

**Management’s Discussion and Analysis of  
Canso Select Opportunities Corporation  
For the 3 Months ended September 30, 2018**

Management’s Discussion and Analysis (“MD&A”) provides a review of Canso Select Opportunities Corporation’s (“CSOC” or the “Corporation”) unaudited financial results for the 3 months ended September 30, 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 statements of financial position, statements of comprehensive income, statements of changes in equity, and statements of cash flows of CSOC. As such, this MD&A should be read in conjunction with the unaudited interim financial statements and notes thereto included in this report. The MD&A and the unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) to provide information about CSOC.

The following MD&A is the responsibility of management and is dated November 22, 2018. 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.

**Caution regarding 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).*

## **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 the Canso Select Opportunities Fund, announced its intention to restructure the Fund into 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, CSOC Class B Subordinate Voting 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 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.

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 Multiple Voting Shares and 1,156,738 Class B Subordinate Voting 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 the Fund into 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.
- **Activist Investing.** The Corporate structure 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.

Economic conditions are strong with US GDP expanding at a 3.5% annualized rate and unemployment low at 3.7%. In the US, the combination of tax cuts, low interest rates and increased government spending, suggests continued economic expansion in 2019. Canada will benefit from US growth albeit at a more modest pace. Canadian GDP expanded at a 2.5% annualized rate with unemployment at 5.8%.

In response to positive economic conditions we anticipate the Federal Reserve will continue to raise interest rates having done so eight times (25bps each time) since 2015. The Bank of Canada is expected to follow suit, although at a more measured pace. Since 2017 the BOC raised rates five times (25bps each time). As administered interest rates move higher, we expect longer term interest rates to move higher as well.

Recently equity markets have sold off with the S&P 500 falling 9.3% since September 30 for cumulative year to date performance of negative 1.2%. The S&P TSX sold off 7.4% since September for cumulative year to date performance of negative 8.2%.

### *Specific Factors*

For the 3 months ended September 30<sup>th</sup> CSOC reported a net loss of \$291,664 or (\$0.10) per CSOC Class A and B shares. This is the result of \$371,645 in unrealized mark to market losses primarily on public equity holdings of Yellow Pages Limited, Second Cup Ltd. and M-Split.

### **Summary of Investment Portfolio**

As at September 30, 2018, CSOC's investment portfolio consisted of equity and debt securities in eleven different portfolio companies. The below table sets out the investments by market value in the portfolio.

<b>Description</b>	<b>Book Value</b>	<b>Market Value</b>	<b>% of Portfolio</b>
<b>Cash</b>	<b>\$399,013</b>	<b>\$401,478</b>	<b>2.7%</b>
<b>Equity</b>	<b>\$14,436,603</b>	<b>\$14,042,472</b>	<b>93.4%</b>
<b>Common Shares</b>	<b>\$7,227,740</b>	<b>\$3,575,393</b>	<b>23.8%</b>
Second Cup Ltd.	\$3,655,435	\$2,893,457	19.2%
Yellow Pages Limited	\$1,292,367	\$1,544,450	10.3%
Torstar Corporation	\$1,384,497	\$350,102	2.3%
ClearStream Energy Services Inc.	\$2,012,939	\$210,897	1.4%
M-Split	\$50,875	\$65,007	0.4%
Genworth MI Canada Inc.	(\$1,168,374)	(\$1,488,521)	-9.9%
<b>Options</b>	<b>\$75,591</b>	<b>\$67,350</b>	<b>0.4%</b>
Genworth MI Canada Inc. Jan 20 P38	\$45,731	\$40,500	0.3%
Genworth MI Canada Inc. Jan 20 P40	\$19,380	\$17,850	0.1%
Genworth MI Canada Inc. Jan 20 P28	\$10,480	\$9,000	0.1%
<b>Preferred Shares</b>	<b>\$6,991,620</b>	<b>\$8,842,337</b>	<b>58.8%</b>
Hubba, Inc.	\$3,401,863	\$5,213,696	34.7%
Purch Group Inc.	\$2,030,147	\$2,198,004	14.6%
ClearStream Energy Services Inc.	\$729,000	\$729,000	4.8%
M-Split	\$745,182	\$616,444	4.1%
Canadian Life Companies Split	\$85,428	\$85,193	0.6%
<b>Warrants</b>	<b>\$141,651</b>	<b>\$1,557,392</b>	<b>10.4%</b>
Xplornet Communications	\$141,651	\$1,557,392	10.4%
Telepath Networks, Inc.	\$0	\$0	0.0%
<b>Fixed Income</b>	<b>\$1,339,402</b>	<b>\$598,644</b>	<b>4.0%</b>
<b>Fixed Income</b>	<b>\$1,339,402</b>	<b>\$598,644</b>	<b>4.0%</b>
Telepath Networks, Inc.	\$1,339,402	\$598,644	4.0%
<b>Grand Total</b>	<b>\$16,175,017</b>	<b>\$15,042,595</b>	<b>100.0%</b>

