

# **Canso Select Opportunities Corporation**

## **Management's Discussion and Analysis For the Three and Six Months Ended June 30, 2021**

Management's Discussion and Analysis ("MD&A") provides a review of Canso Select Opportunities Corporation's ("CSOC" or the "Corporation") interim financial results for the three and six month periods ended June 30, 2021 and assesses factors that may affect future results. The financial condition and results of operations are analyzed noting the significant factors that impacted the interim statements of financial position, interim statements of comprehensive income, interim statements of changes in equity, and interim statements of cash flows of CSOC. As such, this MD&A should be read in conjunction with the interim financial statements and notes thereto. The interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") to provide information about CSOC.

The following MD&A is the responsibility of management and is dated August 24, 2021. The Board of Directors carries out its responsibility for the review of this disclosure through its Audit Committee, comprised of independent directors and CSOC's Chief Financial Officer. The Audit Committee has reviewed and recommended approval of the MD&A by the Board of Directors. The Board of Directors has approved this disclosure.

### **Business of the Corporation**

CSOC is an Ontario-based investment corporation. CSOC's 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**

In August, Fibracast, an existing holding of CSOC, raised additional capital from investors to support their growing business. CSOC exercised the special warrants it already held and received common shares in Fibracast and additional warrants, which it also exercised. The additional investment in Fibracast was \$400,000.

From June 22 through July, CSOC purchased positions in several preferred shares it believed to be attractively priced. The issuers were Manulife, Bank of Montreal, TD Bank, and Sun Life. These positions should also provide ongoing income for CSOC. Total purchases of preferred shares were approximately \$1.9 million.

There were several developments with Hertz as it emerged from a complex Chapter 11 restructuring in the quarter. After the restructuring, CSOC purchased common shares, rights, and warrants issued by the new Hertz entity, Hertz Global Holdings Inc. In a number of transactions, at August 17, 2021 Hertz equity and warrants comprised slightly over 6% of the market value of CSOC's assets.

## **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. For each 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.

Vaccine rollouts, unprecedented fiscal stimulus, accommodative monetary policy and pent-up consumer demand provide a positive underpinning for the Canadian and U.S. economies and financial markets. Investor confidence in a post pandemic economic resurgence has underpinned generally positive equity market performance year to date. However, in spite of higher reported inflation, bond yields have recently been drifting lower as concerns around things like the Delta variant and challenges in reaching vaccination targets have tempered expectations around the timing and strength of the economic rebound as we emerge from the pandemic.

### *Specific Factors*

For the three month and six month periods ended June 30, 2021, CSOC reported a net income (loss) of \$1,152,775 (June 30, 2020: (\$147,076)) or \$0.41 (June 30, 2020: (\$0.05)) per CSOC Class A and B share. This is primarily the result of a net unrealized mark to market gain (loss) primarily on CSOF's equity holding of Bombardier and Hashtag preferred shares, Cenovus Energy, MDA, Nordstar Capital, and Yellow Pages.

## **Summary of Investment Portfolio**

The deployment of funds to new investments depends on both the attractiveness of new investment opportunities and the availability of capital as generated from the realization of value from existing portfolio investments. The availability of funds for dividends depends on the generation of income or capital from existing portfolio investments and the meeting of certain statutory financial requirements permitting the payment of dividends.

CSOC's corporate structure provides a permanent capital base allowing the realization of value from its existing portfolio over time. Thus far in 2021 we continued the long-term value creation process through new investments in Smooth Payment Inc. and Hertz Global Holdings, the MDA Ltd. public offering, the sale of Exxon Mobil senior unsecured bonds, the purchase of preferred shares, and additional investments in Fibracast.

CSOC's available cash resources total \$1.5 million as of June 30, 2021.

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

***Yellow Pages Limited***

Yellow Pages (TSX: Y), is a digital media and marketing solutions provider in Canada, offering targeted tools to local businesses, national brands and consumers allowing them to interact and transact within today's digital economy. At June 30<sup>th</sup> CSOC held 177,523 common shares with an initial purchase in January 5, 2015.

