



Canso Select Opportunities Corporation

**2018 ANNUAL REPORT**

## Corporate Information

### **EXECUTIVE OFFICE:**

100 York Boulevard  
Suite 550  
Richmond Hill, Ontario  
L4B 1J8  
Telephone: 647-956-6264  
Email: [info@selectopportunitiescorporation.com](mailto:info@selectopportunitiescorporation.com)

### **TRANSFER AGENT & REGISTRAR:**

AST Trust Company  
1 Toronto Street, Suite 1200  
Toronto, ON M5C 2V6

### **AUDITOR:**

Deloitte LLP  
Bay Adelaide Centre, East Tower  
8 Adelaide Street West, Suite 200  
Toronto, ON M5H 0A9

### **CUSTODIAN:**

CIBC Mellon Trust Company  
1 York Street, Suite 500  
Toronto, Ontario M5J 0B6

### **LEGAL COUNSEL:**

Borden Ladner Gervais LLP  
Bay Adelaide Centre, East Tower  
22 Adelaide Street West, Suite 3400  
Toronto, ON M5H 4E3

### **DIRECTORS, OFFICERS & COMMITTEE MEMBERS OF THE CORPORATION:**

Brian Carney  
*Director, Chairman, President & CEO  
Investment Committee member*

Shirley Sumsion  
*Director, Chief Financial Officer  
Investment and Audit Committee member*

Neda Bizzotto  
*Director, Vice President & Corporate Secretary*

John Carswell  
*Director & Investment Committee member*

Joseph Morin  
*Director & Investment Committee member*

Thomas Fernandes  
*Director & Audit Committee member*

Stephen Klubi  
*Director & Audit Committee member*

Donald MacDougall  
*Director & Audit Committee member*

Brenda Burns  
*Director*

Canso Select Opportunities Corporation Class A Multiple Voting Shares and Class B Subordinate Voting Shares are listed for trading on the TSX Venture Exchange.

Ticker Symbols:  
CSOC.A (Class A Multiple Voting Shares)  
CSOC.B (Class B Subordinate Voting Shares)

Website: [www.selectopportunitiescorporation.com](http://www.selectopportunitiescorporation.com)



Canso Select Opportunities Corporation

April 25, 2019

CSOC Shareholders,

It is my pleasure to provide you the 2018 Annual Report of Canso Select Opportunities Corporation.

This is our first annual report as a publicly traded company and its publication marks the official end of a year of significant transition. The delisting on August 31<sup>st</sup>, 2018 of the Canso Select Opportunities Fund (also known as CSOF) marked the end of an era of a highly successful closed-end fund. The listing of CSOC on September 4<sup>th</sup> 2018 marked the launch of a new vehicle through which to provide value creation for shareholders for years to come.

The conversion created a clear path to value recognition of several of the less liquid holdings of the Canso Select Opportunities Fund. The value realization objective was jeopardized by the overhang of the annual redemption feature of the closed-end fund structure, which despite CSOF's positive long-term track record, had substantially reduced capital available to CSOF. CSOC provides permanent capital permitting the realization of value from its existing portfolio. It also provides the opportunity to redeploy capital as it becomes available in unique opportunities.

CSOC's mission is to provide value creation through capital gains and dividend income to its shareholders over the long term. Consistent with this mission CSOC will evaluate potential investments in debt, public and private equity and other securities. The deployment of funds to new investments will depend on both the attractiveness of new investment opportunities and the availability of capital as generated from the realization of value from existing portfolio investments.

Thus far in 2019 we have taken a number of additional steps in the long-term value creation process. These steps include investments in Brill Power and Reformulary Group. These investments were funded from proceeds of a partial redemption of preferred share holdings of BZ Holdings (formerly Purch) which occurred at the end of 2018. Brill and Reformulary are private companies operating in the battery technology and health care industries respectively. We are continuing to evaluate existing holdings versus other opportunities we have identified in the marketplace.

At our upcoming Annual General and Special Meeting we are asking shareholders to approve a reduction in the stated capital of CSOC. This reduction would allow CSOC, under certain conditions, to pay dividends or to initiate a share repurchase plan.



We believe the ability to pay dividends and repurchase shares are critical to management's ability to deliver long term value to our shareholders. The rationale behind the reduction in stated capital is explained in greater detail in the Management Information Circular.

I would like to thank the Officers and Directors of CSOC for their efforts on behalf of CSOC and CSOC shareholders this year. On March 29<sup>th</sup> of this year our colleague Brenda Burns retired as an Officer of CSOC and as a member of the CSOC Investment Committee. We thank Brenda for her service and are pleased she is staying on in her capacity as Director.

I appreciate the performance of CSOC's share price since listing is underwhelming. I am convinced the corporate structure and the permanent capital it provides, the elimination of CSOF's management fee, and the significant investment expertise on CSOC's Investment Committee, provide the critical elements from which to create long term shareholder value. Officers and Directors of CSOC are also significant shareholders in CSOC aligning their interests with all shareholders.

We made considerable progress during 2018. We look forward to continuing this progress during 2019.

I thank you for your interest in, and support of, Canso Select Opportunities Corporation.

On behalf of CSOC's Board of Directors

Sincerely,

Brian Carney  
President and CEO

***Forward-Looking Statements***

*Certain information contained in this Annual Report constitutes forward-looking information, which is information relating to possible events, conditions or results of operations of CSOC, which are based on assumptions about future economic conditions and courses of action and which are inherently uncertain. All information other than statements of historical fact may be forward-looking information. For important information regarding forward-looking statements, please refer to CSOC's most recently filed MD&A under the heading "Forward-Looking Statements".*

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# **Canso Select Opportunities Corporation**

## **Annual Management's Discussion and Analysis**

### **For the Period from Incorporation (February 16, 2018) to December 31, 2018**

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 period ended December 31, 2018 and assesses factors that may affect future results. The financial condition and results of operations are analyzed noting the significant factors that impacted the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement 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 April 25, 2019. 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 February 1, 2018, Lysander Funds Limited, the manager of Canso Select Opportunities Fund (the "Fund" or "CSOF"), announced its intention to restructure the Fund. As a result of the restructuring CSOF would be held by a publicly listed corporate structure, to be known as CSOC.

The details of the restructuring were outlined in an Arrangement Agreement ("Arrangement") contained in the Circular. Pursuant to the Arrangement, holders of Class A and Class F units of the Fund could elect to receive either CSOC Class A Multiple Voting Shares ("Class A Shares"), CSOC Class B Subordinate Voting Shares ("Class B Shares") or a combination of both based on the exchange ratio as defined in the Arrangement.

On August 31, 2018, the units of the Fund were delisted from the Toronto Stock Exchange and effective September 4, 2018, the Class A Shares and Class B Shares of CSOC were eligible to commence trading on the TSX Venture Exchange under the symbols CSOC.A representing the Class A Shares and CSOC.B representing the Class B Shares.

Effective September 4, 2018 CSOC closed the Arrangement which, pursuant to elections previously made, resulted in unitholders of the Fund receiving 1,621,460 Class A Shares and 1,156,738 Class B Shares of CSOC in exchange for units of the Fund previously held. As a result of the Arrangement, the Fund is a wholly-owned investment held by CSOC.

