

# **Canso Select Opportunities Corporation**

## **Management's Discussion and Analysis For the Three and Six Months Ended June 30, 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 and six month periods ended June 30, 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 August 25, 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**

On August 10, 2020 Nordstar Capital LP acquired all of the outstanding common shares of Torstar Corporation for \$0.74 per share. As part of this transaction CSOC tendered its holdings consisting of 259,335 Torstar common shares. CSOC provided \$269,000 in financing to Nordstar through the purchase of a 10% August 5, 2025 bond. Nordstar repaid \$95,000 of CSOC's holding on August 19, 2020.

On June 15, 2020 Xplornet Communications Inc. closed the sale of the majority of its assets to Stonepeak Infrastructure Partners. As part of the transaction CSOC exercised 3,300 Series C Warrants of Xplornet and tendered its shares to the Stonepeak bid for proceeds of \$1,618,259. CSOC retains a small interest in Xplornet Mobility Inc. and Xplornet Wireless, Inc.

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 closed on May 28, 2020.

The Transaction freed up capital and provides the Corporation with funds with which to diversify its portfolio base. The Transaction completes the resizing of Hubba within the Corporation's portfolio from 41.0% of assets at December 2018 to 7.38% at June 30, 2020. The Corporation expects to use the proceeds of the Transaction to pursue several investment opportunities currently under investigation and for general working capital purposes.

On April 24, 2020 CSOC purchased 400,000 warrants in Fibracast Ltd. for \$400,000. Fibracast designs and manufactures membrane use in large scale water filtration applications.

## **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. It remains 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. That said equity and credit markets valuations have substantially recovered from March's distressed levels. Valuations for marketable and private investments in CSOC's portfolio will be impacted to varying degrees by the reduction in economic activity and the duration of the COVID-19 crisis.

### *Specific Factors*

For the three month and six month periods ended June 30, 2020 CSOC reported net losses of \$147,076 and \$1,373,431 or \$0.05 and \$0.49 per Class A Multiple Voting Shares and Class B Subordinate Voting Shares respectively. The three month loss was predominately the result of \$168,973 in realized losses on the redemption of CSOF units by CSOC. For the six month period the loss was predominately due to unrealized losses on equity investments in Clearstream Energy Services Inc., M-Split and Second Cup Ltd.

## **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 second quarter of 2020 we continued the long-term value creation process. The reduction of CSOC's holding in Hubba, the sale of Maxar Technologies Inc. 2023 bonds and the XplorNet sale to Stonepeak raised substantial capital for CSOC to explore new investment opportunities. The investment in Fibracast is one such opportunity.

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. As a result of recent changes in portfolio composition ~70% of CSOC's portfolio investments comprise marketable investments, up substantially from 36% as of March 31, 2020.

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

### ***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. At June 30<sup>th</sup> CSOC held 177,523 common shares with an initial purchase in January 5, 2015.

Prior to September 30, 2019 we presented 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 6 to the Interim Financial Statements provides a segmented breakdown.

