



**Stack Capital Group Inc.**

**Management's Discussion and Analysis**

For the Three and Nine months ended September 30, 2023

# Stack Capital Group Inc.

Management's Discussion and Analysis

For the Three and Nine months ended September 30, 2023

Dated November 2, 2023

(Expressed in Canadian Dollars)

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The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Stack Capital Group Inc. ("Stack" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2023. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – *Continuous Disclosure Obligations*. This discussion should be read in conjunction with (i) the unaudited condensed interim financial statements of the Company for the three and nine months ended September 30, 2023, together with the notes thereto, (ii) the audited annual financial statements of the Company for the year ended December 31, 2022, together with the notes thereto, and (iii) the MD&A of the Company for the year ended December 31, 2022. References in the following discussion refer to the note disclosures in the Company's unaudited condensed interim financial statements for the three and nine months ended September 30, 2023. Information contained herein is presented as at November 2, 2023, unless otherwise indicated.

## Description of Business

Stack is an investment holding company. Its business objective is to invest in equity, debt and/or other securities of growth-to-late-stage private businesses. On June 16, 2021, the Company completed its initial public offering of common shares and warrants, at which time, the Company's common shares ("Common Shares") and Common Share purchase warrants ("Warrants") commenced trading on the Toronto Stock Exchange ("TSX") under the symbols "STCK" and "STCK.WT", respectively.

SC Partners Ltd. (the "Manager") acts as the Company's administrator and is responsible to source and advise with respect to all investments for the Company, manage such investments and otherwise direct the Company's affairs and manage the Company's business per the management agreement between the Company and the Manager ("Management Agreement").

The Company is federally incorporated and domiciled in Ontario, Canada. The registered office of the Company and the Manager is located at 155 Wellington St. W, Suite 3140, Toronto, ON, M5V 3H1.

## Forward Looking Statements

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws (forward-looking information being collectively hereinafter referred to as "forward-looking statements"). Such forward-looking statements are based on expectations, estimates and projections as at the date of this MD&A. Any statements that involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often but not always using phrases such as "expects", "is expected", "anticipates", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends", or variations of such words and phrases (including negative and grammatical variations), or stating that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements and are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements and information concerning: the intentions, plans and future actions of the Company; statements relating to the business and future activities of the Company after the date of this MD&A; market position, ability to compete and future financial or operating performance of the Company after the date of this MD&A; anticipated developments in operations of the Company; the timing and amount of funding required to execute the Company's business plans; capital expenditures; the effect on the Company of any changes to existing or new legislation or policy or government regulation; the availability of labour; estimated budgets; currency fluctuations; requirements for additional capital; limitations on insurance coverage; the timing and possible outcome of litigation in future periods; the timing and possible outcome of regulatory and permitting matters; goals; strategies; future growth; the adequacy of financial resources; and other events or conditions that may occur in the future.

Forward-looking statements are based on the beliefs of the Company's management, as well as on assumptions, which such management believes to be reasonable based on information available at the time such statements were made. However, by their nature, forward-looking statements are based on assumptions and involve known and unknown risks, uncertainties and other

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factors which may cause the actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to a variety of risks, uncertainties and other factors which could cause actual results, performance or achievements to differ from those expressed or implied by the forward-looking statements, including, without limitation, related to the following: operational risks; regulation; evolving markets; industry growth; uncertainty of new business models; speed of introduction of products and services to the marketplace; undetected flaws; risks of operation in urban areas; marketing risks; geographical expansion; limited operating history; substantial capital requirements; history of losses; reliance on management and key employees; management of growth; risk associated with foreign operations in other countries; risks associated with acquisitions; electronic communication security risks; insurance coverage; tax risk; currency fluctuations; conflicts of interest; competitive markets; uncertainty and adverse changes in the economy; change in technology; maintenance of technology infrastructure; privacy protection; legal proceedings; reliance on business partners; resale of shares; market for securities; dividends; and global financial conditions.

Additional risks and uncertainties are described in the current Annual Information Form (the "AIF") of the Company, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). The lists of risk factors set out in this MD&A or in the Company's other public disclosure documents are not exhaustive of the factors that may affect any forward-looking statements of the Company. Forward-looking statements are about the future and are inherently uncertain. Actual results could differ materially from those projected in the forward-looking statements as a result of the matters set out in this MD&A generally and certain economic and business factors, some of which may be beyond the control of the Company. In addition, the global financial and credit markets have experienced significant debt and equity market and commodity price volatility which could have a particularly significant, detrimental, and unpredictable effect on forward-looking statements. The Company does not intend, and does not assume any obligation, to update any forward-looking statements, other than as required by applicable law. For all of these reasons, the Company's securityholders should not place undue reliance on forward-looking statements.

## Non-IFRS Financial Measures

This MD&A makes reference to the following financial measures which are not recognized under International Financial Reporting Standards ("IFRS"), and which do not have a standard meaning prescribed by IFRS:

- **Book Value** – the aggregate fair value of the assets of the Company on the referenced date, less the aggregate carrying value of the liabilities, excluding any deferred taxes or unrealized deferred gains or losses if applicable, of the Company;
- **Book Value per Share** – the Book Value of the Company on a date divided by the aggregate number of Common Shares that are outstanding on such date; and
- **Working Capital** – the aggregate fair value of the current assets, of the Company on a date, less the aggregate carrying value of the current liabilities of the Company on such date.

The Company's Book Value and Book Value per Share is a measure of the performance of the Company as a whole.

The Company's Working Capital measure is to better understand the Company's liquid capital available for ongoing expenses.

The Company's method of determining these financial measures may differ from other issuers' methods and, accordingly, any amounts may not be comparable to measures used by other issuers. These financial measures are not performance measures as defined under IFRS and should not be considered either in isolation of, or as a substitute for, financial statement line items disclosed under IFRS.

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## Public Listing

On June 16, 2021, the Company completed an initial public offering of 8,335,000 units ("Units") at a price of \$12.00 per Unit (the "Offering Price") for aggregate gross proceeds of \$100,020,000 (the "IPO"). Each Unit consisted of one Common Share and one-half of a Warrant. Each Warrant entitles the holder to acquire, subject to adjustment in certain circumstances, one Common Share at an exercise price per share of \$15.00 until June 16, 2024.

Concurrent with the closing of the Company's IPO, certain directors, and officers of the Manager (the "Management Investors") purchased an aggregate of 583,334 Units, for total gross proceeds of \$7,000,008, on a non-brokered, private placement basis at the Offering Price (the "Management Investment").

On July 7, 2021, the Company issued 175,000 Common Shares and 454,000 Warrants pursuant to the partial exercise of the over-allotment option granted to a syndicate of agents in connection with the IPO. Pursuant to the partial exercise of the over-allotment option, the agents purchased an additional 175,000 Common Shares at a price of \$11.20 per Common Share and an additional 454,000 Warrants at a price of \$1.60 per Warrant, for total gross proceeds of \$2,686,400.

Stack was listed on the TSX pursuant to the TSX Sandbox and were waived the requirements for historical earnings and pre-tax cash flow set out in Section 309(a) of the TSX Company Manual. Listing on the TSX was subject to Stack fulfilling all of the listing requirements of the TSX (save for those requirements for which an exemption or waiver was provided through the TSX Sandbox) including, among other things, raising minimum gross proceeds of \$100 million under the IPO. Stack will remain listed pursuant to the TSX Sandbox until such time as it has: (i) deployed 50% of the net proceeds raised pursuant to the IPO and the Management Investment; and (ii) publicly filed interim financial statements reflecting a full quarter of operating history subsequent to listing on the TSX. As disclosed under "Risk Factors" in the AIF, Stack lacks an operating history and there is a very limited basis upon which a potential investor can evaluate Stack's ability to achieve its stated investment objective. Investors are referred to the risk factors set out in the AIF for further details. Effective August 5, 2022, the Company satisfied exit conditions and successfully exited the TSX Sandbox program.

In connection with the completion of the Company's IPO and the Management Investment, the Company adopted the Voluntary Measures (as defined in the AIF), which are incorporated herein by reference.