### *Rationale for the Conversion*

The decision to restructure CSOF and convert ownership of the Fund to a corporation included, but was not limited to, consideration of the following factors.

- Conversion to Efficient Corporate Model. The Arrangement provided for the pursuit of a more effective long-term investment strategy through greater financial flexibility, the reduction of overhead and administrative costs and increased access to long-term capital. It permits the assumption of larger private positions and less liquid investments including private equity and debt, loans, real estate and infrastructure.
- Illiquidity of Investments. The Fund invested in certain illiquid investments. The realization of value in these investments over the long term conflicted with the Fund's requirement to fund monthly and annual redemptions by unitholders of the Fund.
- Activist Investing. The corporate structure of CSOC enables active and direct involvement in investee companies' activities, known as activist investing, if required to ensure the realization of value from the investment.
- Elimination of Management Fees and Performance Fees. The Arrangement resulted in the elimination of a 1.00% per annum fee payable to the Manager as well as a performance fee payable if certain conditions were met.

## **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.

Financial markets experienced a significant correction in the fourth quarter of 2018. The US Federal Reserve raised overnight rates for the 4<sup>th</sup> time in 2018 and the 9<sup>th</sup> time since the current tightening cycle began in 2015. Signs of a US economic slowdown appeared as GDP growth moderated to 2.6%. Slower economic growth, ongoing trade tensions between the US and China and concerns about the impact of higher interest rates propelled equity markets lower, credit spreads wider and bond yields lower.

Despite the negative headlines in the fourth quarter, the U.S. economy continues to expand at reasonable levels, with growth in the U.S. expected between 2 and 3% in 2019. The Canadian economy is expected to expand 2% in 2019. Inflation in both the U.S. and Canada is near targeted 2% level. Finally, both the Federal Reserve and the Bank of Canada adopted a wait and see stance to further rate increases. The Fed revised its target for balance sheet reduction.

We remain concerned about consumer debt levels and inflated house prices in Canada. Housing market activity has slowed considerably since the government introduced measures to stress test borrowers. The uncertainty caused by various trade disputes between the U.S. and various trade partners along with declining oil prices has negatively affected overall economic activity. The Bank of Canada has guided to higher interest rates toward a 'neutral' level over the coming quarters. Canadian households are vulnerable to a sharp rise in interest rates and an increase in unemployment.

### *Specific Factors*

For the period ended December 31, 2018 CSOC reported a net loss of \$1,816,593 or (\$0.65) per Class A Shares and Class B Shares. This is the result of \$1,952,467 in unrealized mark to market losses primarily on public equity holdings of Second Cup Ltd., Yellow Pages Limited, and M-Split.

### **Summary of Investment Portfolio**

As at December 31, 2018, CSOC's investment portfolio held through CSOF consisted of equity and debt securities in eleven different portfolio companies. The below table sets out the investments by market value in the portfolio.



Description	Average Cost \$	Fair Value \$	% of Portfolio
<b>Cash &amp; Cash Equivalents</b>	<b>494,153</b>	<b>494,153</b>	<b>3.74%</b>
<b>Equities Held Long</b>	<b>15,200,165</b>	<b>12,533,915</b>	<b>94.98%</b>
Hubba, Inc.	3,401,863	5,489,712	41.60%
Second Cup Ltd.	3,400,936	1,690,345	12.81%
Xplornet Communications	141,651	1,557,392	11.80%
Yellow Pages Limited	2,095,719	1,081,115	8.19%
BZ Holdings Inc.(Formerly Purch Group Inc.)	918,783	1,027,237	7.78%
ClearStream Energy Services Inc. -Preferred	729,400	729,000	5.52%
M-Split	838,474	439,233	3.33%
Torstar Corporation	1,392,200	204,875	1.55%
Canadian Life Companies Split	78,572	83,916	0.64%
ClearStream Energy Services Inc.	2,012,939	65,905	0.50%
Genworth MI Canada Inc. Jan 20 P38	79,786	65,620	0.50%
Genworth MI Canada Inc. Jan 21 P36	43,360	44,550	0.34%
Genworth MI Canada Inc. Jan 20 P40	19,380	17,250	0.13%
Genworth MI Canada Inc. Jan 21 P38	18,120	15,800	0.12%
Genworth MI Canada Inc. Jan 20 P42	17,820	14,050	0.11%
Genworth MI Canada Inc. Jan 20 P28	10,480	7,400	0.06%
Genworth MI Canada Inc. Jan 20 P32	682	515	0.00%
Telepath Networks, Inc.	-	-	0.00%
<b>Equities Held Short</b>	<b>(382,772)</b>	<b>(460,290)</b>	<b>(3.48%)</b>
Genworth MI Canada Inc.	(382,772)	(460,290)	(3.48%)
<b>Fixed Income</b>	<b>1,340,700</b>	<b>628,268</b>	<b>4.76%</b>
Telepath Networks, Inc.	1,340,700	628,268	4.76%
<b>Grand Total</b>	<b>16,652,246</b>	<b>13,196,046</b>	<b>100.00%</b>
<b>Other Assets, Net of Liabilities</b>		<b>(38,042)</b>	
<b>Investments at Fair Value through Profit or Loss</b>		<b>13,158,004</b>	

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

Hubba accounted for 41.6% of the Fund's assets at December 31, 2018.

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.

CSOF held 249,000 Hubba, Inc. Class A, Series 4 Preferred Shares purchased on September 2, 2015.

### ***Second Cup Ltd.***

Second Cup accounted for 12.8% of the Fund's assets at December 31, 2018.

Second Cup (TSX: SCU) is a Canadian specialty coffee retailer with 262 cafés operating under the trade name Second Cup™ in Canada, of which 25 are company owned with the balance operated by franchisees.

CSOF held 913,700 Second Cup Common Shares with an initial purchase of shares made on January 7, 2015.

### ***Xplornet Communications***

Xplornet accounted for 11.8% of the Fund's assets at December 31, 2018.

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.

CSOF held 3,300 Series C Warrants detached from originally issued bonds.

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

Yellow Pages accounted for 8.2% of the Fund's assets at December 31, 2018.

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.

CSOF held 177,523 common shares with an initial purchase in January 5, 2015.

### ***BZ Holdings Inc.***

BZ accounted for 7.8% of the Fund's assets at December 31, 2018.

BZ is a private company. On September 4<sup>th</sup> Purch, the predecessor to BZ, closed the sale of its B2C business which included Top Ten Reviews and Space.com to Future plc. Proceeds from the sale approximated US\$130 million, a portion of which were used to retire debt and preferred shares. As a result, CSOF's holdings were reduced by US\$911,805 on December 21, 2018.

Following the sale of the B2C business, the remaining B2B business was rebranded as Business.com, an interactive marketplace platform that provides millions of small and medium business owners with the tools, services, and expert advice they need to help them grow their business. The Business.com brand includes: Business.com, BuyerZone and Business News Daily.

CSOF held 166,723 Series C Preferred Shares purchased at USD\$4.51 on May 22, 2015.

