

# **Canso Select Opportunities Corporation**

## **Annual Management's Discussion and Analysis For the Year Ended December 31, 2020**

Management's Discussion and Analysis ("MD&A") provides a review of Canso Select Opportunities Corporation's ("CSOC" or the "Corporation") audited financial results for the years ended December 31, 2020 and December 31, 2019 and assesses factors that may affect future results. The financial condition and results of operations are analyzed noting the significant factors that impacted the statements of financial position, statements of comprehensive loss, statements of changes in equity, and statements of cash flows of CSOC. As such, this MD&A should be read in conjunction with the audited financial statements and notes thereto. The audited 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 March 25, 2021. 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 these objectives, 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**

CSOC added two investments to its portfolio holdings subsequent to year-end. Cenovus Energy Inc. Warrants, issued as part of the acquisition of Husky Energy Inc., were added in a series of transactions. Cenovus is an integrated oil and natural gas company located in Calgary, Alberta. CSOC also participated in a 5 year Note issue by Our Home and Miniature Land. Our Home and Miniature Land is developing Little Canada, a soon to be opened tourist destination in downtown Toronto.

Also, subsequent to year-end CSOC closed out its position in Kraft Heinz Foods Co. bonds and covered the associated short position in long US Treasuries.

During January 2021, the Board of Directors of Hubba Inc. sent out an investor update that Hubba, Inc. would be shut down at the end of January 2021. It is anticipated that there will be no remaining assets available for distribution to their shareholders. Under International Accounting Standards ("IAS") 10, information that is received subsequent to year end that indicates that the asset was impaired at the reporting date, should be adjusted at that reporting date. As a result, CSOF's investment in Hubba Inc. was written down to \$nil at December 31, 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.

Financial markets rebounded quickly from the Pandemic induced selloff and equity and credit markets finished the year in positive territory. Vaccine rollouts, unprecedented fiscal stimulus, accommodative monetary policy and pent-up consumer demand, provide a positive underpinning for the Canadian and U.S. economies and financial markets.

### *Specific Factors*

During the year ended December 31, 2020, CSOC reported a net loss of \$1,081,357 (2019: \$502,074) or (\$0.39) (2019: (\$0.18)) per CSOC Class A and B shares. This is primarily the result of \$453,652 (2019: \$211,033) realized losses on redemption of CSOF units and \$678,094 (2019: \$151,441) net unrealized mark to market loss primarily on CSOF's equity holding of Hubba Inc.

## **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 2020 we continued the long-term value creation process through the sale of BZ Holdings Inc., the further reduction of CSOC's holding in Hubba, the sale of Maxar Technologies Inc. 2023 bonds and the Xplornet sale to Stonepeak. Subsequent to year-end Kraft Heinz bonds were sold.

The transactions noted raised substantial capital for CSOC to explore new opportunities. Investments in Fibracast and Nordstar Capital LP and the Cenovus Energy and Our Home and Miniature Land purchases subsequent to year-end, are examples of such opportunities.

A strategic priority involved shifting the portfolio mix away from a majority of private investments. As a result of changes in portfolio composition executed during 2020 ~80% of CSOC's portfolio investments comprise marketable investments, up substantially from ~32% as of September 4, 2018.

CSOC's available cash resources total \$3.8 million as of December 31, 2020.

CSOC's investments 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. CSOC held 177,523 common shares with an initial purchase in January 5, 2015.

The table below segments consolidates CSOC's investments into Marketable and Private.