## Business Objectives and Milestones

The Company is an investment holding company that invests in equity, debt and/or other securities of growth to late-stage private operating businesses, with such investment tailored to the specific needs and opportunities of the portfolio company. The Company's portfolio investments will be subject to a concentration restriction that prohibits the Company from making an investment if, after giving effect to such investment, such investment would exceed 20% of the total assets on the closing date of such investment. The Company initially intends to invest in at least 10 growth to late stage private operating businesses located primarily in, or with customers, suppliers or business primarily conducted in or dependent on, Canada and/or the United States, over a three-year period, following the IPO completion date. The Company will not be investing in private operating businesses smaller than \$100 million in enterprise value. The Company's goal is to take a long-term perspective towards maximizing the return on each of its investments and therefore, the Company's ownership will generally not be limited to a specific timeframe.

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Through Stack, shareholders have the opportunity to gain exposure to the diversified private investment portfolio; participate in the private market; and have liquidity due to its listing on the TSX. At the same time, the public structure also allows the Company to focus its efforts on maximizing long-term performance through a portfolio of high growth businesses, which are not widely available to most Canadian investors. Given that private companies may have a liquidity event, including becoming a public issuer or being acquired by a public issuer, the Company will not be precluded from continuing to hold an investment in an entity that has ultimately become a public issuer.

The Company is actively assessing additional investment opportunities and as at September 30, 2023, the Company held investments totalling \$75,036,775 and held \$25,762,195 in cash.

## Investment Overview

Stack holds the following investments as at September 30, 2023:

Investments	Investment type	Portfolio weight at period end	Cost	Fair value
Hopper Inc.	Series A-1 Preferred shares	10.69%	10,368,105	10,872,629
Newfront Insurance Holdings, Inc.	Series D-1 Preferred shares	10.65%	10,133,737	10,831,422
Locus Robotics Corp.	Series F preferred shares	10.64%	10,822,368	10,820,802
FNEX Ventures LLC - Series 103 (SpaceX) <sup>i</sup>	Units	10.37%	6,464,130	10,543,674
GoEuro Corp. (Omio) <sup>ii</sup>	Series E-1 Preferred shares	9.32%	9,095,738	9,477,424
GoEuro Corp. (Omio)	Common shares	0.94%	952,516	952,112
Prove Identify Inc. <sup>iii</sup>	Common shares	7.23%	6,004,207	7,354,184
Prove Identify Inc.	Series E-1 Preferred shares	4.07%	3,921,236	4,137,263
Bolt Financial Inc.	Series E-1 Preferred Shares	5.36%	5,091,044	5,450,227
Bolt Financial Inc.	Series D Preferred shares	2.68%	2,568,361	2,722,467
Varo Money, Inc.	Common shares	2.96%	6,335,194	3,008,984
		<b>74.91%</b>	<b>\$71,756,636</b>	<b>\$ 76,171,188</b>

<sup>i</sup> the Company invested in units of FNEX Ventures LLC – Series 103 which is primarily invested into Space Exploration Technologies Corp. (“SpaceX”).

<sup>ii</sup> the Company invested in shares of GoEuro Corp. which does business as Omio.

<sup>iii</sup> The fair value of Prove Identity Inc. common shares is net of an unrealized deferred gain of \$1,134,413. This was due to an immediate gain in valuation which per IFRS 9 Financial Instruments requires the gain to be deferred and netted against the carrying value. See “Investment Overview – Prove Identity, Inc.”

### Hopper Inc.

Hopper is one of the world’s leading Artificial Intelligence powered travel tech platforms. Hopper initially became known as an app to book flights through an artificial intelligence enabled predictive price solution but has since evolved into multiple business lines that have strengthened Hopper’s revenue and scalability. Hopper has now surpassed \$2 billion USD in travel bookings and travel related financial services annually.

During the quarter ended March 31, 2022, the Company invested \$7,656,901 in Class A-1 preferred shares of Hopper Inc. (“Hopper”). During the quarter ended June 30, 2023, the company invested an additional \$2,711,204 into Series A-1 preferred shares of Hopper. As at September 30, 2023, management has determined that the transaction price is representative of fair value of \$10,872,629, which includes foreign currency losses.

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## Newfront Insurance Holdings, Inc.

Newfront is a leading provider of insurance, retirement solutions, and employee benefits, focused on leveraging technology intended to assist large businesses in purchasing insurance packages based on insight-based recommendations. Recently recognized as the winner of the 6th Annual Fintech Breakthrough Awards program for 2022, and a member of the Forbes Fintech 50 list for 2021, Newfront is modernizing the insurance and benefits business through its innovative software-driven platform. Newfront is revolutionizing the insurance and benefits brokerage business by delivering a better experience for customers and, at the same time, providing insurance professionals with the necessary tools to enhance productivity.

During the quarter ended June 30, 2022, the Company invested \$10,133,737 in Series D-1 preferred shares of Newfront Insurance Holdings, Inc. ("Newfront"). As at September 30, 2023, management has determined that the transaction price is representative of fair value of \$10,831,422 which includes foreign currency losses.

## Locus Robotics Corp.

Locus is a leading provider of enterprise robotics solutions for some of the world's most dynamic warehouses and leading brands operating in third-party logistics, retail & e-commerce, healthcare, and the industrial sectors. Designed to work collaboratively alongside human labor, Locus' suite of robots transforms large-scale warehouse fulfillment and distribution facilities with industry-leading, intelligent, and dynamically scalable solutions that reduce costs, improve productivity, and enhance overall efficiency. Its Robotics-as-a-Service ("RaaS") pricing model dramatically reduces the upfront costs typically associated with outfitting a warehouse facility, combined with monthly operating savings in the form of a 2x-3x increase in productivity, and a large reduction in the cost per pick.

During the quarter ended December 31, 2022, the Company invested \$10,822,368 in Series F preferred shares of Locus Robotics Corp. ("Locus"). As at September 30, 2023, management has determined that the transaction price is representative of fair value of \$10,820,802, which includes foreign currency losses.

## FNEX Ventures LLC – Series 103 (SpaceX)

SpaceX, based in Hawthorne, California, is a designer and provider of space transportation services, as well as a satellite communications provider through its Starlink brand. Led by entrepreneur Elon Musk, SpaceX is one of the largest private technology companies in the world and holds a leadership position in the emerging space economy. SpaceX currently has three main lines of business which include space transportation, space tourism, and Starlink. Space transportation represents a core business line, where SpaceX has established strong ties with government agencies such as NASA. The ability of the company to re-use rockets, thereby lowering the cost per ton to orbit, provides a significant advantage and vastly improves the operating economics for the business. Starlink is a global satellite constellation bringing internet service to areas that are unserved or underserved across the world.

During 2021, the Company invested \$6,464,130 in limited partnership units in SpaceX SPV, which had a fair value of \$10,543,674 as at September 30, 2023 (December 31, 2022: \$9,327,040), and the unrealized gain on investment during the nine months ended September 30, 2023 was \$1,210,257 based on market transactions within the past year. SpaceX SPV is a special purpose vehicle, which is primarily invested in preferred shares of Space Exploration Technologies Corp. ("SpaceX"). As such, substantially all of SpaceX SPV's value was derived from SpaceX.

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## GoEuro Corp. (Omio)

Omio is a leading multi-modal travel booking platform that allows consumers to easily book trains, buses, ferries, and flights – saving them both time and money. Omio initially began as an app to book trains throughout Europe with an easy-to-use solution but has since expanded into multiple business lines and geographies around the world that have strengthened the Company's revenue and scalability. A growing segment is Omio's B2B business where they provide access to their API including inventory of trains, buses, and ferry transportation across multiple countries. Omio's earlier B2B partnerships include some transport providers themselves, such as U.K.-based LNER, as well as the travel search engine Kayak and now includes a pilot being run with Uber in the UK which would put Omio's inventory in front of over 5 million customers.

During the quarter ended June 30, 2022, the Company invested \$9,095,738 in Series E-1 preferred shares of GoEuro Corp. ("Omio"). Additionally, during the quarter ended September 30, 2023, the Company invested \$953,258 into common shares of Omio. As at September 30, 2023, management has determined that the transaction price is representative of fair value of \$9,477,424, for the Series E-1 preferred shares and \$952,112 for the common shares which includes foreign currency losses.