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

Hubba accounted for 34.7% of CSOC assets at September 30, 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.

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

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

Second Cup accounted for 19.2% of CSOC assets at September 30, 2018.

Second Cup (TSX: SCU) is a Canadian specialty coffee retailer with 270 cafés operating under the trade name Second Cup™ in Canada, of which 24 are Company owned and the balance are operated by franchisees.

On April 12, 2018, Second Cup and National Access Cannabis Corp. (“NAC”) established a strategic alliance to develop and operate a network of NAC-branded recreational cannabis dispensaries initially across Western Canada, expanding to include additional provinces where legally permissible. NAC will apply for licences to dispense cannabis products and upon receipt, work with Second Cup and applicable franchisees to leverage Second Cup’s extensive Canadian retail footprint to construct retail stores carrying leading cannabis products.

CSOC held 1,209,700 Second Cup Common Shares with an initial purchase of shares made on January 7, 2015.

### ***Purch Group Inc.***

Purch accounted for 14.6% of CSOC assets at September 30, 2018.

Purch is a private company. On September 4<sup>th</sup> Purch 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 we expect to be distributed to debt and preferred shareholders prior to the end of calendar 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.

CSOC held 368,845 Series C Preferred Shares purchased at USD\$4.51 on May 22, 2015.

### ***Xplornet Communications***

Xplornet accounted for 10.4% of CSOC assets at September 30, 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.

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

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

Yellow Pages accounted for 10.3% of CSOC assets at September 30, 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.

CSOC held 117,523 common shares with an initial purchase in January 5, 2015.

### ***Genworth MI Canada Inc.***

Genworth accounted for -9.4% of CSOC assets at September 30, 2018.

Genworth (TSX: MIC) through its subsidiary, Genworth Financial Mortgage Insurance Company Canada, is the largest private residential mortgage insurer in Canada. The Company provides mortgage default insurance to Canadian residential mortgage lenders, making homeownership more accessible to first-time homebuyers.

CSOC short position in Genworth common shares totaled 34,950 and held an additional 151 put option contracts on Genworth shares with strikes of \$28, \$38 and \$40 per share.

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

Clearstream accounted for 6.2% of CSOC assets at September 30, 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.

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

## Selected Financial Information

### *Per Share Information Class A and B Shares*

Description	September 30, 2018 (CAD \$)
Total revenue	\$0.00
Realized gains (losses)	\$0.00
Unrealized gains (losses)	(\$371,645)
Total Shareholders Equity	\$15,141,485
Equity per Class A Share	\$5.45
Equity per Class B Share	\$5.45

## Discussion of Operations

For the 3 months ended September 30, 2018 the Corporation reported a net loss of \$291,664. The loss was primarily the result of unrealized losses on public equity holdings of Second Cup Ltd. and Yellow Pages.

The net assets of the Corporation were \$15,158,424 at September 30, 2018 or \$5.45 per CSOC Class A and Class B share.

## Effect of Fund Redemptions prior to the Arrangement

Unitholders of the Fund were permitted to redeem their units at the 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 number 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**

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. CSOC maintains the same portfolio of investments as did the Fund. 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.

## **Capital Resources**

The Fund has no commitments for any capital expenditures as of September 30, 2018.

## **Off-Balance Sheet Arrangements**

CSOC does not have any off-balance sheet arrangements.