Description	Average Cost \$	Fair Value \$	% of Portfolio
<b>Total Marketable Investments</b>	<b>13,580,056</b>	<b>9,038,199</b>	<b>80.2%</b>
<b>Cash</b>	<b>3,625,732</b>	<b>3,624,125</b>	32.1%
<b>Common Equity Held Long</b>	<b>8,021,206</b>	<b>3,792,394</b>	<b>33.7%</b>
Aegis Brands Inc. (previously Second Cup Ltd.)	3,400,936	840,604	7.5%
Bird Construction Inc.	511,612	595,616	5.3%
ClearStream Energy Services Inc.	2,012,939	131,811	1.2%
Yellow Pages Limited	2,095,719	2,224,363	19.7%
<b>Options</b>	<b>61,480</b>	<b>10,900</b>	<b>0.1%</b>
Genworth MI Canada Inc.	61,480	10,900	0.1%
<b>Fixed Income Held Long</b>	<b>962,982</b>	<b>1,114,865</b>	<b>9.9%</b>
Exxon Mobil	317,811	374,982	3.3%
Kraft Heinz Foods Co.	645,171	739,883	6.6%
<b>Fixed Income Held Short</b>	<b>(721,931)</b>	<b>(744,449)</b>	<b>-6.6%</b>
US Treasury	(721,931)	(744,449)	-6.6%
<b>Preferred Shares</b>	<b>1,630,587</b>	<b>1,240,364</b>	<b>11.0%</b>
BCE Inc.	44,010	40,944	0.4%
BMO Laddered Preferred Share ETF	137,161	141,408	1.3%
Bombardier Inc.	299,124	293,381	2.6%
Canadian Life Companies Split	78,572	84,336	0.7%
Enbridge Inc.	220,912	205,333	1.8%
Manulife Financial	6,744	7,320	0.1%
M-Split	838,474	462,892	4.1%
TC Energy Corporation	5,590	4,750	0.0%
<b>Total Private Investments</b>	<b>2,881,013</b>	<b>2,247,455</b>	<b>19.8%</b>
<b>Common Equity Held Long</b>	<b>934,824</b>	<b>996,521</b>	<b>8.8%</b>
Brill Power	105,559	112,377	1.0%
Neptune Acquisition GP Inc.	400,000	400,000	3.5%
Nordstar Capital Inc. LP	5	4,884	0.0%
Reformulary Group Inc.	200,000	250,000	2.2%
Xplornet Mobility Inc.	51,792	51,792	0.5%
Xplornet Wireless Inc.	177,468	177,468	1.6%
<b>Fixed Income Held Long</b>	<b>174,000</b>	<b>181,153</b>	<b>1.6%</b>
Nordstar Capital Inc. LP	174,000	181,153	1.6%
<b>Warrants</b>	<b>400,000</b>	<b>400,000</b>	<b>3.5%</b>
Fibracast Special Warrant	400,000	400,000	3.5%
<b>Preferred Shares</b>	<b>1,372,189</b>	<b>669,781</b>	<b>5.9%</b>
ClearStream Energy Services Inc.	729,400	510,300	4.5%
HashTag Paid Inc.	132,837	159,481	1.4%
Hubba, Inc.	509,952	0	0.0%
<b>Grand Total Marketable and Private Investments</b>	<b>\$16,461,069</b>	<b>\$11,285,654</b>	<b>100.0%</b>
Other Assets, Net of Liabilities		(3,811)	0.0%
<b>CSOC'S Investments at Fair Value</b>		<b>\$11,281,843</b>	<b>100.0%</b>

## Selected Annual Information

The following table shows selected annual information about CSOC for the two most recently completed financial years of the Corporation:

Description	2020 (CAD\$)	2019 (CAD\$)
Total Revenue (Loss)	(\$1,041,793)	(\$352,609)
Net Loss For the Period		
Total	(\$1,081,357)	(\$502,074)
Per Share	(\$0.39)	(\$0.18)
Diluted Per Share	(\$0.39)	(\$0.18)
Total Assets	\$12,068,696	\$13,151,418
Equity per Class A Share	\$4.33	\$4.72
Equity per Class B Share	\$4.33	\$4.72

During the year ended December 31, 2020, CSOC reported a net loss of \$1,081,357 (2019: \$502,074) or (\$0.39) (2019: (\$0.18)) per CSOC Class A and B shares. This is primarily the result of \$453,652 (2019: \$211,033) realized losses on redemption of CSOF units and \$678,094 (2019: \$151,441) net unrealized mark to market loss primarily on CSOF's equity holding of Hubba Inc.

## Discussion of Operations

During the year ended December 31, 2020, CSOC reported a net loss of \$1,081,357 (2019: \$502,074) or (\$0.39) (2019: (\$0.18)) per CSOC Class A and B shares. This is primarily the result of \$453,652 (2019: \$211,033) realized losses on redemption of CSOF units and \$678,094 (2019: \$151,441) net unrealized mark to market loss primarily on CSOF's equity holding of Hubba Inc.

The net assets of the Corporation were \$12,033,576 at December 31, 2020 versus \$13,114,933 at December 31, 2019 or \$4.33 per CSOC Class A 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.

## Summary of Quarterly Results

The following table shows selected financial information about CSOC for the most recently completed eight quarters of the Corporation:

