

Canso Select Opportunities Corporation

Management's Discussion and Analysis For the Three Months Ended September 30, 2022

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 months ended September 30, 2022 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 (loss) 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 November 23, 2022. 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

During the quarter CSOC also continued to sell down in its holdings in Cenovus warrants and held just over a 1% weight in the warrants at the end of the quarter.

CSOC also increased its holding in Bird Construction common shares during the quarter as the stock had sold off materially and our view on the long term value of the stock was unchanged.

The Canada bonds that matured August 1, 2022 were rolled into 2023 and 2024 maturities. The portfolio also maintained a large position in a Canada bond which matured November 1, 2022, and the proceeds were used to purchase other securities.

As detailed below, the large holdings in government bonds allowed us to take advantage of attractive market opportunities early in the fourth quarter as equity and bond markets sold off.

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.

Central banks continued to hike interest rates in the face of stubbornly high inflation. Beginning on March 2, 2022 the Bank of Canada has increased their policy interest rate six times to 3.75% from 0.25% at the beginning of the year. However, on October 26, their 0.5% increase, rather than the expected 0.75%, signaled that they may be reaching the end of their tightening bias. The year-over-year change in the Canadian CPI has recently flattened out somewhat but at 6.9%, inflation remains well above the Bank's 2% inflation target. The economy remains strong as the global recovery from the pandemic continues. Widespread labour shortages continue and labour unrest is expected to escalate as workers demand higher wages. However, housing activity has declined, and spending by households and businesses is softening. Also, the slowdown in international demand is beginning to affect exports, but this is partially moderated by a lower Canadian versus US dollar.

Bond returns gained back a bit of the substantial negative returns experienced earlier in the year as higher yields started to flow through. The additional yield earned by corporate bonds over Governments widened. This has started to create more opportunities in the credit sector of the debt markets.

Specific Factors

During the quarter ended September 30, 2022, CSOC reported a net loss of (\$227,762) (September 30, 2021: (\$387,258)) or (\$0.08) (September 30, 2021: (\$0.14)) per CSOC Class A and B share. This is primarily the result of change in unrealized losses on the equity holdings in Yellow Pages, MDA, Bird Construction and Cenovus warrants, which was partially offset by gains in the holdings of Hertz and Aegis.

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. CSOC management also believes the current environment is one where it is most important to protect the value of its capital through adverse market moves. This is why a portion of the portfolio has been kept in Government of Canada bonds.

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. On October 4, Yellow pages repurchased from shareholders on a pro rata basis, an aggregate of 7.9 million common shares pursuant to a plan of arrangement. As a result of the arrangement CSOC received \$337,308 in cash and the number of common shares held was reduced from 177,523 to 124,487. The initial purchase of Yellow shares was 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.

September 30, 2022

Description	Average Cost \$	Fair Value \$	% of Portfolio
<u>Marketable Investments</u>			
Cash & Cash Equivalents	\$ 96,000	\$ 95,998	0.7%
Fixed Income Held Long	\$ 2,926,609	\$ 2,933,829	22.5%
Air Canada convertible	\$ 139,118	\$ 114,900	0.9%
AMC Entertainment Holdings	\$ 237,219	\$ 198,933	1.5%
Government of Canada	\$ 1,754,189	\$ 1,756,694	13.5%
US Treasury Note	\$ 796,083	\$ 863,302	6.6%
Common Equity Held Long	\$ 9,825,209	\$ 4,837,613	37.0%
Aegis Brands Inc. (previously Second Cup Ltd.)	\$ 3,400,936	\$ 557,358	4.3%
Bird Construction Inc.	\$ 1,011,165	\$ 890,735	6.8%
ClearStream Energy SVCS Inc.	\$ 2,012,939	\$ 184,535	1.4%
Hertz Global Holdings Inc	\$ 424,452	\$ 539,111	4.1%
MDA Ltd.	\$ 879,998	\$ 455,713	3.5%
Yellow Pages Limited	\$ 2,095,719	\$ 2,210,161	16.9%
Warrants	\$ 38,272	\$ 154,760	1.2%
Cenovus Energy Inc Warrant	\$ 38,272	\$ 154,760	1.2%
Preferred Shares	\$ 1,779,584	\$ 1,537,680	11.8%
Bombardier Inc	\$ 379,277	\$ 479,518	3.8%
Canadian Life Companies Split M-Split	\$ 78,572	\$ 81,480	0.6%
Sun Life Financial Corp	\$ 838,474	\$ 593,639	4.5%
Sun Life Financial Corp	\$ 483,261	\$ 383,043	2.9%
Total Marketable Investments	\$ 14,665,674	\$ 9,559,880	73.2%
<u>Private Investments</u>			
Common Equity Held Long	\$ 1,291,079	\$ 1,544,445	11.8%
Brill Power Limited	\$ 105,559	\$ 263,055	2.0%
Fibracast	\$ 800,000	\$ 840,000	6.5%
Nordstar Capital LP	\$ 5	\$ 57,667	0.4%
Reformulary Group Inc.	\$ 200,000	\$ 250,000	1.9%
Xplornet Mobile Inc.	\$ 51,792	\$ -	0.0%
Xplornet Wireless Inc.	\$ 133,723	\$ 133,723	1.0%
Fixed Income Held Long	\$ 1,016,356	\$ 1,016,356	7.8%
Nordstar Capital LP	\$ 144,000	\$ 144,000	1.1%
Our Home and Miniature Land	\$ 440,000	\$ 440,000	3.4%
Smooth Payment Inc.	\$ 432,356	\$ 432,356	3.3%
Warrants	\$ -	\$ 64,183	0.5%
Smooth Payment Inc. Warrant	\$ -	\$ 64,183	0.5%
Preferred Shares	\$ 862,237	\$ 873,635	6.7%
BZ Holdings Inc.	\$ -	\$ 2	0.0%
ClearStream Energy Services - Preferred	\$ 729,400	\$ 486,002	3.7%
HashTag Paid Inc.	\$ 132,837	\$ 387,631	3.0%
Total Private Investments	\$ 3,169,672	\$ 3,498,619	26.8%
Total Marketable and Private Assets	\$ 17,835,346	\$ 13,058,499	100.0%
Other Liabilities, Net of Assets		\$ (1,955)	
CSOC's Investments at Fair Value		\$ 13,056,544	