Description	Average Cost \$	Fair Value \$	% of Portfolio
<b>Total Marketable Investments</b>	<b>14,585,638</b>	<b>7,735,004</b>	<b>69.81%</b>
<b>Cash</b>	3,691,278	3,691,568	33.32%
<b>Common Equity Held Long</b>	<b>8,903,789</b>	<b>2,579,120</b>	<b>23.28%</b>
ClearStream Energy Services Inc.	2,012,939	158,173	1.43%
Second Cup Ltd.	3,400,936	657,864	5.94%
Stuart Olson Inc.	1,995	1,995	0.02%
Torstar Corporation	1,392,200	163,381	1.47%
Yellow Pages Limited	2,095,719	1,597,707	14.42%
<b>Options</b>	<b>61,480</b>	<b>20,700</b>	<b>0.19%</b>
Genworth MI Canada Inc.	61,480	20,700	0.19%
<b>Fixed Income Held Long</b>	<b>1,019,982</b>	<b>1,096,486</b>	<b>9.90%</b>
Exxon Mobil Corporation	317,811	382,232	3.45%
Kraft Heinz Foods Co.	645,171	690,382	6.23%
Stuart Olson Inc.	57,000	23,872	0.22%
<b>Fixed Income Held Short</b>	<b>(721,931)</b>	<b>(834,872)</b>	<b>-7.53%</b>
US Treasury Bond	(721,931)	(834,872)	-7.53%
<b>Preferred Shares</b>	<b>1,631,040</b>	<b>1,182,002</b>	<b>10.67%</b>
BCE Inc.	44,010	31,321	0.28%
BMO Laddered Preferred Share Index ETF	137,614	118,512	1.07%
Bombardier Inc.	299,124	249,928	2.26%
Canadian Life Companies Split	78,572	77,280	0.70%
Enbridge Inc.	220,912	178,263	1.61%
Manulife Financial Corp.	6,744	5,340	0.05%
M-Split	838,474	517,433	4.67%
TC Energy Corporation	5,590	3,925	0.04%
<b>Total Private Investments</b>	<b>4,737,232</b>	<b>3,331,077</b>	<b>30.06%</b>
<b>Common Equity Held Long</b>	<b>705,559</b>	<b>748,788</b>	<b>6.76%</b>
Brill Power Limited	105,559	108,586	0.98%
Neptune Acquisition GP Inc.	400,000	400,000	3.61%
Reformulary Group Inc.	200,000	200,000	1.81%
Xplornet Mobile Inc.	0	13,401	0.12%
Xplornet Wireless Inc.	0	26,801	0.24%
<b>Fixed Income Held Long</b>	<b>1,473,537</b>	<b>136,184</b>	<b>1.23%</b>
HashTag Paid Inc.	132,837	136,184	1.23%
Telepath Networks, Inc.	1,340,700	0	0.00%
<b>Warrants</b>	<b>400,000</b>	<b>400,000</b>	<b>3.61%</b>
BZ Holdings Inc. (formerly Purch Group Inc.)	0	0	0.00%
Fibrecast Special Warrant	400,000	400,000	3.61%
Telepath Networks, Inc.	0	0	0.00%
<b>Preferred Shares</b>	<b>2,158,135</b>	<b>2,046,105</b>	<b>18.47%</b>
BZ Holdings Inc. (formerly Purch Group Inc.)	918,783	717,065	6.47%
ClearStream Energy Services Inc.	729,400	510,300	4.61%
Hubba, Inc.	509,952	818,740	7.39%
<b>Grand Total Marketable and Private Investments</b>	<b>\$19,322,869</b>	<b>\$11,066,081</b>	<b>100.00%</b>
Other Assets, Net of Liabilities		13,937	
<b>CSOC'S Investments at Fair Value</b>		<b>\$11,080,018</b>	

## Summary of Quarterly Results

The following table shows selected financial information in CAD\$ about CSOC for the most recently completed eight 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	June 30, 2020
Total Revenue Per Share	(\$0.13)	(\$0.58)	\$0.09	(\$0.05)	(\$0.22)	\$0.06	(\$0.49)	(\$0.04)
Realized Gains(Losses) Per Share	\$0.00	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.05)	\$0.02	(\$0.06)
Unrealized Gains(Losses) Per Share	(\$0.13)	(\$0.57)	\$0.10	(\$0.05)	(\$0.21)	\$0.11	(\$0.52)	\$0.02
Total Shareholder's Equity	\$15,141,485	\$13,617,007	\$13,778,870	\$13,593,521	\$13,015,272	\$13,114,933	\$11,888,578	\$11,741,502
Equity per Class A Share	\$5.45	\$4.90	\$4.96	\$4.89	\$4.68	\$4.72	\$4.28	\$4.23
Equity per Class B Share	\$5.45	\$4.90	\$4.96	\$4.89	\$4.68	\$4.72	\$4.28	\$4.23

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 month and six month periods ended June 30, 2020 CSOC reported net losses of \$147,076 and \$1,373,431 or \$0.05 and \$0.49 per Class A Multiple Voting Shares and Class B Subordinate Voting Shares respectively. The three month loss was predominately the result of \$168,973 in realized losses on the redemption of CSOF units by CSOC. For the six month period the loss was predominately due to unrealized losses on equity investments in Clearstream Energy Services Inc., M-Split and Second Cup Ltd.

The net assets of the Corporation were \$11,741,502 at June 30, 2020 versus \$13,114,933 at December 31, 2019 or \$4.23 per CSOC Class A Share 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**

On August 10, 2020 Nordstar Capital LP acquired all of the outstanding common shares of Torstar Corporation for \$0.74 per share. As part of this transaction CSOC sold its holding consisting of 259,335 common shares. CSOC provided \$269,000 in financing to Nordstar through the purchase of a 10% August 5, 2025 bond. Nordstar repaid \$95,000 of CSOC's holding on August 19, 2020.

## **Capital Resources**

CSOC has no commitments for any capital expenditures as of June 30, 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 June 30, 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 June 30, 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.

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 closed on May 28, 2020.

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. The TSX Venture Exchange also approved the Transaction as required.

The Transaction was 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.

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

As at June 30, 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).*