### ***Clearstream Energy Services Inc.***

Clearstream accounted for 6.0% of the Fund's assets at December 31, 2018.

Clearstream (TSX: CSM) is a fully integrated provider of midstream production services, which includes maintenance and turnarounds, pipeline wear technology, facilities construction, welding and fabrication, and transportation, with current locations across Western Canada.

CSOF held 5,272,434 common shares and 729 preferred shares of Clearstream.

## Selected Annual Information

The following table shows selected annual information about CSOC for the most recently completed fiscal year of the Corporation:

	2018 (CAD \$)
<b>Total revenue (loss)</b>	(\$1,986,235)
<b>Profit (loss) from continuing operations</b>	
<b>Total</b>	(\$1,816,593)
<b>Per share</b>	(\$0.65)
<b>Diluted per share</b>	(\$0.65)
<b>Total assets</b>	\$13,708,509
<b>Total non-current financial liabilities</b>	-

Revenue and profit (loss) level during the period February 16, 2018 to December 31, 2018 was determined primarily by unrealized losses on the Corporation's investment portfolio. The financial data has been prepared in accordance with IFRS and the Canadian Dollar is the presentation and functional currency.

## Discussion of Operations

For the period ended December 31, 2018 the Corporation reported a net loss of \$1,816,593. The loss was primarily the result of unrealized losses on public equity holdings of Second Cup Ltd., Yellow Pages Limited, and M-Split.

The net assets of the Corporation were \$13,617,007 at December 31, 2018 or \$4.90 per CSOC Class A Share and Class B Share.

## Effect of Fund Redemptions prior to the Arrangement

Unitholders of the Fund were permitted to redeem their units at the net asset value ("NAV") per unit on an annual basis every March. Since the Fund anticipated further redemptions in March 2018, it began selling less liquid assets for more liquid ones so as to be able to meet 2018 redemption requests. In March 2018, unitholders redeemed approximately \$23.4 million of units following a \$30.3 million redemption of units in March of 2017. These redemptions resulted in the Fund selling assets to raise cash to fund the redeemed units. As a result of these redemptions the proportion of less liquid, private placements in the portfolio increased.

## CSOC Tax Status

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**

Prior to the Arrangement the Fund was a closed-end investment fund which was created to hold a portfolio of securities comprised of global debt and equity securities. Redemptions only occurred monthly, at a discount to NAV, or annually at NAV.

Through its holding in the Fund, CSOC maintains a similar portfolio of investments as did the Fund immediately prior to the Arrangement. Over time the portfolio composition may change significantly in terms of specific company holdings as well as concentration of holdings.

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.

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.

## Summary of Quarterly Results

The tables below show the key operating results of the Corporation since the Arrangement for each of the two most recently completed quarters:

Description	September 30, 2018 (CAD \$)	December 31, 2018 (CAD \$)
Total revenue per share	(\$0.13)	(\$0.58)
Realized gains (losses) per share	\$0.00	(\$0.01)
Unrealized gains (losses) per share	(\$0.13)	(\$0.57)
Total Shareholders' Equity	\$15,141,485	\$13,617,007
Equity per Class A Share	\$5.45	\$4.90
Equity per Class B Share	\$5.45	\$4.90

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

On March 29, 2019, Brenda Burns resigned from her positions as a Vice-President of CSOC and a member of the CSOC Investment Committee. Brenda continues as a Director of CSOC.

On January 28, 2019 CSOC purchased £60,000 10% January 22, 2021 PIK Convertible Notes of Brill Power Limited. Brill Power is a privately held company focused on power electronics, battery degradation, and battery modelling.

On January 2, 2019 CSOC purchased 200,000 Class A Common Shares of Reformulary Group Inc. @\$1.00. Reformulary Group is a privately held company focused on healthcare in Canada.

### Capital Resources

CSOC has no commitments for any capital expenditures as of December 31, 2018.

### 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, 2018 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, 2018, 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.

## **Disclosure of Outstanding Share Data**

As at December 31, 2018 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).*

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**Financial Statements of**

**Canso Select Opportunities Corporation**

**For the period from incorporation (February 16, 2018) to December 31, 2018**



## Table of contents

Management's responsibility for financial reporting	1
Independent auditor's report	2- 3
Statement of financial position	4
Statement of comprehensive loss	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to financial statements	8 - 20

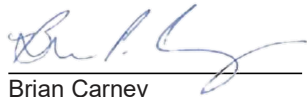
**Management's Responsibility for Financial Reporting**

The accompanying Financial Statements have been prepared by Management. Management is responsible for the information and representations contained in these Financial Statements. Management has maintained appropriate processes to ensure that relevant and reliable financial information is produced. The Financial Statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts based on estimates and assumptions. The significant accounting policies that management believes are appropriate for Canso Select Opportunities Corporation ("CSOC") are described in Note 2 to the Financial Statements.

Deloitte LLP, CSOC's external auditor, has audited the Financial Statements in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the Financial Statements. Their report, as auditors, is set forth herein.

The Board of Directors is responsible for reviewing and approving CSOC's Financial Statements, overseeing management's performance of its financial reporting responsibilities and engaging the independent auditors. For all share classes of CSOC, the Financial Statements have been reviewed and approved by the Board of Directors.

**Approved by the Board of Directors**



Brian Carney  
Director



Shirley Sumsion  
Director

## Independent Auditor's Report

To the Shareholders and the Board of Directors of  
Canso Select Opportunities Corporation

### Opinion

We have audited the financial statements of Canso Select Opportunities Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive loss, changes in equity and cash flows for the period from February 16, 2018 to December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information which comprise:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Darroch.



Chartered Professional Accountants

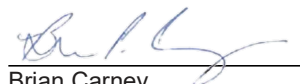
Licensed Public Accountants

April 25, 2019

**Canso Select Opportunities Corporation**  
**Statement of Financial Position**  
**December 31, 2018**

	<u>\$</u>
<b>Assets</b>	
Investment in Canso Select Opportunities Fund, at fair value through profit or loss (Note 8)	13,158,004
Cash and cash equivalents	234,915
Prepaid expenses (Note 7)	18,692
Deferred tax assets (Note 9)	<u>296,898</u>
<b>Total Assets</b>	<u><b>13,708,509</b></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities (Note 4)	40,745
Advances to Canso Investment Counsel Ltd. (Note 6)	<u>50,757</u>
<b>Total Liabilities</b>	<b>91,502</b>
<b>Shareholders' Equity</b>	
Share capital (Note 5)	14,863,186
Contributed surplus	570,414
Deficiency	<u>(1,816,593)</u>
<b>Total Shareholders' Equity</b>	<b>13,617,007</b>
<b>Total Liabilities and Shareholders' Equity</b>	<u><b>13,708,509</b></u>
<b>Shareholders' Equity</b>	
Class A Multiple Voting Shares	\$ 7,947,393
Class B Subordinate Voting Shares	\$ 5,669,614
<b>Number of Shares Outstanding</b>	
Class A Multiple Voting Shares	1,621,460
Class B Subordinate Voting Shares	1,156,738
<b>Total Shareholders' Equity per Share</b>	
Class A Multiple Voting Shares	\$ 4.90
Class B Subordinate Voting Shares	\$ 4.90