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

Description	30-Sep-2022	30-Jun-2022	31-Mar-2022	31-Dec-2021	30-Sep-2021	30-Jun-2021	30-Mar-2021	31-Dec-2020
Total Revenue	(\$210,696)	(\$561,770)	(\$20,221)	\$314,395	(\$399,842)	\$1,370,532	\$1,656,214	(\$36,802)
Total Revenue Per Share	(\$0.08)	(\$0.20)	(\$0.01)	\$0.11	(\$0.14)	\$0.49	\$0.60	(\$0.01)
Realized Gains (Losses)	\$49,943	\$201,696	(\$5,921)	\$213	(\$87,668)	(\$85,362)	\$389,268	(\$20,020)
Realized Gains (Losses) Per Share	\$0.02	\$0.07	(\$0.00)	\$0.00	(\$0.03)	(\$0.03)	\$0.14	(\$0.01)
Unrealized Gains (Losses)	(\$255,414)	(\$787,177)	(\$36,762)	\$291,772	(\$334,319)	\$1,437,592	\$1,255,462	(\$21,652)
Unrealized Gains (Losses) Per Share	(\$0.09)	(\$0.28)	(\$0.01)	\$0.11	(\$0.12)	\$0.52	\$0.45	(\$0.01)
Total Shareholder's Equity	\$13,565,387	\$13,793,149	\$14,326,086	\$14,410,546	\$14,190,817	\$14,575,540	\$13,422,765	\$12,033,576
Equity per Class A Share	\$4.88	\$4.96	\$5.16	\$5.19	\$5.11	\$5.25	\$4.83	\$4.33
Equity per Class B Share	\$4.88	\$4.96	\$5.16	\$5.19	\$5.11	\$5.25	\$4.83	\$4.33

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 three months ended September 30, 2022, CSOC reported a net (loss) income of (\$227,762) (September 30, 2021: (\$387,258)) or (\$0.08) (September 30, 2021: (\$0.14)) per CSOC Class A and B share. This is primarily the result of the change in unrealized losses on the equity holdings in Yellow Pages, MDA, Bird Construction and Cenovus warrants, which was partially offset by gains in the holdings of Hertz and Aegis.

For the nine months ended September 30, 2022, CSOC reported a net (loss) income of (\$845,159) (September 30, 2021: \$2,157,241) or (\$0.30) (September 30, 2021: \$0.78) per CSOC Class A and B share.

The net assets of the Corporation were \$13,565,387 at September 30, 2022 versus \$14,410,546 at December 31, 2021 or \$4.88 per CSOC Class A Share and Class B Share versus \$5.19 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 also be many years.

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 Event

On October 17, 2022, CSOC announced that it has agreed to purchase 70,000 Class A common shares of Lysander Funds Limited (the “**Lysander Class A Shares**”) from Canso Fund Management Ltd. (“**CFM**”) by issuing to CFM 2,440,239 Class B subordinate voting shares of CSOC pursuant to a share purchase agreement dated October 17, 2022 (the “**Transaction**”). The consideration has an approximate value of \$12.25 million. Following the Transaction, it is expected that CFM will hold approximately 68% of the CSOC’s outstanding Class B subordinate voting shares, which represents a voting position of 4.7%.

