeting of shareholders excluding any shares held by the directors and officers of CSOC, its affiliates and joint actors) (collectively, "Minority Approval"). Minority shareholders approved the Transaction at CSOC's Annual General and Special Meeting on May 26, 2020. In addition, the Transaction received approval of the TSX Venture Exchange. The Transaction is expected to close on or about May 28, 2020.

The Transaction has been reviewed by both the Corporation's investment committee as well as a special committee (the "Special Committee") comprised of members of the board of directors (the "Board") who are independent of CSOC and are not members of management of the Corporation. The Special Committee determined that it is in the best interests of, or fair to, shareholders of the Corporation to recommend the Transaction to the Board. The Board reviewed and considered the recommendation of the Special Committee, and provided its approval of the Transaction. John Carswell, Shirley Sumsion and Joe Morin, each a director of the Corporation and of Skunkworks, declared their interest in accordance with the *Business Corporations Act* (Ontario) with respect to the Transaction.

On February 27, 2020 Xplornet Communications Inc. announced Stonepeak had entered into a binding agreement with Xplornet and its shareholders, through which Stonepeak agreed to acquire a controlling stake in Xplornet. The transaction is subject to regulatory approval. CSOC owns 3,300 Series C Warrants of Xplornet and plans to exercise these warrants and subsequently tender its shares to the Stonepeak bid. The transaction is expected to close in 2020.

### **Capital Resources**

CSOC has no commitments for any capital expenditures as of March 31, 2020.

### **Off-Balance Sheet Arrangements**

CSOC does not have any off-balance sheet arrangements.

### **Changes in Accounting Policies Including Initial Adoption**

There were no changes during the period ending March 31, 2020 to the Corporation's accounting policies. The Corporation's accounting policies for its financial instruments are disclosed in detail in Note 2 of the Annual Audited Financial Statements.

### **Financial Instruments and Other Instruments**

For the period ended March 31, 2020, CSOC held derivatives and short positions in an investment portfolio in accordance with its investment mandate. The list of all associated risks disclosed in detail in Notes 3 and Note 11 of the Annual Audited Financial Statements.

### **Transactions between Related Parties**

Effective August 1, 2018, CSOC entered into an operational services agreement with Canso Investment Counsel Ltd. ("Canso"). The operational services agreement sets out that Canso will provide day-to-day operational services to carry out the business and affairs of the Corporation. CSOC does not pay any management or performance fees to Canso.

On June 28, 2019, CSOC closed the previously announced sale of 99,006 Series 4 Class A preferred shares of Hubba Inc. to Skunkworks for total cash consideration of \$2,100,000 (the "Sale Transaction").

The Sale Transaction is deemed to be a "related party transaction" as defined under MI 61-101, since John Carswell, a director of CSOC and Skunkworks, beneficially owns, directly or indirectly, or exercises control or direction over, approximately 45% of the voting rights of CSOC and more than 50% of the securities of Skunkworks.

The Sale Transaction was reviewed by a special committee (the "Special Committee") comprised of members of the board of directors (the "Board") who are independent of CSOC and are not members of management of the Corporation. The Special Committee determined that it was in the best interests of, or fair to, shareholders of CSOC to recommend the Sale Transaction to the Board. The Board reviewed and considered the recommendation of the Special Committee, and provided its approval of the Sale Transaction. John Carswell, Shirley Sumsion and Joe Morin,

each a director of the Corporation and of Skunkworks, abstained from voting with respect to the related party Sale Transaction. The Sale Transaction was exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 pursuant to subsections 5.5(b) and 5.7(a) of MI 61-101 as Hubba Inc. was not listed on a specified market and the fair market value of the consideration received from interested parties did not exceed 25% of the Hubba's market capitalization. Closing of the Sale Transaction was subject to the approval of the TSX Venture Exchange.

### **Disclosure of Outstanding Share Data**

As at March 31, 2020 and the date hereof, there were 1,621,460 Class A Shares and 1,156,738 Class B Shares of the Corporation outstanding.

### **Other MD&A Requirements**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **FORWARD-LOOKING STATEMENTS**

*This report may contain forward-looking statements and information within the meaning of applicable securities legislation. Forward-looking statements can be identified by the words "seeks", "expects", "believes", "estimates", "will", "target" and similar expressions. The forward-looking statements reflect the current expectations of CSOC regarding future results or events and are based on information currently available to it. Certain material factors and reasonable assumptions were applied in providing these forward-looking statements. All forward looking statements in this press release are qualified by these cautionary statements. CSOC believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions; however, CSOC can give no assurances that the actual results or developments will be realized. These forward-looking statements are subject to several risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under "Risk Factors" in the management information circular dated as of March 16, 2018 (the "Circular"). Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. CSOC undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances except as required by securities laws. These forward-looking statements are made as of the date of this report.*

*Additional information about CSOC is available under its SEDAR profile at [www.sedar.com](http://www.sedar.com).*