**Approved by the Board of Directors**

  
 Brian Carney  
 Director

  
 Shirley Sumsion  
 Director

*The accompanying notes are an integral part of these financial statements.*

**Canso Select Opportunities Corporation**  
**Statement of Comprehensive Loss**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

	<u>\$</u>
<b>Revenue</b>	
Realized loss on investment	(33,768)
Change in unrealized loss on investment (Note 8)	<u>(1,952,467)</u>
Total Revenue	(1,986,235)
<b>Expenses (Notes 6 and 7)</b>	
Directors fees	33,485
Administration	50,481
Bank charges	331
Insurance	6,571
Professional fees	<u>36,388</u>
Total Expenses	127,256
<b>Net loss before income taxes</b>	<b>(2,113,491)</b>
<b>Income taxes (Note 9)</b>	
Current	-
Deferred	<u>296,898</u>
<b>Net loss and comprehensive loss for the period</b>	<b><u>(1,816,593)</u></b>
<b>Net loss, by class</b>	
Class A Multiple Voting Shares	(\$1,060,232)
Class B Subordinate Voting Shares	(\$756,361)
<b>Basic and diluted loss per Class A Multiple Voting Shares</b>	<b>(\$0.65)</b>
<b>Basic and diluted loss per Class B Subordinate Voting Shares</b>	<b>(\$0.65)</b>

*The accompanying notes are an integral part of these financial statements.*

**Canso Select Opportunities Corporation**  
**Statement of Changes in Equity**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

	\$	\$	\$	\$
	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Retained earnings / (Deficit)</u>	<u>Total</u>
<b><u>Class A Multiple Voting Shares</u></b>				
Opening balance at February 16, 2018	-	-	-	-
1 Class A Multiple Voting Share issued to CSOF (Note 1)	10	-	-	10
Net loss for the period from incorporation to December 31, 2018	-	-	(1,060,232)	(1,060,232)
1 Class A Multiple Voting Share issued to CSOF Share purchased for cancellation (Note 1)	(10)	-	-	(10)
Share exchange (Note 1)	8,674,710	-	-	8,674,710
Contributed surplus (Note 1)	-	332,915	-	332,915
<b>Balance at December 31, 2018</b>	<b>8,674,710</b>	<b>332,915</b>	<b>(1,060,232)</b>	<b>7,947,393</b>
<b><u>Class B Subordinate Voting Shares</u></b>				
Opening balance at February 16, 2018	-	-	-	-
Class B Subordinate Voting Shares	-	-	-	-
Net loss for the period from incorporation to December 31, 2018	-	-	(756,361)	(756,361)
Share exchange (Note 1)	6,188,476	-	-	6,188,476
Contributed surplus (Note 1)	-	237,499	-	237,499
<b>Balance at December 31, 2018</b>	<b>6,188,476</b>	<b>237,499</b>	<b>(756,361)</b>	<b>5,669,614</b>
<b>Total</b>	<b>14,863,186</b>	<b>570,414</b>	<b>(1,816,593)</b>	<b>13,617,007</b>

*The accompanying notes are an integral part of these financial statements.*

**Canso Select Opportunities Corporation**  
**Statement of Cash Flows**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

	<u>\$</u>
<b>Operating Activities</b>	
Net Loss	(1,816,593)
Adjustments for:	
Change in unrealized depreciation on investment	1,952,467
Realized losses on investment	33,768
Proceeds on sale of investment	289,361
Prepaid expenses	(18,692)
Deferred tax assets	(296,898)
Accounts payable and accrued liabilities	40,745
Expenses paid by Canso Investment Counsel Ltd. on CSOC's behalf	<u>50,757</u>
<b>Net Cash Provided by (used in) Operating Activities</b>	<u>234,915</u>
<b>Financing Activities</b>	
Issue of Class A Multiple Voting Share (Note 1)	10
Class A Multiple Voting Share purchased for cancellation (Note 1)	<u>(10)</u>
<b>Net Cash Provided by (used in) Financing Activities</b>	<u>-</u>
Cash and cash equivalents—Beginning of period	<u>-</u>
<b>Cash and cash equivalents—End of period</b>	<u>234,915</u>

*The accompanying notes are an integral part of these financial statements.*



**Canso Select Opportunities Corporation**  
**Notes to Financial Statements**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

**1. General Information**

Canso Select Opportunities Corporation ("CSOC" or "Company") was incorporated by articles of incorporation under the Ontario Business Corporations Act on February 16, 2018. During the period from incorporation to August 31, 2018, the Company did not commence operations, however, upon completion of the Arrangement which is outlined in the Management Information Circular ("Circular") dated March 16, 2018 and filed on Sedar by Canso Select Opportunities Fund ("CSOF"), CSOC has acquired all of the issued and outstanding Class A Units and Class F Units of CSOF and therefore, indirectly holds all of the investments of CSOF through its ownership of CSOF. Prior to the Arrangement, CSOF was a closed-end investment fund trust that traded on the Toronto Stock Exchange ("TSX") that had investment objectives i) to maximize long-term total returns for holders of Units ("Unitholders"), and (ii) to provide Unitholders with attractive monthly cash distributions, by investing in an actively managed, diversified portfolio consisting primarily of Canadian and global debt and equity securities. Effective September 4, 2018 ("Effective date") CSOC closed the Arrangement which, pursuant to elections previously made, resulted in Unitholders of CSOF receiving 1,621,460 Class A Multiple Voting Shares and 1,156,738 Class B Subordinate Voting Shares of CSOC in exchange for units of CSOF in the initial amount of \$15,433,600 which was CSOF's Net Asset Value (NAV) at the close of trading on August 31, 2018. Since the market value based on the August 31, 2018 closing traded price of CSOF was lower than the NAV by \$570,414, this differential was reflected as contributed surplus and shown as part of shareholders' equity. At the same time, the one Class A Multiple Voting Share that was outstanding and issued to CSOF for \$10 was purchased for cancellation. As a result of the Arrangement, CSOF is a wholly-owned investment held by CSOC.

On August 31, 2018, the units of CSOF were delisted from the TSX and effective September 4, 2018, the Class A Multiple Voting Shares and Class B Subordinate Voting Shares of CSOC were eligible to commence trading on the TSX Venture Exchange under the symbols CSOC.A representing the Class A Multiple Voting Shares and CSOC.B representing the Class B Subordinate Voting Shares.

The Company's registered head office is 100 York Blvd., suite 550, Richmond Hill, Ontario, L4B 1J8. The business investment objective of CSOC is to seek to maximize long-term total returns to shareholders by investing in an actively managed portfolio consisting primarily of Canadian and global holdings, potentially taking large private positions and illiquid investments in private and public equity and debt, loans, real estate and infrastructure.