Description	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Total Revenue	(\$36,802)	\$469,488	(\$107,387)	(\$1,367,092)	\$161,144	(\$609,964)	(\$147,155)	\$243,367
Total Revenue Per Share	(\$0.01)	\$0.17	(\$0.04)	(\$0.49)	\$0.06	(\$0.22)	(\$0.05)	\$0.09
Realized Gains (Losses)	(\$20,020)	(\$117,968)	(\$168,973)	(\$86,436)	(\$139,532)	(\$32,813)	(\$7,249)	(\$32,010)
Realized Gains(Losses) Per Share	(\$0.01)	(\$0.04)	(\$0.06)	(\$0.03)	(\$0.05)	(\$0.01)	(\$0.00)	(\$0.01)
Unrealized Gains (Losses)	(\$21,652)	\$578,577	\$61,163	\$1,295,341)	\$295,653	(\$579,488)	(\$144,082)	\$275,377
Unrealized Gains(Losses) Per Share	(\$0.01)	\$0.21	\$0.02	(\$0.47)	\$0.11	(\$0.21)	(\$0.05)	\$0.10
Total Shareholder's Equity	\$12,033,576	\$12,111,721	\$11,741,502	\$11,888,578	\$13,114,933	\$13,015,272	\$13,593,521	\$13,778,870
Equity per Class A Share	\$4.33	\$4.36	\$4.23	\$4.28	\$4.72	\$4.68	\$4.89	\$4.96
Equity per Class B Share	\$4.33	\$4.36	\$4.23	\$4.28	\$4.72	\$4.68	\$4.89	\$4.96

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.

## Subsequent Events

CSOC added two investments to its portfolio holdings subsequent to year-end. Cenovus Energy Inc. Warrants, issued as part of the acquisition of Husky Energy Inc., were added in a series of transactions. Cenovus is an integrated oil and natural gas company located in Calgary, Alberta. CSOC also participated in a 5 year Note issue by Our Home and Miniature Land. Our Home and Miniature Land is developing Little Canada, a soon to be opened tourist destination in downtown Toronto.

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During January 2021, the Board of Directors of Hubba Inc. sent out an investor update that Hubba, Inc. would be shut down at the end of January 2021. It is anticipated that there will be no remaining assets available for distribution to their shareholders. Under International Accounting Standards (“IAS”) 10, information that is received subsequent to year end that indicates that the asset was

impaired at the reporting date, should be adjusted at that reporting date. As a result, CSOF's investment in Hubba Inc. was written down to \$nil at December 31, 2020.

### **Capital Resources**

CSOC has no commitments for any capital expenditures as of December 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 December 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 December 31, 2020, CSOC held derivatives and short positions in an investment portfolio in accordance with its investment mandate. The list of all associated risks are disclosed in detail in Notes 3 and Note 11 of the Annual Audited Financial Statements.

### **Transactions between Related Parties**

On 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 the day-to-day operational services to carry out the business affairs of CSOC. Until September 4, 2020, no fees will be payable for services provided by Canso to CSOC. At September 4, 2020, this arrangement was extended whereby no fees will be payable for services provided by Canso to CSOC for a further 12 months. There are no management fees charged for the year ended December 31, 2020 (December 31, 2019: \$0).

CSOC repaid the advance from Canso in January 2020 in the amount of \$11 relating to the computer software expense that Canso paid on behalf of CSOC. As such, the advance from Canso balance is \$nil at December 31, 2020 (December 31, 2019: \$11).

On May 28, 2020, CSOC closed the sale of 112,668 Series 4 Class A preferred shares of Hubba Inc. ("Hubba") to Skunkworks Investment Corporation ("Skunkworks"), a related party, for total cash consideration to the Company of US\$1,823,249.91 pursuant to a share transfer agreement dated March 11, 2020 (the "2020 Transaction"). The 2020 Transaction provided the Company with funds with which to diversify its portfolio base. As at December 31, 2019, the Hubba position accounted for approximately 25.6% of the Company's assets. The 2020 Transaction reduced the Hubba position to 6% of the Company's assets. The Company intends to use the gross proceeds of the 2020 Transaction to pursue several investment opportunities currently under investigation and for general working capital purposes. The 2020 Transaction was reviewed and approved 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 Company.

On June 28, 2019, CSOC closed the sale of 99,006 Series 4 Class A preferred shares of Hubba to Skunkworks for total cash consideration of \$2,100,000 (the "2019 Transaction"). The 2019 Transaction resulted in a realized capital gain of \$747,370. Immediately prior to the closing, the Hubba position accounted for approximately 38.8% of CSOC's assets. As a result of the 2019 Transaction, the Hubba position represented approximately 23.4% of CSOC's assets. The gross proceeds of the 2019 Transaction were used by CSOC to pursue several investment opportunities and for general working capital purposes. The 2019 Transaction was reviewed and approved by a Special Committee comprised of members of the Board who are independent of CSOC and are not members of management of the Company.

Both Transactions are 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") 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. Pursuant to MI 61-101, the 2020 Transaction was subject to minority shareholder approval, which required approval by a majority of the votes cast at a meeting of shareholders excluding any shares held by the directors and officers CSOC, its affiliates and joint actors (collectively, "Minority Approval"). The Company received Minority Approval at its annual and special meeting of shareholders held on May 26, 2020. The 2019 Transaction was exempt from the minority shareholder approval requirements of MI 61-101. In addition, both Transactions received approval of the TSX Venture Exchange prior to closing.

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

As at December 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. 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).*