The purpose of the Transaction is to diversify CSOC’s portfolio and to increase its cash flows by way of consistent dividends. As a result of the Transaction, CSOC’s holdings of Lysander will represent approximately 13% of the Lysander Class A Shares outstanding and CSOC’s beneficial ownership interest in Lysander will be approximately 9%. Lysander is a retail fund management company within the Canso Investment Counsel (“**Canso**”) group, as the fund manager of the Lysander-Canso funds and an affiliate of Canso under common control. The value of Lysander’s business consists of its expected revenue, net income, and the assets it holds. Blair Franklin Capital Partners was engaged by the independent committee of the board established to evaluate the transaction, and has determined that, as of October 17, 2022, subject to the assumptions, limitations and qualifications contained in its valuation opinion, that the fair market value of the Lysander Class A Shares to be acquired by CSOC is between \$11.2 million and \$13.3 million.

The Transaction represents a long-term attractive growth opportunity. Lysander is currently paying a quarterly dividend of \$1.50 per share. If this dividend payment is maintained, it will represent \$420,000 in additional revenue annually to the Company.

The Transaction is deemed to be a “related party transaction” as defined under Multilateral Instrument 61-101—*Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”). Pursuant to MI 61-101, the Transaction is subject to minority shareholder approval (i.e.,

approval by a majority of the votes cast at a meeting of shareholders excluding any shares held by interested parties, related parties and joint actors) ("**Minority Approval**"). CSOC will seek Minority Approval at a meeting of shareholders scheduled to be held on January 11, 2023 ("**Minority Shareholder Meeting**"). Closing of the Transaction is also subject to the approval of the TSX Venture Exchange. If both Minority Approval and exchange approvals are obtained, the Transaction is expected to close on or about January 13, 2023.

In other transactions subsequent to quarter end, CSOC:

- Purchased approximately 5% positions in the following:
 - Credit Suisse common stock
 - Nova Scotia Limited Recourse Capital Note ("LRCN")
 - A new issue bond of LATAM Airlines
 - Manulife common stock
- Sold government of Canada and US Treasury bonds to fund the above purchases
- Sold a small amount of the AMC Entertainment bond
- Sold the remaining position in Cenovus warrants;
- Participated in the latest equity raise of Hashtag Paid; and,
- Received cash as a result of the Yellow Pages share buyback as detailed above.

Capital Resources

CSOC has no commitments for any capital expenditures as of September 30, 2022.

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 September 30, 2022 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 September 30, 2022, 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

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. Under the terms of the agreement, until August 1, 2022, no fees are payable for services provided by Canso to CSOC. On August 1, 2022, this arrangement was extended for a further 12 months. There were no management fees charged for the quarter and nine months ended September 30, 2022 (September 30, 2021: \$0).

Disclosure of Outstanding Share Data

As at September 30, 2022 and the date hereof, there were 1,611,460 Class A Shares and 1,166,738 Class B Shares of the Corporation outstanding.

Litigation

The Corporation may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Corporation becomes involved be determined against the Corporation, such a determination could adversely affect the Corporation's performance and the market price for the Corporation's securities.

In August 2021, a proposed class action complaint was brought in the Superior Court of the State of California relating to the sale of BZ Holdings, Inc. ("BZ"), a Delaware corporation, to Centerfield Media Parent, Inc., which was accomplished by merger approved by BZ's board of directors in December 2020. The proposed representative plaintiffs are three former common shareholders of BZ, purporting to represent a class of other common shareholders. As a result of the merger transaction, which was managed and approved by a special committee of the BZ board of directors, who were advised by sophisticated U.S. legal counsel and an investment banking advisor, the preferred shareholders recovered some, but not all of their investments, and the common shareholders did not receive any compensation. The defendants named in the complaint are BZ's board of directors, certain officers of BZ, BZ's financial adviser, and certain preferred shareholders who the plaintiffs allege promoted and approved the merger. CSOC, was a preferred shareholder of BZ and CDS & Co. is named in the complaint as the registered holder of CSOC's preferred shares. CDS & Co. has not been served with the complaint. Upon motions by the other defendants, on February 22, 2022, the court stayed the lawsuit on jurisdictional grounds. To date, CSOC has not been served by the plaintiffs with any official documentation regarding the anticipated lawsuit by mail or any other approved means. The Corporation denies the allegations in the complaint and, if necessary, will vigorously defend the action.

Other MD&A Requirements

Additional information relating to the Corporation is available on SEDAR at 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.