## Prove Identity Inc.

Prove is a leading provider of digital consumer identity and authentication solutions. Designed specifically for a mobile-centric world, its technology modernizes the way consumers verify who they are with ease, accuracy, and privacy while mitigating fraud. Prove serves as critical infrastructure by leveraging Phone-Centric Identity™ to secure critical aspects of digital life such as banking, commerce, payments, gaming, insurance, and healthcare.

During 2021, the Company invested \$6,004,207 and \$3,921,236 in common shares and Series E-1 preferred shares of Prove Identity Inc. ("Prove"), respectively. As at September 30, 2023, the Company estimated the fair value of Prove based on recent market transaction data and the common shares and Series E-1 Preferred shares of Prove had a fair value of \$7,355,275 and \$4,137,263, respectively, including foreign currency losses.

In 2021, the Company invested in common shares and Series E-1 preferred shares of Prove in two market transactions. During the quarter ended September 30, 2022, the Company acquired additional common shares of Prove in a private transaction with a motivated seller for a combination of 139,440 common shares of the Company and US\$855,605 in cash. In addition, during the quarter ended December 31, 2022, the Company acquired additional common shares of Prove in a private transaction with a motivated seller for US\$100,000 in cash. On initial recognition, the fair value of the acquired common shares of Prove was estimated at \$3,429,818. Given the nature of the private transaction, the fair value of acquired common shares exceeded the transaction price. Following the IFRS 9 *Financial Instruments requirements*, this difference, referred hereafter as Day 1 gain, was deferred on the Statements of Financial Position. The carrying value of common shares on the Statements of Financial Position is net of the unrealized deferred Day 1 gain. The Day 1 gain as of September 30, 2023 was \$1,134,413.

On October 17, 2023 subsequent to the quarter, Prove announced that they have completed a US\$40 million funding round led by MassMutual Ventures and Capital One Ventures. These funds will be used to continue their global expansion and further build out their technology.

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## Bolt Financial Inc.

Bolt is a global leader in the one-click checkout process and fraud protection for online retailers. Bolt has developed a platform that connects retailers with millions of shoppers in a unified network, simplifying the online buying process for both. With Bolt accounts, all purchases are more efficient with no repeat logins and passwords required.

During 2021, Stack invested \$2,568,361 in Series D preferred shares of Bolt Financial Inc. ("Bolt"). In addition, during 2021, Stack invested \$5,091,044 in convertible debentures of Bolt.

The Company had previously held Bolt's convertible debenture yielding 3% per annum and having a maturity of September 24, 2023, which had a fair value of \$5,112,464 as at December 31, 2021. On January 25, 2022, Bolt completed US\$355 million in Series E-1 financing which triggered the conversion of the Company's convertible debenture and accrued interest to Series E-1 preferred shares at higher valuation.

Later in 2022, the Company noted there was a change in market conditions surrounding public technology companies and our analysis determined a change in the fair value estimate of the investment. The fair value of the Bolt's Series D and Series E-1 preferred shares as at September 30, 2023 was \$2,722,437 and \$5,450,227, respectively.

## Varo Money, Inc.

Varo's mobile-first structure with no physical branches, lowers the cost to serve and enables the company to operate without charging its clients overdraft fees, or requiring minimum monthly balances, representing a competitive advantage over traditional financial service providers. As at December 31, 2022, the Company estimated the fair value of its investment in Varo using a market approach. The investment in Varo is classified as a level 3 instrument and the Company utilizes comparable public trading multiples in arriving at the valuation for this position.

During 2021, Stack invested \$6,335,194 in common shares of Varo Money, Inc. ("Varo"). Varo, based in San Francisco, California, is the first all-digital bank in the United States to secure a national bank charter allowing it to offer more products, including loans, to its clients.

As at September 30, 2023, the Company estimated the fair value of Varo using recent indicative transactions. As at September 30, 2023, the fair value of Varo was \$3,008,984, and the unrealized loss on this investment during the nine months ended September 30, 2023 was \$489,274.

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## Selected Financial Information

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
<b>Income</b>				
Interest income	\$ 352,949	\$ 253,030	\$ 1,035,098	\$ 468,729
Change in unrealized fair value of investments	445,971	(3,742,035)	720,983	(1,941,997)
Change in unrealized foreign exchange on investments, at fair value	1,523,466	4,351,170	(36,792)	5,108,961
Gain on conversion of convertible debentures	-	-	-	3,927,644
Unrealized gain (loss) on forward foreign currency contract	234,750	-	(97,500)	-
Realized gain (loss) on forward currency contract	(799,750)	-	168,250	-
	\$ 1,757,386	\$ 862,165	\$ 1,790,039	\$ 7,563,337
<b>Expenses</b>				
Management fees	424,404	457,350	1,279,086	1,379,084
Professional fees	166,773	90,127	533,269	473,224
Insurance	65,301	134,380	319,645	457,440
General and administrative	86,438	58,422	225,815	239,088
Loss (gain) on foreign exchange	(8,783)	4,268	18,294	(44,769)
Share-based compensation (recovery)	401	922	(1,935)	922
	\$ 734,534	\$ 745,469	2,374,174	\$ 2,504,989
<b>Net Income (Loss) and Comprehensive Income (Loss) for the Period</b>	\$ 1,022,852	\$ 116,696	\$ (584,135)	\$ 5,058,348

### Three Months ended September, 2023

- The income for the period was \$1,757,386 which consisted of \$352,949 in interest income earned from Stack's cash balances, \$(565,000) in a realized loss on forward foreign currency contract, \$445,971 in a change in unrealized gain on investments, at fair value, and \$1,523,466 in an unrealized foreign exchange gain on investments, at fair value. The income for the comparative period was \$862,165 which consisted of \$253,030 in interest income earned from Stack's cash balances, \$(3,742,035) in a change in unrealized loss on investments, at fair value, and \$4,351,170 in an unrealized foreign exchange gain on investments, at fair value.
- The unrealized gain on investments, at fair value during the period resulted from an increase in the valuation of SpaceX based on recent indicative transactions increasing SpaceX's fair value by \$445,971. The unrealized loss on investments, at fair value for the comparative year was from Varo and Prove.
- The unrealized foreign exchange gain, at fair value, during the period of \$1,523,466 was due to the strengthened US dollar when compared to the prior quarter.
- Overall, operating expenses decreased significantly for insurance premiums due to a softening D&O insurance market, offset by increases in professional fees and general and administrative expenses compared to the three months ended September 30, 2022. Stack management is making strong efforts to reduce costs where possible relative to Book Value over the time.
- During Q4-2022, the Company announced a normal course issuer bid to buy back its outstanding common shares. During Q3-2023, 23,800 shares were repurchased at an average price of \$6.73 per share.

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## **Nine Months Ended September 30, 2023**

- The income for the period was \$1,790,039 which consisted of \$1,035,098 in interest income earned from Stack's cash balances, \$70,750 in a realized gain on forward foreign currency contract, \$720,983 in a change in unrealized gain on investments, at fair value, and \$(36,792) in an unrealized foreign exchange loss on investments, at fair value. The income for the comparative period was \$7,563,337 which consisted of \$468,729 in interest income earned from Stack's cash balances, \$(1,941,997) in a change in unrealized loss on investments, at fair value, \$5,108,961 in an unrealized foreign exchange gain on investments, at fair value, and \$3,927,644 in a gain on conversion of convertible debentures.
- The unrealized gain on investments, at fair value during the period resulted from an increase in the valuation of SpaceX by \$1,210,257 and a decrease in the valuation of Varo by \$489,274, both based on recent indicative transactions. The unrealized loss on investments, at fair value for the comparative year was primarily due to a reduction in value of Varo and Prove.