Prior to September 30, 2019 we presented CSOC and CSOF's portfolios separately. From a practical point of view the portfolio is managed on a consolidated basis. As such the table on the next page is the consolidated CSOC portfolio. Note 6 to the Interim Financial Statements provides a segmented breakdown.

Description	Average Cost \$	Fair Value \$	% of Portfolio
<b>Total Marketable Investments</b>	<b>14,212,924</b>	<b>11,615,049</b>	<b>82.2%</b>
Cash	1,456,740	1,456,633	10.2%
<b>Common Equity Held Long</b>	<b>9,947,377</b>	<b>7,313,006</b>	<b>42.4%</b>
Aegis Brands Inc. (previously Second Cup Ltd.)	3,400,936	1,160,399	8.1%
Bird Construction Inc.	511,612	657,411	4.6%
Cenovus Energy Inc. Warrants	102,179	189,610	1.3%
ClearStream Energy Services Inc.	2,012,939	421,795	2.9%
Hertz Global Holdings Inc. Warrants	241,319	246,261	1.7%
Hertz Global Holdings Inc.	702,675	1,006,515	7.0%
MDA Ltd.	879,998	1,021,427	7.1%
Yellow Pages Limited	2,095,719	2,609,588	18.2%
<b>Preferred Shares</b>	<b>2,808,807</b>	<b>2,845,410</b>	<b>19.9%</b>
Bank of Montreal	230,052	230,375	1.6%
BCE Inc.	44,010	53,096	0.4%
BMO Laddered Preferred Share ETF	136,608	163,296	1.1%
Bombardier Inc.	299,124	411,524	2.9%
Canadian Life Companies Split	78,572	86,688	0.6%
Enbridge Inc.	220,912	264,272	1.8%
Manulife Financial	497,706	499,040	3.5%
M-Split	838,474	674,280	4.7%
TC Energy Corporation	5,590	6,780	0.0%
Toronto Dominion Bank	457,759	456,059	3.2%
<b>Total Private Investments</b>	<b>3,207,268</b>	<b>2,951,185</b>	<b>16.9%</b>
<b>Common Equity Held Long</b>	<b>491,079</b>	<b>680,029</b>	<b>4.2%</b>
Brill Power	105,559	110,439	0.8%
Nordstar Capital Inc. LP	5	134,075	0.9%
Reformulary Group Inc.	200,000	250,000	1.7%
XplorNet Mobility Inc.	51,792	51,792	0.4%
XplorNet Wireless Inc.	133,723	133,723	0.9%
<b>Fixed Income Held Long</b>	<b>944,000</b>	<b>970,410</b>	<b>6.8%</b>
Nordstar Capital Inc. LP	144,000	149,800	1.0%
Our Home and Miniature Land	400,000	416,877	2.9%
Smooth Payment Inc.	400,000	403,733	2.8%
<b>Warrants</b>	<b>400,000</b>	<b>439,466</b>	<b>3.1%</b>
Fibracast Special Warrant	400,000	400,000	2.8%
Our Home and Miniature Land Warrant	0	0	0.0%
Smooth Payment Inc. Warrant	0	39,466	0.3%
<b>Preferred Shares</b>	<b>1,372,189</b>	<b>861,280</b>	<b>6.0%</b>
ClearStream Energy Services Inc.	729,400	510,300	3.6%
HashTag Paid Inc.	132,837	350,980	2.5%
Hubba, Inc.	509,952	0	0.0%
<b>Grand Total Marketable and Private Investments</b>	<b>\$17,420,193</b>	<b>\$14,566,234</b>	<b>101.8%</b>
Other Assets, Net of Liabilities	(57,710)	(257,717)	-1.8%
<b>CSOC'S Investments at Fair Value</b>	<b>\$17,362,483</b>	<b>\$14,308,517</b>	<b>100.0%</b>