## **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 September 30, 2018 and the date hereof, there were 1,621,460 Class A Shares and 1,156,738 Class B Shares of the Corporation outstanding.

## **Statement of Investment Portfolio**

Attached as Schedule A is the statement of investment portfolio of the Corporation as at September 30, 2018.

## **Other MD&A Requirements**

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

## Schedule A

### Portfolio Holdings as of September 30, 2018

Description	Price Currency	Price	Quantity	Market Value	% of Portfolio
<b>Cash</b>				<b>\$401,478</b>	<b>2.7%</b>
<b>Equity</b>				<b>\$14,042,472</b>	<b>93.4%</b>
<b>Common Shares</b>				<b>\$3,575,393</b>	<b>23.8%</b>
ClearStream Energy Services Inc.	CAD	\$0.04	5,272,434	\$210,897	1.4%
Genworth MI Canada Inc.	CAD	\$42.59	-34,950	-\$1,488,521	-9.9%
M-Split	CAD	\$0.35	188,425	\$65,007	0.4%
Second Cup Ltd.	CAD	\$2.81	1,029,700	\$2,893,457	19.2%
Yellow Pages Limited	CAD	\$8.70	177,523	\$1,544,450	10.3%
Torstar Corporation	CAD	\$1.35	259,335	\$350,102	2.3%
<b>Options</b>				<b>\$67,350</b>	<b>0.4%</b>
Genworth MI Canada Inc. Jan 20 P28	CAD	\$2.25	40	\$9,000	0.1%
Genworth MI Canada Inc. Jan 20 P38	CAD	\$5.00	81	\$40,500	0.3%
Genworth MI Canada Inc. Jan 20 P40	CAD	\$5.95	30	\$17,850	0.1%
<b>Preferred Shares</b>				<b>\$8,842,337</b>	<b>58.8%</b>
Canadian Life Companies Split	CAD	\$10.09	8,400	\$85,193	0.6%
ClearStream Energy Services Inc.	CAD	\$1,000.00	729	\$729,000	4.8%
M-Split	CAD	\$1.95	316,125	\$616,444	4.1%
Hubba, Inc.	USD	\$20.94	249,000	\$5,213,696	34.7%
Purch Group Inc.	USD	\$4.61	368,845	\$2,198,004	14.6%
<b>Warrants</b>				<b>\$1,557,392</b>	<b>10.4%</b>
Xplornet Communications	CAD	\$471.94	3,300	\$1,557,392	10.4%
Telepath Networks, Inc.	USD	\$0.00	1,000,000	\$0	0.0%
<b>Fixed Income</b>				<b>\$598,644</b>	<b>4.0%</b>
<b>Fixed Income</b>				<b>\$598,644</b>	<b>4.0%</b>
Telepath Networks, Inc.	USD	\$25.00	1,000,000	\$598,644	4.0%
<b>Grand Total</b>				<b>\$15,042,595</b>	<b>100.0%</b>

- Figures may not compute due to rounding.

**OFFICERS**

**Brian Carney**  
*President and Chief Executive Officer*

**Neda Bizzotto**  
*Vice President and Corporate Secretary*

**Brenda Burns**  
*Vice President*

**Shirley Sumsion**  
*Chief Financial Officer*

**DIRECTORS**

**Neda Bizzotto**  
*Director*

**Brenda Burns**  
*Director and member of the Investment Committee*

**Brian Carney**  
*Chairman and member of the Investment Committee*

**John Carswell**  
*Director and member of the Investment Committee*

**Tom Fernandes**  
*Independent Director and member of the Audit Committee*

**Steve Klubi**  
*Independent Director and member of the Audit Committee*

**Tony MacDougall**  
*Independent Director and member of the Audit Committee*

**Joe Morin**  
*Director and member of the Investment Committee*

**Shirley Sumsion**  
*Director and member of the Audit and Investment Committees*

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**AUDITOR**  
Deloitte LLP

**CUSTODIAN**  
CIBC Mellon Trust Company

**LEGAL COUNSEL**  
Borden Ladner Gervais LLP

**REGISTRAR**  
AST Trust Company

**TORONTO VENTURE EXCHANGE LISTING**  
CSOC.A and CSOC.B