**2. Basis of Presentation and Significant Accounting Policies**

These financial statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and as required by Canadian securities legislation and the Canadian Accounting Standards Board. The Company qualifies as an Investment Entity under IFRS 10 'Consolidated Financial Statements' ("IFRS 10"). Entities that meet the definition of an investment entity within IFRS 10, are required to measure their subsidiaries at Fair Value Through Profit or Loss ("FVTPL") rather than consolidate them. The criteria which define an investment entity are as follows: 1) An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services; 2) An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and 3) An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis. In the judgement of management, CSOC meets the definition of an investment entity. This conclusion will be reassessed on a periodic basis, if any changes in criteria or circumstances exist. Comparative figures have not been presented as CSOC was incorporated on February 16, 2018 and has not yet completed a full year.

The following significant accounting policies were used in the preparation of these financial statements:

**Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term investments in an active market with original maturities of three months or less, bank overdrafts and money market funds with daily liquidity and all highly liquid financial instruments that mature within three months of being purchased.

**Deferred Income Taxes**

The Company accounts for income taxes using the liability method, whereby deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using substantively enacted income tax rates and laws that are expected to be in effect when the differences are expected to reverse. Income tax expense for the period is the tax payable for the period and any change during the period in the deferred tax assets and liabilities. A valuation allowance is provided to the extent that it is not probable that deferred tax assets will be realized.

## **2. Basis of Presentation and Significant Accounting Policies (Cont'd)**

### **Shareholders' Equity**

CSOC classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. CSOC's Class A multiple voting shares, and Class B subordinate voting shares do not contain a redemption feature, are therefore not puttable and are classified as equity under IAS 32, Financial Statements.

### **Foreign Currency**

CSOC's functional and presentation currency is the Canadian dollar. Foreign-denominated investments and other foreign-denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses relating to cash and other financial assets and liabilities are presented as 'Foreign exchange gain (loss) on cash and other net assets.'

### **Income Recognition**

Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date.

### **Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

### **IFRS 9 Financial Instruments ("IFRS 9")**

Since its inception, CSOC has applied IFRS 9, Financial Instruments, which deals with the recognition, derecognition, classification and measurement of financial instruments. IFRS 9 contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, cash, prepaid expenses and accounts payable and accrued liabilities are all carried at amortized cost. All other financial assets would be measured at fair value. IFRS 9 also introduces the expected credit loss ("ECL") model for impairment of financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income. The ECL impairment model does not have a material impact on the Company's financial assets given that the majority of the Company's financial assets are measured at Fair value through profit or loss.

### **Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss ("FVTPL")**

#### **Assets**

CSOC classifies its investments in debt and equity securities and investment funds based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. These financial assets are managed and their performance is evaluated on a fair value basis. CSOC also manages these financial assets with the objective of realizing cash flows through sales. Further, an option to irrevocably designate any equity securities at fair value through other comprehensive income ("FVOCI") has not been taken. Consequently, these financial assets are mandatorily measured at FVTPL.

#### **Liabilities**

CSOC may make short sales in which a borrowed security is sold in anticipation of a future decline in its market value or used as an arbitrage strategy.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future or on initial recognition they are a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking. All derivatives and short positions are included in this category and mandatorily measured at FVTPL.

## **2. Basis of Presentation and Significant Accounting Policies (Cont'd)**

### **Financial Assets and Financial Liabilities at Amortized Cost**

The financial assets and financial liabilities measured at amortized cost include cash, accrued income, prepaid expenses and other short-term receivables and payables.

### **Fair Value Hierarchy**

CSOC classifies financial instruments carried at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified as Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is reclassified as Level 3. Management assesses transfers at the time of an event that may cause reason for re-assessment of levelling. The classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes observable data requires significant judgment by the investment committee. CSOC considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

### **Fair Value Measurements**

CSOC measures its investment in CSOF at FVTPL, which is determined based on the fair value of CSOF's assets and liabilities. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and securities) are based on quoted market prices at the close of trading on the period-end date. The quoted market price used for financial assets and financial liabilities of CSOF is the last traded price provided such price is within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the points within the bid-ask spread that are most representative of the fair value.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques commonly used by market participants making the maximum use of observable inputs and relying as little as possible on unobservable inputs. Management uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

Where available, valuation techniques use market observable assumptions and inputs. If such data is not available, inputs may be derived by reference to similar assets in active markets, from recent prices for comparable transactions or from other observable market data. When measuring fair value, management selects the non-market-observable inputs to be used in its valuation techniques, based on a combination of historical experience, derivation of input levels based on similar products with observable price levels and knowledge of current market conditions and valuation approaches.

Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs

**2. Basis of Presentation and Significant Accounting Policies (Cont'd)**  
**Fair Value Measurements (Cont'd)**

reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

Unlisted debt securities are valued based on observable inputs such as the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data and using standard market convention practices. Unlisted debt securities for which current quotations are not readily available are valued using another valuation technique as described below.

Management uses widely recognized valuation techniques for determining the fair value of financial and non-financial instruments that are not actively traded and quoted. The most frequently applied valuation techniques include: i) discounted value of expected cash flows, ii) relative value, iii) option pricing methodologies, iv) private placement financing techniques, and v) internally developed models. In some cases, it may be reasonable and appropriate to value at cost, where there has been no material subsequent event affecting value.

Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. When using such valuation techniques, expected future cash flows are estimated using an observed or implied market price for the future cash flows or by using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models.

Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued.

Option pricing models incorporate assumptions regarding the behavior of future price movements of an underlying referenced asset or assets to generate a probability-weighted future expected payoff for the option. The resulting probability-weighted expected payoff is then discounted using discount factors generated from industry standard yield curve modeling techniques and models. The option pricing model may be implemented using a closed form analytical formula or other mathematical techniques (e.g., binomial tree or Monte Carlo simulation).

For more complex instruments and instruments for which there is no active market, fair values may be estimated using a combination of observed transaction prices, if any, consensus pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services.

Private placement financings are instances where a company raises capital through an offering of additional securities in the private markets. Pertinent details of such offering, including the terms of such offering, the issue price, and total capital raised are considered when assessing the reasonability that the issue price of such offering approximates fair value. In contrast to public offerings on a recognized exchange, private placement financings are not available to the general public. The Company also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry. Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation.

**Recognition, Derecognition and Measurement**

At initial recognition, financial assets and liabilities are measured at fair value. Transaction costs on financial assets and liabilities at fair value through profit or loss are expensed as incurred in the statement of comprehensive income.

**2. Basis of Presentation and Significant Accounting Policies (Cont'd)**  
**Recognition, Derecognition and Measurement (Cont'd)**

Subsequent to initial recognition, financial assets and liabilities at fair value through profit or loss are measured at fair value.

Gains and losses arising from changes in their fair value are included in the statement of comprehensive income for the period in which they arise. Dividend or interest income earned on financial assets at fair value through profit or loss and dividend or interest expense on the financial liabilities at fair value through profit or loss are disclosed in a separate line item in the statement of comprehensive income.

Financial assets are derecognized when the contractual rights to the cash flows from the investments have expired or CSOC has transferred substantially all risks and rewards of ownership. Financial liabilities at fair value through profit or loss are derecognized when the obligation specified in the contract is discharged, cancelled or expired. Investment transactions are accounted for on a trade date basis. Interest income is recorded on an accrual basis. Realized gains and losses on the disposition of investments, and unrealized appreciation and depreciation of investments, are determined on an average cost basis and are included in the statement of comprehensive income.