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

Description	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Total Revenue	\$1,370,532	\$1,656,214	(\$36,802)	\$469,488	(\$107,387)	(\$1,367,092)	\$161,144	(\$609,964)
Total Revenue Per Share	\$0.49	\$0.60	(\$0.01)	\$0.17	(\$0.04)	(\$0.49)	\$0.06	(\$0.22)
Realized Gains (Losses)	(\$85,362)	\$389,268	(\$20,020)	(\$117,968)	(\$168,973)	(\$86,436)	(\$139,532)	(\$32,813)
Realized Gains(Losses) Per Share	(\$0.03)	\$0.14	(\$0.01)	(\$0.04)	(\$0.06)	(\$0.03)	(\$0.05)	(\$0.01)
Unrealized Gains (Losses)	\$1,437,592	\$1,255,462	(\$21,652)	\$578,577	\$61,163	(\$1,295,341)	\$295,653	(\$579,488)
Unrealized Gains(Losses) Per Share	\$0.52	\$0.45	(\$0.01)	\$0.21	\$0.02	(\$0.47)	\$0.11	(\$0.21)
Total Shareholder's Equity	\$14,575,540	\$13,422,765	\$12,033,576	\$12,111,721	\$11,741,502	\$11,888,578	\$13,114,933	\$13,015,272
Equity per Class A Share	\$5.25	\$4.83	\$4.33	\$4.36	\$4.23	\$4.28	\$4.72	\$4.68
Equity per Class B Share	\$5.25	\$4.83	\$4.33	\$4.36	\$4.23	\$4.28	\$4.72	\$4.68

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

## Discussion of Operations

During the quarter ended June 30, 2021, CSOC reported a net income (loss) of \$1,152,775 (June 30, 2020: (\$147,076)) or \$0.41 (June 30, 2020: (\$0.05)) per CSOC Class A and B share. This is primarily the result of a net unrealized mark to market gain (loss) primarily on CSOF's equity holding of Bombardier and Hashtag preferred shares, Cenovus Energy, MDA, Nordstar Capital, and Yellow Pages.

For the 6 months ended June 30, 2021, CSOC reported a net income (loss) of \$2,541,964 (June 30, 2020: (\$1,373,431)) or \$0.91 (June 30, 2020: (\$0.49)) per CSOC Class A and B share.

The net assets of the Corporation were \$14,575,540 at June 30, 2021 versus \$13,422,765 at March 31, 2021 or \$5.25 per CSOC Class A Share and Class B Share versus \$4.83 per CSOC Class A Share and Class B Share.

## CSOC Tax Status

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

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



## **Liquidity**

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

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

## **Subsequent Events**

There are no subsequent events.

## **Capital Resources**

CSOC has no commitments for any capital expenditures as of June 30, 2021.

## **Off-Balance Sheet Arrangements**

CSOC does not have any off-balance sheet arrangements.

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

There were no changes during the period ending June 30, 2021 to the Corporation's accounting policies. The Corporation's accounting policies for its financial instruments are disclosed in detail in Note 2 of the Annual Audited Financial Statements.

## **Financial Instruments and Other Instruments**

For the period ended June 30, 2021, CSOC held derivatives and short positions in accordance with its investment mandate. However, at June 30, 2021 CSOC did not have any short positions. The list of all associated risks is disclosed in detail in Notes 3 and Note 11 of the Annual Audited Financial Statements.

## **Transactions between Related Parties**

On August 1, 2018 CSOC entered into an operational services agreement with Canso Investment Counsel Ltd. ("Canso"). The operational services agreement sets out that Canso will provide the day-to-day operational services to carry out the business affairs of CSOC. At September 4, 2020, this arrangement was extended for another 12 months that no fees will be payable for services provided by Canso to CSOC. There were no management fees charged for the three months ended June 30, 2021 (June 30, 2020: \$0).

## **Disclosure of Outstanding Share Data**

As at June 30, 2021 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).*