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## Summary of Quarterly Information

The table below highlights recent quarterly results of the Company up to September 30, 2023:

	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
<b>Income (Loss)</b>	\$ 1,757,386	\$ 239,559	\$ (206,906)	\$ (5,157,804)
<b>Net Income (Loss)</b>	1,026,852	(635,898)	(971,089)	(5,907,056)
<b>Net Earnings (Loss) per Share:</b>				
Basic and diluted	\$ 0.11	\$ (0.07)	\$ (0.11)	\$ (0.64)
<b>Book Value and Book Value per Share</b>				
<b>Total Assets<sup>i</sup></b>	\$ 101,052,740	\$ 100,289,176	\$ 100,909,869	\$ 102,428,691
Unrealized deferred gain <sup>ii</sup>	1,134,413	1,135,504	1,135,504	1,157,270
<b>Total Liabilities<sup>i</sup></b>	(490,046)	(635,898)	(311,873)	(370,812)
<b>Book Value</b>	<b>\$ 101,697,107</b>	<b>\$ 100,810,725</b>	<b>\$101,733,500</b>	<b>\$ 103,215,149</b>
Number of Common Shares outstanding	9,002,745	9,024,374	9,067,774	9,150,974
<b>Book Value per Share</b>	<b>\$ 11.30</b>	<b>\$ 11.17</b>	<b>\$ 11.22</b>	<b>\$ 11.28</b>

	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
<b>Income (Loss)</b>	\$ 862,165	\$ (474,427)	\$ 7,175,598	\$ 908,508
<b>Net Income (Loss)</b>	116,696	(1,340,918)	6,282,569	100,900
<b>Net Earnings (Loss) per Share:</b>				
Basic and diluted	\$ 0.01	\$ (0.15)	\$ 0.69	\$ 0.01
<b>Book Value and Book Value per Share</b>				
<b>Total Assets</b>	\$ 108,956,945	\$ 108,002,675	\$ 108,998,552	\$ 102,985,017
Unrealized deferred gain <sup>ii</sup>	1,022,050	-	-	-
<b>Total Liabilities</b>	(515,854)	(698,509)	(353,468)	(622,502)
<b>Book Value</b>	<b>\$ 109,463,141</b>	<b>\$ 107,304,166</b>	<b>\$ 108,645,084</b>	<b>\$ 102,362,515</b>
Number of Common Shares outstanding	9,232,774	-	9,093,334	9,093,334
<b>Book Value per Share</b>	<b>\$ 11.86</b>	<b>\$ 11.80</b>	<b>\$ 11.95</b>	<b>\$ 11.26</b>

i.) Three months ended numbers for December 31, 2022, are calculated from the year-end numbers of the statements of financial positions of annual financial statements less the corresponding numbers disclosed in the Company's unaudited condensed interim financial statements for three and nine months ended September 30, 2022 and 2021.

ii.) As disclosed in Note 3 iv) of the unaudited condensed interim financial statements for the period ending September 30, 2023.

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## Summary of Quarterly Information (continued)

- Stack's interest income is earned as a function of Stack's deposit balances held in a bank or other institution which provides a deposit reference rate which is based on the Bank of Canada's policy interest rate.
- Stack management expects there will be a decrease on Stack's interest income as Stack continues to deploy its cash by making new investments, as there will be less cash basis to earn interest income from. If Stack earns cash proceeds from an investment, the interest income will increase given similar interest rates.
- Stack does not hold any debt obligations or financial liabilities subject to interest. As such, Stack management does not expect adverse impacts from a trend where interest rates keep increasing.
- Stack's income had a large variance from the previous year, mainly due to the unrealized gain or loss on investments, at fair value and unrealized gain or loss on foreign exchange on investments. Stack is an investment holding company and its main business objective is to generate gains or returns from capital appreciation of underlying portfolio investments. As such, Stack management expects varying income depending on market conditions. The Stack investment team continues to invest in high-quality growth companies to maximize capital appreciation and, ultimately, shareholder value.
- Stack's investments are denominated in U.S. Dollars and changes in the U.S. dollars relative to the Canadian dollar result in foreign exchange gains or losses. The Company had in place a forward foreign currency contract to hedge the currency risk for US\$25 million that expired on September 25, 2023 and was not renewed.

## Liquidity and Capital Resources

As at September 30, 2023, the Company had Working Capital of \$25,525,919 and a cash balance of \$25,762,195 (representing 25% of total assets), compared to Working Capital of \$31,119,493 and a cash balance of \$31,392,805 (representing 30% of total assets) as at December 31, 2022. The decrease in the Company's cash balance at September 30, 2023 compared to December 31, 2022 is primarily attributed to the Company's investing activities. As at September 30, 2023, the Company had \$76,172,279 invested and did not monetize any investments. The Company believes it has adequate Working Capital to support its operations. The Company's primary use of cash is to make investments and to pay operating expenses.

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## **Critical Accounting Estimates, Judgments, and Assumptions**

The preparation of unaudited condensed interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about the carrying amount of its assets and liabilities that are not readily apparent from other sources. On an ongoing basis, management reviews these estimates, which are based on its best knowledge of current events and actions the Company may undertake in the future. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The judgements, estimates and assumptions applied in the unaudited condensed interim financial statements of the Company for the three and nine months ended September 30, 2023, including the key sources of estimation uncertainty, were the same as those applied in the Company's last audited annual financial statements for the year ended December 31, 2022. There have been no significant changes to the areas of estimation and judgment during the three and nine months ended September 30, 2023.

Significant areas requiring the use of estimates and assumptions relate to the determination of investment entity status, the determination of functional currency, classification and measurement of investments, fair value of investments and valuation of warrants. See Note 3 of the audited annual financial statements of the Company for the year ended December 31, 2022, for a detailed description of these areas of significant judgment, estimates and assumptions. Actual results could differ from those estimates.

## **Changes in Accounting Policies**

The basis of presentation, and accounting policies and methods of their application in the unaudited condensed interim financial statements of the Company for the nine months ended September 30, 2023 are consistent with those used in the Company's audited annual financial statements for the year ended December 31, 2022, except for any changes as disclosed in Note 2 of the unaudited condensed interim financial statements.

## **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on the results of operations or financial condition of the Company.

## **Financial Risk Factors**

In addition to all other information set out in the AIF, the following specific factors could materially adversely affect the Company's future performance. Other risks and uncertainties that the Company does not currently consider to be material, or of which the Company is not currently aware, may become important factors that affect the Company's future financial condition and results of operations. The occurrence of any of the risks discussed below could materially adversely affect the business, prospects, financial condition, results of operations or cash flow of the Company.

## ***Broad Discretion over its Capital***

Subject to the Voluntary Measures (as defined in the AIF), the Company will have significant discretion as to the use of its funds for investments and could spend its capital in ways that do not enhance the value of the Common Shares and/or the Warrants. For example, the Company's investments may not yield a favourable rate of return or may even be lost in their entirety if the businesses in which the Company invests were to fail.

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## **Competition and Technology Risks**

The Company intends to hold investments in the securities of businesses that face intense competitive pressures within the markets in which they operate. Many factors, including market and technological changes, may erode the competitive advantages of the businesses in which the Company invests. Accordingly, the Company's future operating results will depend, to a degree, on whether or not those businesses are successful in protecting or enhancing their competitive positioning.

## **Use of Leverage**

The Company will not undertake a significant debt financing (except ordinary course short-term trade or accounts payable) unless such a financing is done after the Company has deployed more than 50% of the net proceeds of the IPO and the Management Investment. Following such time, the Company may borrow up to an amount not exceeding 20% of the Total Assets (as defined in the AIF), measured at the time of borrowing. The risk to shareholders of the Company may increase if investments purchased with borrowed money decline in value. While the use of leverage can increase the rate of return, it can also increase the magnitude of loss in unprofitable positions beyond the loss which would have occurred if there had been no borrowings. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried. Leveraging will thus tend to magnify the losses or gains from investment activities.

If at any time an amount owed is called by a lender, the Company may be required to liquidate its investments to comply with the restriction or to repay the indebtedness. Such sales may occur at a time when the market for the securities of a portfolio investment is depressed, affecting the value of the portfolio investment and the return to the Company. In addition, the Company may not be able to renew loan facilities on acceptable terms.

There can be no assurance that the borrowing strategy employed by the Company will enhance returns, and it may, in fact, reduce returns.