Realized gains and losses related to options are included in net realized gain/(loss) on options at fair value through profit or loss. Realized gains and losses relating to written options may arise from expiration of written options whereby realized gains are equivalent to the premium received and from the exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gains or losses from disposition of the related investments at the exercise price of the option.

**Accounting Estimates**

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The most significant estimates relate to the valuation of investments. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**3. Critical Accounting Estimates and Judgements**

The preparation of financial statements requires management to use judgement in applying its accounting policies and to make estimates and assumptions about the future. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected.

The following discusses the most significant accounting judgements that the company has made in preparing the financial statements:

i. Fair value measurement of derivatives and securities not quoted in an active market

CSOC may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates CSOC has made in preparing financial statements. See Note 10 for more information on the fair value measurements of CSOC's financial statements.

ii. Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income, together with further tax planning strategies.

**Canso Select Opportunities Corporation**  
**Notes to Financial Statements**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

**4. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities are current in nature and will be paid within the next 3 months. The breakdown of the account is as follows:

	\$
Accounts payable and accrued liabilities	32,817
Government Remittances	7,928
	<u>40,745</u>

**5. Share Capital**

The Company is authorized to issue an unlimited number of shares of a class designated as Class A Multiple Voting Shares, an unlimited number of shares of a class designated as Class B Subordinate Voting Shares, and an unlimited number of shares of a class designated as Preference Shares.

**Class A Multiple Voting Shares**

The rights, privileges, restrictions and conditions attaching to the Class A Multiple Voting Shares are as follows:

**Dividends** - The holders of Class A Multiple Voting Shares shall be entitled to receive and the Company shall pay thereon, as and when declared from time to time by the Board of Directors of the Company (the "Board") out of moneys of the Company properly applicable to the payment of dividends, dividends in such amount as the Board shall in its sole discretion determine. Provided, however, that the Board may not declare a dividend on the Class A Multiple Voting Shares without also concurrently declaring a dividend on the Class B Subordinate Voting Shares, and provided further that any time that a dividend is declared on the Class A Multiple Voting Shares and the Class B Subordinate Voting Shares, the dividend on the Class B Subordinate Voting Shares shall be in an amount per share which is \$0.05 per share higher than the amount of the dividend declared on the Class A Multiple Voting Shares.

**Conversion** - The Class A Multiple Voting Shares are convertible, at any time, at the option of the holder and without payment of additional consideration, into Class B Subordinate Voting Shares on the basis of one Class B Subordinate Voting Share for each one Class A Multiple Voting Share so converted. A holder of Class A Multiple Voting Shares may convert less than all of the Class A Multiple Voting Shares held, but only a whole number of Class A Multiple Voting Shares may be converted.

**Voting** - The holders of the Class A Multiple Voting Shares shall be entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Company, in person or by proxy, save and except meetings at which only holders of another class or series of shares are entitled to vote, and each such Class A Multiple Voting Share shall confer the right to thirty (30) votes.

**Liquidation** - The holders of the Class A Multiple Voting Shares shall be entitled, in the event of any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for purposes of winding-up its affairs, but subject to prior satisfaction of all preferential rights to return of capital on dissolution attached to all shares of other classes of shares of the Company ranking in priority to the Class A Multiple Voting Shares in respect of return of capital on dissolution or winding-up, to share rateably, on a share for share basis, with the holders of Class B Subordinate Voting Shares, in such assets of the Corporation as are available for distribution.

**Class B Subordinate Voting Shares**

The rights, privileges, restrictions and conditions attaching to the Class B Subordinate Voting Shares are as follows:

**Dividends** - The holders of Class B Subordinate Voting Shares shall be entitled to receive, and the Company shall pay thereon, as and when declared from time to time by the Board out of moneys of the Company properly applicable to the payment of dividends, dividends in such amount as the Board shall in its sole discretion determine. Provided, however, that the Board may not declare a dividend on the Class B Subordinate Voting Shares without also concurrently declaring a dividend on the Class A Multiple Voting Shares, and provided further that any time that a dividend is declared on the Class A Multiple Voting Shares and the Class B Subordinate Voting Shares, the dividend on the Class B Subordinate Voting Shares shall be in an amount per share which is \$0.05 per share higher than the amount of the dividend declared on the Class A Multiple Voting Shares.

**Conversion** - In the event that an Exclusionary Offer is made for the Class A Multiple Voting Shares, the Class B Subordinate Voting Shares are, subject to certain conditions, convertible at the option of the holder into Class A

**Canso Select Opportunities Corporation**  
**Notes to Financial Statements**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

**5. Share Capital (cont'd)**  
**Class B Subordinate Voting Shares (cont'd)**

Multiple Voting Shares on a one for one basis for purposes of the holder tendering such converted shares to the Exclusionary Offer.

"Exclusionary Offer" means an offer to purchase Class A Multiple Voting Shares that:

(A) must, by reason of applicable securities legislation or the requirements of a stock exchange on which the Class A Multiple Voting Shares are listed, be made to all or substantially all holders of Class A Multiple Voting Shares who are residents of a province of Canada to which the requirement applies; and

(B) is not made concurrently with an offer to purchase Class B Subordinate Voting Shares that is identical to the offer to purchase Class A Multiple Voting Shares in terms of price per share and percentage of outstanding shares to be

taken up exclusive of shares owned immediately prior to the offer by the Class A Offeror, and in all other material respects (except with respect to the conditions that may be attached to the offer for Class A Multiple Voting Shares), and that has no condition attached other than the right not to take up and pay for shares tendered if no shares are purchased pursuant to the offer for Class A Multiple Voting Shares, and for the purposes of this definition if an offer to purchase Class A Multiple Voting Shares is not an Exclusionary Offer as defined above but would be an Exclusionary Offer if it were not for this sub-clause (B), the varying of any term of such offer shall be deemed to constitute the making of a new offer unless an identical variation concurrently is made to the corresponding offer to purchase Class B Subordinate Voting Shares.

**Voting** - The holders of the Class B Subordinate Voting Shares shall be entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Company, save and except meetings at which only holders of another class or series of shares are entitled to vote, and each such Class B Subordinate Voting Share shall confer the right to one (1) vote in person or by proxy.

**Liquidation** - The holders of the Class B Subordinate Voting Shares shall be entitled, in the event of any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for purposes of winding-up its affairs, but subject to prior satisfaction of all preferential rights to return of capital on dissolution attached to all shares of other classes of shares of the Company ranking in priority to the Class B Subordinate Voting Shares in respect of return of capital on dissolution or winding-up, to share rateably, on a share for share basis, with the holders of Class A Multiple Voting Shares, in such assets of the Company as are available for distribution.

**Preference Shares** - The Preference Shares may at any time and from time to time be issued in one or more series, to consist of such number of shares as may, before issuance of such series, be fixed by the Board by Articles of Amendment in accordance with the procedure set forth in the Business Corporations Act (Ontario) (the "OBCA") respecting the issuance of shares in series. The Board may, subject to the limitations set forth in the OBCA, fix by Articles of Amendment the designation of each series of Preference Shares and the rights, privileges, restrictions and condition assigned to such series. There are no Preference Shares issued as of December 31, 2018.