## **Credit Risk**

Credit risk is the risk of a financial loss occurring as a result of default of a counterparty on its obligations to the Company. The Company may be subject to credit risk on its financial assets, including loans receivable and corporate debt investments, such as bonds.

## **Tax Risks**

There can be no assurances that the tax laws applicable to the Company under the *Income Tax Act* (Canada) and the regulations thereunder or under foreign tax regimes will not be changed in a manner which could adversely affect the Company's operating results or profitability.

## **Regulatory Changes**

Certain industries, such as financial services, health care, and telecommunications, remain heavily regulated and may be more susceptible to an acceleration in regulatory initiatives in Canada, the United States and elsewhere. Investments in these sectors may be substantially affected by changes in government policy, and the Company cannot predict whether or not such changes will have a material adverse impact on the Company's investments or Company profitability.

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## ***Use of Custodian and/or a Broker to Hold Assets***

Some or all of the assets of the Company may be held in one or more margin accounts maintained by the Custodian (as defined in the AIF). The Custodian or a broker appointed by the Company may also lend, pledge, or hypothecate the assets of the Company. The Company may experience losses due to insufficient assets of the Custodian or such broker to satisfy the claims of its creditors, and adverse market movements while its positions cannot be traded, and which would adversely affect the total return to the Company.

## ***Resources Could be Consumed in Researching Investment Opportunities that are not Ultimately Completed***

The investigation of each specific investment opportunity and the negotiation, drafting and execution of the relevant agreements, disclosure documents and other instruments requires substantial management time and attention and substantial costs for accountants, lawyers, and others. In the event that the Company elects not to complete a specific investment, the costs incurred up to that point for the proposed transaction are not likely to be recoverable by the Company. Furthermore, in the event the Company reaches an agreement relating to a specific investment, it may fail to complete such an investment for any number of reasons, including those beyond the Company's control. Any such occurrence will likely also result in a loss to the Company of the related costs incurred for accountants, lawyers, and others.

## ***Material, Non-Public Information***

The Company may substantially participate in, or influence the conduct, affairs, or management of, a portfolio company. Directors, officers, employees, designees, associates or affiliates of the Company or the Manager may, from time to time, serve as directors of, or in a similar capacity with, a portfolio company. By reason of their responsibilities in connection with these and other activities, certain Company or Manager personnel may acquire confidential and/or material non-public information or be restricted from initiating transactions in certain securities. The Company will not be free to act upon any such information. In addition, these individuals may become subject to trading restrictions pursuant to the internal trading policies of such businesses. Due to these restrictions, the Company may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

## ***Illiquid Assets***

In accordance with the Company's business objective and investment strategies, the Company will invest in securities of growth to late-stage private issuers, that are either thinly traded or have no market at all. It is possible that the Company may not be able to sell portions of such positions without facing substantially adverse prices or may be required to sell such securities before their intended investment horizon, which could negatively impact the performance of investments and the Company's financial condition, profitability, and cash flows.

Furthermore, it is possible and expected that certain of the private issuer portfolio companies will consider having their securities listed with a stock exchange, as a means of creating liquidity for its investors. However, there can be no assurance that the listing of these securities will provide a viable exit mechanism, as these securities may experience low trading volumes and a low market capitalization at the time of intended disposal. Also, securities laws in Canada or elsewhere may impose an escrow or lock-in period on promoters' holdings in private businesses seeking listing through initial public offerings, which would reduce secondary market liquidity. Although the Company would generally endeavor to avoid or minimize such escrow or lock-in restrictions on its shareholdings in its portfolio investments, there can be no assurance that it will be able to do so.

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## **Competitive Market for Investment Opportunities**

The Company competes with a large number of other investors, such as private equity funds, mezzanine funds, investment banks and other equity and non-equity based public and private investment funds, and other sources of financing, including traditional financial services companies, such as commercial banks. Competitors may have a lower cost of funds and may have access to funding sources that are not available to the Company. In addition, certain competitors of the Company may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their respective market shares. There can be no assurance that the competitive pressures faced by the Company will not have a material adverse effect on its activities, financial condition, and results of operations. In addition, as a result of this competition, the Company may not be able to take advantage of attractive investment opportunities from time to time and there can be no assurance that it will be able to identify and make investments.

The success of the Company will depend on the availability of appropriate Investment opportunities and the ability of the Company or the Manager to identify and source those investments. There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Company to invest all of the net proceeds of the IPO and Management Investment (or proceeds received on any future disposition or other monetization of a Company investment) or that such investment opportunities will lead to completed investments by the Company. As noted above, the Company will be competing with private equity funds, as well as mezzanine funds, institutional investors and, potentially, strategic investors, for prospective investments. As a result of this competition, there can be no assurance that the Company will be able to locate suitable investment opportunities, acquire such investments on acceptable terms, achieve an acceptable rate of return or fully invest the net proceeds of the IPO and the Management Investment (or proceeds received on any future disposition or other monetization of a Company investment).

## **Legal Proceedings**

The Company or its portfolio companies may, from time to time, become party to a variety of legal claims and regulatory proceedings in Canada, the United States or elsewhere. The existence of such claims against the Company or its affiliates, portfolio investments, members of the Company's Board of Directors (the "Board") or officers of the Company could have various adverse effects, including the incurrence of significant legal expenses defending such claims, even those claims without merit. The Company intends to manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures, and controls. Internal and external legal counsel are also expected to work closely with the Company to identify and mitigate areas of potential regulatory and legal risk.

## **Foreign Security Risk**

The Company's investment portfolio may include issuers, domestic or otherwise, with multinational organizations and who have significant foreign business and foreign currency risk. The value of these securities may be influenced by foreign government policies, lack of information about foreign corporations, political or social instability and the possible levy of foreign withholding tax.

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## **Foreign Exchange Risks**

The Company's reporting currency is the Canadian dollar. A portion of the Company's investments include securities denominated in foreign currency. While the Company does intend to implement measures to hedge such foreign currency exposure it has not yet done so. Accordingly, the Book Value of the Company's portfolio will fluctuate depending on the rate of exchange between the Canadian dollar and such foreign currencies. The Company may, from time to time, experience gains and losses resulting from the fluctuations of foreign currencies, which could impact the Company's financial condition, profitability, or cash flows.

As at September 30, 2023, some of the cash and substantially all of the Company's investments, at fair value, are denominated in U.S. dollars. The impact of fluctuations in foreign currency on cash and investments are primarily subject to fluctuations between the U.S. dollar and the Canadian dollar. A 10% change in the value of the Canadian dollar relative to the U.S. dollar would affect the value of cash and investments as at September 30, 2023 by approximately \$7,600,761.

## **Investments in Private Issuers**

As the Company focuses on investing in growth to late-stage private issuers, the Company invests and will continue to invest in the securities of private issuers. Issuers whose securities are not publicly traded are not subject to the disclosure and other investor protection requirements that would be applicable if their securities were publicly traded. As minimal public information exists about private businesses, the Company could be required to make investment decisions on whether to pursue a potential investment in a private business on the basis of limited information, which may result in an investment in a business that is not as profitable as the Company initially suspected, if at all. The Company must, therefore, rely on its and the Manager's management team to obtain the information necessary to make an informed investment decision. The valuations ascribed to such private securities within the Company's portfolio will be measured at fair value in accordance with IFRS, and the resulting values may differ from values that would have otherwise been used had a ready market existed for the investment.

The valuation process for private securities is not based on publicly available prices and is, to a degree, subjective in nature. These valuations will be reflected in the Book Value of the equity securities of the Company.

## **Opinions From Independent Investment Banks or Accounting Firms Are Not Contemplated**

The Company is not required to obtain an opinion from an independent investment bank or accounting firm that the price the Company is paying for a particular investment is fair to the Company from a financial point of view. If such an opinion is not obtained, shareholders will be relying on the judgment of the Board, the Company's executive officers and the Manager, who will determine fair market value based on standards generally accepted by the financial community. Except as required by law, the Company has no intention of obtaining an opinion from an independent investment bank or accounting firm prior to making each of its investments.

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## **Valuation Methodologies Involve Subjective Judgments**

For purposes of IFRS-compliant financial reporting, the Company's financial assets and liabilities are valued in accordance with IFRS.

The fair value measurement accounting guidance establishes a hierarchical disclosure framework that ranks the observability of market inputs used in measuring financial instruments at fair value. The observability of inputs depends on a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily quoted prices, or for which fair value can be measured from quoted prices in active markets, generally will have a high degree of market price observability and less judgment applied in determining fair value.

The majority of the Company's investment portfolio will be in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. The Company will value these securities quarterly at fair value as determined in good faith by the Company; however, the Company may be required to value its securities at fair value as determined in good faith by the Board to the extent necessary to reflect significant events affecting the value of its securities. The Company may utilize the services of an independent valuation firm to aid it in determining the fair value of these securities. The types of factors that may be considered in fair value pricing of the Company's investments include the nature and realizable value of any collateral, the portfolio business' ability to make payments and its earnings, the markets in which the portfolio investment does business, comparison to publicly traded issuers, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private issuers, are inherently uncertain, such valuations may fluctuate over short periods of time and may be based on estimates, and the Company's determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of the Total Assets could be materially adversely affected if the Company's determinations regarding the fair value of its investments were materially higher than the values it ultimately realizes upon the disposition of such securities.

Due to a wide variety of market factors and the nature of certain securities to be held by the Company, there is no guarantee that the value determined by the Company or any third-party valuation agents will represent the value that will be realized by the Company on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. Moreover, the valuations to be performed by the Company or any third-party valuation agents are inherently different from the valuation of the Company's securities that would be performed if the Company were forced to liquidate all or a significant portion of its securities, which liquidation valuation could be materially lower.

## **Reputation**

The Company could be negatively impacted if there is misconduct or alleged misconduct by its portfolio companies in which the Company invests, including historical misconduct. Risks associated with misconduct at portfolio companies is heightened in cases where it does not have legal control or significant influence over a particular portfolio company or is not otherwise involved in actively managing a portfolio company. In such situations, given the Company's ownership position and affiliation with the portfolio company, it may still be negatively impacted from a reputational perspective through this association. In addition, even where the Company has control over a portfolio company, if it is a newly acquired portfolio company that the Company is in the process of integrating, then the Company may face reputational risks related to historical or current misconduct or alleged misconduct at such portfolio company for a period of time.

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## ***The Liability of the Manager is Limited, and the Company and the Manager Have Not Been Represented by Separate Legal Counsel***

Under the Management Agreement, the Manager does not assume any responsibility other than to perform the obligations, duties and responsibilities described in the Management Agreement. As a result, the right of the Company to recover against the Manager may be limited to damages arising out of the performance or non-performance of the responsibilities explicitly set forth in the Management Agreement. In addition, the Management Agreement contains provisions exonerating the Manager and related persons from liability in connection with the performance of obligations under the Management Agreement or indemnifying the Manager or related persons under certain circumstances, even if the Manager has been negligent. These protections from liability may result in the Manager tolerating greater risks when making investment-related decisions or providing investment-related advice than would otherwise be the case, including when determining whether to use or advise with respect to leverage in connection with investments.

## ***Potential Conflicts of Interest***

The Company will rely on the Manager's expertise in identifying and advising on investment opportunities, transaction execution and asset management capabilities. The services to be provided by the Manager under the Management Agreement are to be provided on a non-exclusive basis to the Company, and accordingly, there are no restrictions on the Manager from providing similar services to other entities or from engaging in other activities in the future (whether or not their investment objectives, strategies and policies are similar to those of the Company). The Company has entered into the Non-Competition Arrangements (as defined in the AIF) with the Management Investors, which addresses certain conflicts of interest. The Manager will allocate investment opportunities among the Company and the Manager's other clients and businesses in accordance with the Business Opportunity Allocation Agreement (as defined in the AIF). The Company may, from time to time, be precluded from participating in an investment opportunity available to the Manager that would otherwise be compatible with the Company's investment objectives and restrictions. In addition, allocation of investment opportunities may encounter conflicts of interest when allocating investment opportunities among the Company and the Manager's other clients and businesses.

The Manager is not restricted from forming additional investments vehicles, entering into other management relationships, exercising investment responsibility, engaging in other business (or non-business) activities or directly or indirectly purchasing, selling, holding or otherwise dealing with any securities for the account of any such other business or for other clients (including, without limitation, for or on behalf of clients that invest or may invest in the Company). These activities, including the establishment of other investment vehicles which may be more, similarly, or less concentrated than the Company, may give rise to additional conflicts of interest.

In addition, members of the Board will, from time to time, in their individual capacities, deal with parties with whom the Company may be dealing or may be seeking investments similar to those desired by the Company. It is possible that the interests of these persons could conflict with those of the Company. Applicable corporate law contains conflict of interest provisions requiring members of the Board to disclose their interests in certain contracts and transactions and to refrain from voting on those matters.

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## **Operating and Financial Risks of Investments**

Businesses in which the Company invests could deteriorate as a result of, among other factors, an adverse development in their business operations, a change in the competitive environment or an economic downturn. As a result, businesses that the Company expects to be stable may operate at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or experience financial distress. In some cases, the success of the Company's investment strategy will depend, in part, on the ability of the Company to restructure and effect improvements in the operations of a business in which it has invested. The activity of identifying and implementing restructuring programs and operating improvements at businesses entails a high degree of uncertainty. There can be no assurance that the Company will be able to successfully identify and implement such restructuring programs and improvements.

## **Reliance on Key Personnel and Risks Associated with the Management Agreement**

The management and governance of the Company depends on the services of certain key personnel, including the Manager and certain executive officers of the Company. The loss of the services of any key personnel could have a material adverse effect on the Company and materially adversely affect the Company's financial condition and results of operations.

The Company relies on the Manager with respect to the sourcing and advising with respect to its investments. Consequently, the Company's ability to achieve its investment objectives depends in large part on the Manager and its ability to identify and advise the Company on attractive investment opportunities. This means that the Company's investments are dependent upon the Manager's business contacts, its ability to successfully hire, train, supervise, manage, and retain its personnel and its ability to maintain its operating systems. If the Company were to lose the services provided by the Manager or its key personnel or if the Manager fails to satisfactorily perform its obligations under the Management Agreement, the Company's investments and growth prospects may decline.

The Company may be unable to duplicate the quality and depth of management from the Manager if the Company were to source and manage its own investments or if it were to hire another manager. Prospective investors should not purchase any securities of the Company unless they are prepared to rely on the members of the Board, the Company's executive officers and the Manager. The Management Agreement may be terminated in certain circumstances and is only renewable on certain conditions. Accordingly, there can be no assurance that the Company will continue to have the benefit of the Manager's services, including its personnel, or that the Manager will continue to be the Company's manager. If the Manager should cease for whatever reason to be the manager of the Company, the cost of obtaining substitute services may be greater than the fees the Company will pay the Manager under the Management Agreement, and this may adversely affect the Company's ability to meet its objectives and execute its strategy which could materially and adversely affect the Company's cash flows, operating results and financial condition.

## **Effect of Fees**

The Company will be required to pay a management fee and performance fee, if any, to the Manager under the Management Agreement. From time to time, the payment of such fees will reduce the actual returns to holders of Common Shares. A portion of these fees will be payable to the Manager regardless of whether the Company produces positive investment returns.

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## ***Performance Fee Could Induce the Manager to Make Speculative Investments***

The performance fee that may be payable to the Manager under the Management Agreement may create an incentive for the Manager to make or recommend investments that are more speculative or involve more risk than would be the case in the absence of such a compensation arrangement. The way in which the performance fee payable is determined may encourage the Manager to use or recommend the use of leverage to increase the return on the Company's investments. Increased use of leverage and the corresponding increased risk of replacement of that leverage at maturity could increase the likelihood of default, which could materially and adversely affect the Company's cash flows, operating results and financial condition.