**Canso Select Opportunities Corporation**  
**Notes to Financial Statements**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

**5. Share Capital (Cont'd)**

At December 31, 2018 share capital consists of the following:

	<u>#</u>	<u>\$</u>
1,621,460 Class A Multiple Voting Shares		8,674,710
1,156,738 Class B Subordinate Voting Shares		<u>6,188,476</u>
		<u>14,863,186</u>
Class A Multiple Voting share-Issued	1	10
Class A Multiple Voting share-September 4, 2018 purchased for cancellation (Note 1)	(1)	(10)
Class A Multiple Voting Shares of CSOC issued in exchange for A Units of CSOF (Note 1)	1,621,460	8,674,710
Class B Subordinate Voting Shares of CSOC issued in exchange for F Units of CSOF (Note 1)	1,156,738	6,188,476
	<u>2,778,198</u>	<u>14,863,186</u>

**6. Related Party Transactions**

There are no management fees charged. 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. For the first 24 months from the Effective Date, no fees will be payable for services provided by Canso to CSOC. At the end of 24 months this arrangement may be extended for another 12 month period or amended as agreed between Canso and CSOC. If amended, the fees payable to Canso shall not exceed 1.00% per annum of the net assets of CSOC.

Included in Advances to Canso Investment Counsel Ltd. is \$50,757 relating to filing fees paid by Canso on behalf of CSOC. This amount will be repaid within the next 6 months.

**7. Prepaid Expenses**

Prepaid expenses substantially consist of a Directors and Officers insurance policy which has an expiry date of August 23, 2019 and is being expensed over the term of the policy.

**8. Investments**

In determining whether CSOC has control or significant influence over an investment, CSOC assesses voting rights, the exposure to variable returns, and its ability to use the voting rights to affect the amount of the returns. CSOC qualifies as an investment entity under IFRS 10, and therefore accounts for investments it controls at fair value through profit and loss. CSOC's primary purpose is defined by its investment objectives and uses the investment strategies available to it as defined in the Circular to meet those objectives. CSOC also measures and evaluates the performance of any investment on a fair value basis. As described in note 1, CSOF is a wholly owned investment of CSOC.

During the period ended December 31, 2018, CSOC reported a net loss of \$1,816,593 or (\$0.65) per CSOC Class A and B shares. This is the result of \$1,952,467 in unrealized mark to market losses primarily on CSOF'S public equity holdings of Second Cup Ltd., Yellow Pages Limited, and M-Split.

As at December 31, 2018 CSOF's investment portfolio consists of equity and debt securities in 11 different issuers. The portfolio also included cash and cash equivalents.



**Canso Select Opportunities Corporation**  
**Notes to Financial Statements**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

**8. Investments (Cont'd)**

Description	Average Cost \$	Fair Value \$	% of Portfolio
<b>Cash &amp; Cash Equivalents</b>	<b>494,153</b>	<b>494,153</b>	<b>3.74%</b>
<b>Equities Held Long</b>	<b>15,200,165</b>	<b>12,533,915</b>	<b>94.98%</b>
Hubba, Inc.	3,401,863	5,489,712	41.60%
Second Cup Ltd.	3,400,936	1,690,345	12.81%
Xplornet Communications	141,651	1,557,392	11.80%
Yellow Pages Limited	2,095,719	1,081,115	8.19%
BZ Holdings Inc.(Formerly Purch Group Inc.)	918,783	1,027,237	7.78%
ClearStream Energy Services Inc. -Preferred	729,400	729,000	5.52%
M-Split	838,474	439,233	3.33%
Torstar Corporation	1,392,200	204,875	1.55%
Canadian Life Companies Split	78,572	83,916	0.64%
ClearStream Energy Services Inc.	2,012,939	65,905	0.50%
Genworth MI Canada Inc. Jan 20 P38	79,786	65,620	0.50%
Genworth MI Canada Inc. Jan 21 P36	43,360	44,550	0.34%
Genworth MI Canada Inc. Jan 20 P40	19,380	17,250	0.13%
Genworth MI Canada Inc. Jan 21 P38	18,120	15,800	0.12%
Genworth MI Canada Inc. Jan 20 P42	17,820	14,050	0.11%
Genworth MI Canada Inc. Jan 20 P28	10,480	7,400	0.06%
Genworth MI Canada Inc. Jan 20 P32	682	515	0.00%
Telepath Networks, Inc.	-	-	0.00%
<b>Equities Held Short</b>	<b>(382,772)</b>	<b>(460,290)</b>	<b>(3.48%)</b>
Genworth MI Canada Inc.	(382,772)	(460,290)	(3.48%)
<b>Fixed Income</b>	<b>1,340,700</b>	<b>628,268</b>	<b>4.76%</b>
Telepath Networks, Inc.	1,340,700	628,268	4.76%
<b>Grand Total</b>	<b>16,652,246</b>	<b>13,196,046</b>	<b>100.00%</b>
<b>Other Assets, Net of Liabilities</b>		<b>(38,042)</b>	
<b>Investments at Fair Value through Profit or Loss</b>		<b>13,158,004</b>	

**9. Income Taxes**

CSOC, as a public corporation, is subject to income taxes on its net investment income and net realized gain on investments at rates of approximately 26.50% and 13.25%, respectively. Taxable dividends from taxable Canadian corporations, as defined by the Income Tax Act (Canada), are excluded from taxable income. The effective income tax rates for deferred income taxes are approximately 26.50% on investment income and 13.25% on net realized gains.

As at December 31, 2018, CSOC had a deferred tax asset of \$296,898 relating to non-capital losses and a realized and unrealized loss on its investment in its wholly-owned investment, CSOF.

CSOC has a non-capital loss of \$127,255 available to offset future taxable income, and if not utilized, will expire in December 2038. CSOC also has capital losses of \$33,768 which can be applied against future capital gains that do not have an expiry date.

The Company's provision for (recovery of) income taxes for the years ended December 31, 2018 is summarized as follows:

	<b>\$</b>
Net loss before income taxes	<b>(2,113,491)</b>
Expected taxes payable (recoverable) at future rates - 26.5%	<b>(560,074)</b>
Income tax effect of the following:	
Non-taxable portion of realized capital loss	<b>(4,474)</b>
Non-taxable portion of unrealized capital losses	<b>(258,702)</b>
<b>Income tax recovery</b>	<b>(296,898)</b>

**Canso Select Opportunities Corporation**  
**Notes to Financial Statements**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

**9. Income Taxes (Cont'd)**

The income tax expense (recovery) is represented as follows:

Current	-
Deferred	<b>(296,898)</b>
<b>Income tax recovery</b>	<b>(296,898)</b>

The components of the Company's deferred income tax asset are as follows:

Non-Capital Losses	<b>(33,722)</b>
Capital Losses	<b>(4,474)</b>
Unrealized Losses	<b>(258,702)</b>
<b>Total deferred income tax asset</b>	<b>(296,898)</b>

**10. Fair Value Hierarchy**

The following fair value hierarchy table presents information about CSOF's assets and liabilities measured at fair value, as described in Note 2, as at December 31, 2018.