## ***Reliance on the Performance of Underlying Assets***

The Company does not have any operations, activities, or other active businesses other than the acquisition, retention, and management of its investments. Accordingly, although the Company generally intends to take an active role in overseeing and monitoring its investments, factors unique to its portfolio companies, such as changes in operating performance, profitability, financial position, creditworthiness, management, strategic direction, achievement of goals, mergers, acquisitions, divestitures, or distribution policies, may affect the value of the Company's investments, and in turn, the overall performance of the Company. In addition, a decline in the state of the capital markets, changes in law and/or other events, could have a negative effect on the value of the Company's investments and the Company.

Changes that negatively impact the Company's portfolio investments could adversely affect the Company's ability to sell its investments for a capital gain or to otherwise earn revenue.

## ***Minority Investments***

The Company may make minority equity investments in businesses in which the Company does not participate in the management or otherwise control the business or affairs of such businesses. The Company will monitor the performance of each investment and maintain an ongoing dialogue with each business management team; however, it will be the responsibility of the management of the business to operate the business on a day-to-day basis, and the Company may not have the right or ability to control or otherwise influence such business. The Company will not control the business and affairs of all portfolio companies. Accordingly, these companies may undertake activities which the Company does not believe is in their best interests.

## ***Ranking of Company Investments and Structural Subordination***

The Company invests in private equity and debt securities, some of which may ultimately become public equity and debt securities. Portfolio investments may have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt in which the Company invests. By their terms, such debt instruments may entitle the holders to receive payment of interest or principal on or before the dates on which the Company is entitled to receive payments with respect to the debt instruments in which the Company invests. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio business, holders of debt instruments ranking senior to the Company's investment in that portfolio business would typically be entitled to receive payment in full before the Company receives any distribution. After repaying such senior creditors, such portfolio business may not have any remaining assets to use to repay its obligation to the Company. In the case of debt ranking equally with debt instruments in which the Company invests, the Company would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of the relevant portfolio business.

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## **Follow-On Investments**

Following the initial investment in a business, the Company may be called upon to provide additional funds or have the opportunity to increase its investment in such business through the exercise of a warrant or other right to purchase securities or to fund additional investments through such business. There is no assurance that the Company will make follow-on investments or that the Company will have sufficient funds to make any such investment. Even if the Company has sufficient capital to make a desired follow-on investment, the Company may elect not to make such investment, as the Company may not want to increase its level of risk, the Company may prefer other opportunities or the Company may be restricted from doing so under its investment guidelines. Any decision by the Company not to make follow-on investments or its inability to make such follow-on investments may have a negative impact on the portfolio business in need of such investment, may result in a missed opportunity for the Company to increase its participation in a successful operation or may reduce the expected return on the investment.

## **Risks upon Disposition of Investments**

In connection with the disposition of an investment in a portfolio company, the Company may be required to make representations about the business and financial affairs of the business or may be responsible as a selling securityholder for the contents of disclosure documents under applicable securities laws. The Company may be required to indemnify the borrowers, investors or purchasers of such investment or underwriters to the extent that any such representation turns out to be incorrect, inaccurate, or misleading.

## **Failure to Execute the Company's Investment Strategies**

Although the Company intends to make long-term investments that achieve superior risk-adjusted investment performance, this goal relies on the successful execution of its investment strategies. The successful execution of the Company's investment strategies is uncertain as it requires suitable opportunities, careful timing, and business judgment, as well as sufficient resources to make investments and restructure them, if required, notwithstanding difficulties experienced in a particular industry.

In addition, there is no assurance that the Company will be able to identify suitable or sufficient opportunities that meet its investment criteria and be able to make investments at attractive prices to supplement its growth in a timely manner, or at all.

Deciding as to the fundamental value and the value-enhancing potential of an investment may involve uncertainties and judgmental determinations. The Company may fail to value opportunities accurately or to consider all relevant factors that may be necessary or helpful in evaluating an opportunity. There may be certain liabilities, obligations, facts, or circumstances that are not discovered during the Company's due diligence prior to the completion of an investment.

The Company may fail to close on a potential investment opportunity for any number of reasons, including those beyond the Company's control. Failure to close on a potential investment may result in a loss of substantial management time and attention and of significant accounting, legal or other fees and expenses.

Further, the Company may underestimate the costs necessary to bring an investment up to standards established for its intended market position, may be exposed to unexpected risks and costs associated with its investments, and/or may be unable to quickly and effectively integrate new investments into its existing operations or exit from the investment on favorable terms.

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## ***Pace of Completing Investments***

The Company's business is, with the assistance of the Manager, to identify suitable investment opportunities, pursuing such opportunities and consummating such opportunities. If the Company is unable to source and manage its investments effectively, it would adversely impact the Company's financial position and earnings. There can be no assurance as to the pace of finding and implementing investment opportunities.

Conversely, there may only be a limited number of suitable investment opportunities at any given time. This may cause the Company, while it deploys cash not yet invested, to hold significant levels of cash or cash equivalents. A lengthy period prior to which capital is deployed may adversely affect the Company's overall performance.

## ***Financial Market Fluctuations and Deterioration of Political and Market Conditions***

The Company invests in growth to late-stage private operating businesses, with long-term growth potential, which private businesses may become public, or may be acquired by a public issuer. The Company is not precluded from owning an investment in a public issuer. With respect to publicly traded issuers, fluctuations in the market price of such securities may negatively affect the value of such investments. In addition, general instability in the public debt market and other securities markets may impede the ability of businesses to refinance their debt through selling new securities, thereby limiting the Company's investment options with respect to a particular portfolio investment.

To the extent that the economy deteriorates for an extended period of time, one or more of the Company's investments could be materially harmed. In addition, the Company's investments may be affected by changes in political and market conditions, such as interest rates, availability of credit, inflation rates, changes in laws, and national and international circumstances. Other developments, such as war and occupation, terrorism and related geopolitical risks, natural disasters, and public health emergencies, including an epidemic or pandemic, may lead to increased short-term market volatility, unusual liquidity concerns, and may have adverse long-term effects on world economies and markets generally, including Canadian, United States and other economies and securities markets. The effects of these or similar events on the economies and securities markets of countries cannot be predicted. For example, the spread of COVID-19 has caused volatility in the global financial markets, resulted in significant disruptions to global business activity and caused a slowdown in the global economy. These events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect securities markets, fixed income markets, inflation and other factors relating to the portfolio investments of the Company. Unexpected changes in these factors could negatively impair the Company's financial condition, profitability, and cash flows, and may also have a negative effect on the valuation of, and the ability of the Company to exit or partially divest from, investment positions.

While the precise impact of the recent COVID-19 outbreak remains unknown, it has introduced uncertainty and volatility in global markets and economies. The duration of the COVID-19 outbreak and its impact cannot be determined with certainty, but it may adversely affect the performance of the Company or one or more of the businesses in which it invests. Depending on economic and market conditions, the Company may incur substantial realized and unrealized losses in future periods, all of which may materially adversely affect its results of operations and the value of any investment in the Company.

## ***Long-Term Nature of Investment***

An investment in the Company requires a long-term commitment with no certainty of return. Some investments to be made by the Company are not expected to generate current income. Therefore, the return of capital to the Company and the realization of gains, if any, from the Company's investments will generally occur only upon the partial or complete realization or disposition of such investment. While an investment of the Company may be realized or disposed of at any time, it is generally expected that the ultimate realization or disposition of most of the Company's investments will not occur for a number of years after each such investment is made.

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## **Potential Lack of Investment Diversification**

The Company has limited requirements regarding the holdings in securities of issuers, or in any one industry or size of issuer. Accordingly, the securities in which the Company invests may not be diversified across many sectors and will be concentrated in specific regions or countries, such as Canada and the United States. The Company may also have a significant portion of investments in the securities of a single issuer.

A relatively high concentration of assets could result in a portfolio that may be more vulnerable to fluctuations in value resulting from adverse conditions that may affect the economy, a particular industry, or a segment of issuers than would otherwise be the case if the Company were required to maintain wide diversification. Consequently, significant declines in the fair value of the Company's larger investments will produce a material decline in the Company's reported earnings.