	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
<b>Fixed Income</b>	\$ -	\$ -	\$ 628,268	\$ 628,268
<b>Equities</b>	3,730,574	-	8,803,342	12,533,916
<b>Total</b>	<b>\$ 3,730,574</b>	<b>\$ -</b>	<b>\$ 9,431,610</b>	<b>\$ 13,162,184</b>

	Level 1	Level 2	Level 3	Total
<b>Financial Liabilities</b>				
<b>Equities</b>	\$ (460,290)	\$ -	\$ -	\$ (460,290)
<b>Total</b>	<b>\$ (460,290)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (460,290)</b>

<b>Level 3 Reconciliation</b>	
Balance, beginning of period	\$ 9,747,000
Purchases	-
Sales	(1,235,814)
Transfers in	729,400
Transfers out	-
Realized gains, net	121,954
Change in unrealized appreciation	69,070
Balance, end of period	\$ 9,431,610

The fair value of each Level 3 financial instrument is generally measured using unobservable market inputs with the best information available at the time. Various valuation techniques are utilized, depending on a number of factors including key inputs and assumptions, which are company specific and may include estimated discount rates and expected price volatilities.

The table below presents investments in CSOF whose fair values are determined based in valuation techniques that utilize unobservable market inputs. The effects of changing one or more of those inputs are indicated in the table below:

**10. Fair Value Hierarchy (Cont'd)**

<b>Fair Value</b>	<b>Valuation</b>	<b>Unobservable</b>	<b>Reasonable Possible</b>	<b>Impact on</b>
<b>\$</b>	<b>Technique</b>	<b>Input</b>	<b>Change in Input</b>	<b>Fair Value</b>
				<b>\$</b>
8,404,373	Private placement financing technique	Price of last capital raise	+/-30%	2,521,312
1,027,237	Internal Model that includes a combination: 1) discounted value of expected cash flows 2) relative value and 3) option pricing methodologies. The output of the model is compared to recent private placement funding to confirm its reasonability	Audited Financial statement data, recent private offering valuation multiples of competitors, and liquidation preference rights	+/-12%	123,268

**11. Risk Management**

CSOC's activities expose it to a variety of financial risks in the normal course of operations. These include credit risk, liquidity risk, and market risk (including interest rate risk, currency risk, and price risk). The value of the investments in the Company's portfolio can fluctuate as a result of changes in interest rates, general economic conditions, supply and demand conditions relating to specific securities, or news relating to a specific issuer. In order to manage risk, the investment committee will diversify the portfolio based on industry and credit rating category. As at December 31, 2018, the only financial risks are coming from CSOC's investment in CSOF. Significant risks that are relevant to the Company are discussed below.

**Credit Risk**

Credit risk is the risk of financial loss that could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The Company's main exposure to credit risk consists of investments in debt instruments, such as bonds. To manage this risk, the investment committee monitors the Company's credit exposure and counterparty ratings. The Company measures credit risk and lifetime expected credit losses related to the trade receivables using historical analysis and forward-looking information in determining the expected credit loss. As at December 31, 2018, the only credit risks are coming from CSOC's investment in CSOF, and CSOF had directly invested in debt instruments with the following credit ratings:

As a % of net assets

<b>Credit Exposure</b>	<b>\$</b>	<b>%</b>
<b>AAA</b>	-	0.0%
<b>AA</b>	-	0.0%
<b>A</b>	-	0.0%
<b>BBB</b>	-	0.0%
<b>BB</b>	-	0.0%
<b>B</b>	-	0.0%
<b>CCC</b>	-	0.0%
<b>Not Rated</b>	628,268	4.8%

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations. Liquidity risk is managed by investing a significant portion of the Company's assets in investments that are traded in an active market and that can be readily sold. All liabilities of CSOC are due within one year.

**Canso Select Opportunities Corporation**  
**Notes to Financial Statements**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

**11. Risk Management (Cont'd)**

The following table presents CSOF's liabilities according to their maturity date as at December 31, 2018:

	Less than a month	1-3 months	3 months - 1 Year
<b>Liquidity Risk</b>			
Equity securities sold short	\$ -	\$ -	\$ 460,290
Other Accrued Expenses	-	45,695	315,500

**Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of an asset will fluctuate because of changes in market interest rates. To manage interest rate risk, the investment committee monitors exposures and maintains the portfolio duration within the limits specified in the investment policies and objectives of the Company. As at December 31, 2018, the only interest rate risk is coming from CSOF's investment in CSOF.

The table below summarizes CSOF's exposure to interest rate risk based on the remaining term to maturity as at December 31, 2018:

	Less than 1 year	1-3 years	3-5 years	> 5 years	Total
<b>Interest Rate Exposure</b>					
Fixed Income securities	\$ 628,269	\$ -	\$ -	\$ -	\$ 628,268

**Market Risk**

If interest rates had increased or decreased by 1% at December 31, 2018 with all other variables remaining constant, net assets of the interest-bearing financial instruments of CSOF would have decreased or increased by approximately \$268. In practice, actual results could differ from this sensitivity analysis and the difference could be material.

**Currency Risk**

Currency risk arises when the value of investments denominated in currencies other than CAD fluctuate due to changes in exchange rates. The currency risk will typically be hedged by entering into foreign currency forward contracts if required, however some moderate currency exposure may be assumed if deemed to be beneficial to the Company. As at December 31, 2018, the only currency risk is coming from CSOF's investment in CSOF.

The table below summarizes CSOF's net exposure to currency risk as at December 31, 2018:

<b>Currency Exposure</b>	
USD	8%
Other	0%

As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 1% in relation to the above currencies, with all other factors remaining constant, CSOF's net assets may have decreased or increased by 0.08%. In practice, actual results could differ from this sensitivity analysis and the difference could be material.

**Price Risk**

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or market segment. This risk is managed through a careful selection of securities and other financial instruments within the parameters of the investment strategy and by maintaining a well-diversified portfolio.

**Canso Select Opportunities Corporation**  
**Notes to Financial Statements**  
**Period from incorporation (February 16, 2018) to December 31, 2018**

**11. Risk Management (Cont'd)**

As at December 31, 2018, the only price risk is coming from CSOC's investment in CSOF, as approximately 20% of CSOF's net assets were invested in these asset types. If prices of these investments had increased or decreased by 5% with all other factors remaining constant, net assets would have increased or decreased, by approximately \$130,129. In practice, actual results could differ from this sensitivity analysis and the difference could be material.

**12. Approval of financial statements**

The financial statements were approved by the Board of Directors and authorized for issue on April 23, 2019.



Canso Select Opportunities Corporation

100 YORK BLVD., SUITE 550, RICHMOND HILL, ONTARIO L4B 1J8 TEL: (647) 956-6264  
[WWW.SELECTOPPORTUNITIESCORPORATION.COM](http://WWW.SELECTOPPORTUNITIESCORPORATION.COM)