## **Unknown Merits and Risks of Future Investments**

There is no basis for a prospective investor in the Company to evaluate the possible merits or risks of any particular future target company's operations, results of operations, cash flows, liquidity, financial condition, or prospects. Although the Company will endeavor to evaluate the risks inherent in a particular investment, there can be no assurance that the Company will properly ascertain or assess all of the significant risks of such investment or that the Company will have adequate time or access to complete appropriate due diligence investigations. Furthermore, some of the risks may be outside of the Company's control and leave the Company with no ability to mitigate or control the chances that those risks will adversely impact the target company.

## **Substantial Loss of Capital**

The investments made by the Company are speculative in nature and shareholders could experience a loss of all or substantially all of their investment in the Company. There can be no assurance that the Company will be able to make and realize investments or generate positive returns. There can also be no assurance that the returns generated, if any, will be commensurate with the risks of investing in the types of investments contemplated by the Company's investment objectives. As such, an investment in the Company should only be considered by persons who can afford a loss of their entire investment.

## **Limited Operating History and Revenues**

The Company is a recently formed company with limited operating results. As the Company lacks a lengthy operating history, there is a limited basis upon which a potential investor can evaluate the Company's ability to achieve its stated investment objective.

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## Capital Management

The Company manages its capital with the following objectives:

- (i) To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- (ii) To maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board on a regular basis.

The Company considers its capital to be equity, comprising share capital, and warrants and options, net of deficit, which on September 30, 2023, totaled \$100,562,694. The Company manages capital through its financial and operational forecasting processes. The Company reviews its Working Capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. Information is provided to the Board. The Company's capital management objectives, policies and processes have remained unchanged during the year ended September 30, 2023.

## Related Party Transactions

During the period ended September 30, 2023, the Company incurred \$1,507,836 (2022: \$1,607,207) to related parties consisting of director fees of \$228,750 (2022: \$228,123) and management fees of \$1,279,086 (2022: \$1,379,084) pursuant to the Management Agreement. In addition, included in general and administrative expenses are \$51,333 (2022: \$86,292) reimbursed to the Manager for accounting and administrative services provided by an employee of the Manager.

As at September 30, 2023, included in accounts payable and accrued liabilities are \$228,750 (2022: \$228,123) pertaining to director fees. Included in amounts due to Manager are \$148,662 (2022: \$164,266) which include management fees of \$142,246 (2022: \$153,389) and \$6,417 (2022: \$10,877) for expenses reimbursed to the Manager.

For further information on the relationship of the Manager to the Company, see the AIF, under the heading "Description of the Business – The Manager".

## Management Agreement

At the time of the Company's IPO, the Company entered into the Management Agreement with the Manager to provide administration and investment services to the Company. As compensation for the provision of the services to be provided to the Company by the Manager, the Company will pay the management fee and, if applicable, the performance fee, in each case, together with any applicable sales taxes thereon, to the Manager under the Management Agreement. The management fee is a monthly amount equal to 1/12 of 1.5% of the total assets less the total liabilities, excluding any deferred taxes, plus any sales taxes thereon (defined in the Management Agreement as "Management Agreement Book Value").

The performance fee is 15% the Management Agreement Book Value on a per share basis using the time-weighted average Common Shares outstanding (defined in the Management Agreement as "Management Agreement Book Value per Share") that exceeds the high-water mark. The performance fee is calculated and accrued quarterly and paid for after the Company's year-end results have been filed each calendar year. The performance fee will be payable in cash, or at the option of the Manager, in Common Shares.

Concurrent with the closing of the Company's IPO, the Management Investors purchased an aggregate of 583,334 Units, for total gross proceeds of \$7,000,008, on a non-brokered, private placement basis at the Offering Price. As part of the terms of the

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Management Investment, each Management Investor agreed to a five-year voluntary lock-up and will retain all of the Units acquired in the IPO and the Management Investment during such period, subject to certain customary exceptions.

## Intellectual Property Licensing Agreement

The Company has entered into a Licensing Agreement with the Manager with an indefinite term pursuant to which the Manager has granted a non-exclusive, royalty-free license to use the name "Stack," "Stack Capital," and the Stack brand logo, in. Other than under this limited license, the Company does not have a legal right to the "Stack," "Stack Capital" name, and the Stack brand.

A party will be permitted to terminate the Licensing Agreements upon 90 days' prior written notice if the other party is in material breach of the agreement, and the breaching party fails to rectify the breach to the reasonable satisfaction of the other party within such 90-day period. The Manager may terminate the Licensing Agreement immediately upon termination of the Management Agreement. The Licensing Agreement will automatically terminate upon written notice of termination by the Manager to the Company if any of the following occurs:

- if a decree or order of a court of competent jurisdiction is entered adjudging the Company a bankrupt or insolvent or approving as properly filed a petition seeking the winding-up of the Company;
- if the Company becomes insolvent, makes any assignment in bankruptcy or makes any other assignment for the benefit of creditors, makes any proposal under any bankruptcy, insolvency or analogous laws, seeks relief under any bankruptcy, insolvency or analogous laws, is adjudged bankrupt, files a petition or proposal to take advantage of any act of insolvency, consents to or acquiesces in the appointment of a trustee, receiver, receiver and manager, interim receiver, custodian, sequester or other person or entity with similar powers of itself or of all or any substantial portion of its assets, or files a petition or otherwise commences any proceeding seeking any reorganization, arrangement, composition or readjustment under any applicable bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights or consents to, or acquiesces in, the filing of such a petition;
- if any proceeding or filing will be instituted or made against the Company seeking to have an order to adjudicate it bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition under any law relating to bankruptcy, insolvency, reorganization or relief of debtors or seeking appointment of a receiver, trustee, custodian or other similar official or for any substantial part of its properties or assets; and/or
- permanent discontinuance of the business of the Company occurs or is about to occur.

## Management's Responsibility for Financial Information

The Company's annual financial statements are the responsibility of the Company's management and have been approved by the Board. The annual financial statements were prepared in accordance with IFRS as issued by the International Accounting Standards Board. The annual financial statements include certain amounts based on the use of estimates and judgments. Management has established these amounts in a reasonable manner, in order to ensure that the annual financial statements are presented fairly in all material respects.

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## Controls and Procedures

The Company maintains appropriate information systems, procedures, and controls to ensure that information disclosed externally is complete, reliable, and timely. The Company's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at September 30, 2023 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Company has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the unaudited condensed interim financial statements for external purposes in accordance with IFRS. The Company's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Company's internal controls over financial reporting (as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at September 30, 2023. Based on that assessment, it was determined that the Company's internal controls over financial reporting were appropriately designed and were operating effectively.

The Company did not make any changes to the design of the Company's internal controls over the financial reporting period ended September 30, 2023 that would have materially affected, or would be reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

## Outstanding Share Data

The Company's issued and outstanding capital consisted of 9,002,745 Common Shares and 4,913,167 Warrants at September 30, 2023.

On May 18, 2022, the Stack shareholders approved the Stack Omnibus Long-Term Incentive Plan (the "LTIP") to allow for a variety of equity-based awards that provide different types of incentives to be granted to certain of the Stack executive officers, employees and consultants and non-employee directors. As at September 30, 2023, 3,750 stock options were granted under the LTIP were outstanding with an exercise price of \$7.00 and expire in 2028.

During the quarter ended December 31, 2022, the TSX approved the Company's application to implement a Normal Course Issuer Bid ("NCIB"). Under the terms of the NCIB, the Company may purchase and cancel up to a maximum of 461,500 common shares, representing 5.0% of the issued and outstanding common shares as of November 7, 2022. Purchases under the NCIB were made through the facilities of the TSX and/or Canadian Trading Systems in accordance with applicable regulatory requirements at a price per common share representative of the market price at the time of acquisition. The NCIB will terminate no later than November 16, 2023. For the year ended December 31, 2022, the Company repurchased and cancelled a total of 81,800 common shares for \$477,570.

During the nine months ended September 30, 2023, the Company repurchased and cancelled a total of 145,800 common shares for \$906,548.

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## **Additional Information**

Additional information relating to the Company, including the AIF, can be found on [www.stackcapitalgroup.com](http://www.stackcapitalgroup.com) and under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).