

# **Canso Select Opportunities Corporation**

## **Annual Management's Discussion and Analysis For the Year Ended December 31, 2023**

Management's Discussion and Analysis ("MD&A") provides a review of Canso Select Opportunities Corporation's ("CSOC" or the "Corporation") audited financial results for the years ended December 31, 2023 and December 31, 2022 and assesses factors that may affect future results. The financial condition and results of operations are analyzed noting the significant factors that impacted the statements of financial position, statements of comprehensive income (loss), statements of changes in equity, and statements of cash flows of CSOC. As such, this MD&A should be read in conjunction with the audited financial statements and notes thereto. The audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") to provide information about CSOC.

The following MD&A is the responsibility of management and is dated March 26, 2024. The Board of Directors carries out its responsibility for the review of this disclosure through its Audit Committee, comprised of independent directors and CSOC's Chief Financial Officer. The Audit Committee has reviewed and recommended approval of the MD&A by the Board of Directors. The Board of Directors has approved this disclosure.

### **Business of the Corporation**

CSOC is an Ontario-based investment holding company. CSOC's investment objective is to provide long term capital growth to its shareholders. We believe the core holding in Lysander Funds Ltd. together with a portfolio of public and private investments will generate returns that will exceed average market returns in the long term. Consistent with these objectives, the Corporation evaluates potential investments in debt, public and private equity and other securities. The deployment of funds to new investments depends on both the attractiveness of new investment opportunities and the availability of capital as generated from the realization of value from existing portfolio investments. The investment portfolio consists of public and private equity and debt investments primarily in North America, however, there is no geographic constraint on the investment portfolio.

### **Investment Performance in 2023**

The CSOC Class A Multiple Voting Shares and the CSOC Class B Subordinate Voting Shares increased in value by 10.4% in 2023 to \$5.41 per share. The key driver to positive performance in 2023 was the increase in value of Lysander Funds Class A common shares, which were up by 20% during the year from \$175 per share to \$210 per share. In addition to the capital appreciation, the Corporation received \$525,000 in dividends from Lysander corporation during the year and another \$175,000 in January 2024.

## **Recent Developments**

### *Acquisition of Lysander Shares*

On January 13, 2023, CSOC announced the acquisition of 70,000 Class A common shares of Lysander at a purchase price of \$175 per share for total consideration of \$12.25 million. The Corporation issued 2,440,239 Class B subordinate voting shares as consideration for the Lysander shares purchased. An independent committee of the board had previously engaged Blair Franklin to provide an independent valuation of the Lysander shares.

In late 2023, CSOC engaged Blair Franklin to obtain an updated independent third-party valuation of the Lysander shares. As at December 31, 2023, Blair Franklin valued the shares at \$210, an increase of 20% from the initial purchase price for the shares.

In addition to the capital appreciation, CSOC received \$525,000 in dividends from Lysander in 2023 and another \$175,000 in January 2024.

The Class A common shares held in Lysander Funds Ltd. ("Lysander") will remain a core holding of the Corporation for the foreseeable future and are expected to generate an important source of capital appreciation and dividend income for CSOC in the long term.

### *Market Performance*

The U.S. Federal Reserve's about-face on interest rates in the fourth quarter fueled a rally in almost every asset class, from speculative technology shares to junk bonds. The Treasury market posted its first annual gain since 2020 as slowing inflation bolstered views that the Fed's campaign of interest rate increases is likely over. The Fed acknowledged that economic activity had slowed, and job gains moderated. The Fed also sketched out a potential path towards rate cuts.

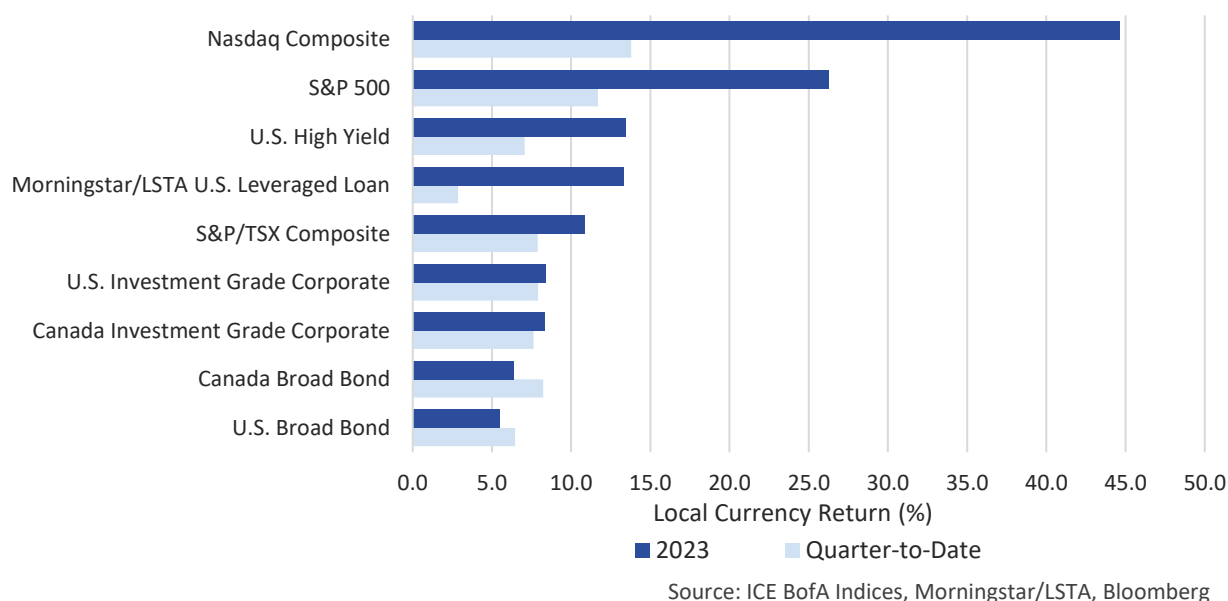
The Bank of Canada's language on interest rates has turned more Dovish recently but they remain concerned with inflationary pressures that are broad-based and with a still over-valued housing market. Although GDP stalled in Canada in the third quarter, investors have been puzzled by the failure of a widely anticipated recession to materialize. The labour market is easing, and job creation has slowed. Wages are still rising at an elevated rate despite a modest increase in the unemployment rate. The substantial immigration into Canada post-pandemic has also buffeted the economy from downward pressures.

The strong fourth quarter capped off a comeback year in 2023. Risk assets bounced back from disappointing 2022 results, with the Nasdaq Composite rising 45% in 2023 after falling 33% the previous year. Strong performance of risk assets extended to the below investment grade universe as well. The U.S. High Yield Index and U.S. Leveraged Loan Index were both higher by 13% on the year as credit spreads tightened and corporate defaults remained low.

Investment Grade indices also rose as falling government rates and tightening credit spreads pushed returns higher into year end. The Canadian Investment Grade Index was up 8.3% on the year, boosted by the 7.6% return in the final quarter. The U.S. Investment Grade Index rose a

comparable 8.4% over the year. As a reminder, these two markets were down 10.1% and 15.4%, respectively, in 2022.

**Table 1: Major Benchmark Returns 2023**



## Outlook

Markets continue to rally into the first quarter on expectations for further rate cuts in the U.S. and Canada. The market is currently forecasting six quarter-point rate cuts throughout 2024, and the FED is now clearly signalling that interest rate cuts are forthcoming. However, we note that recent reports show inflation remains above central bank targets in both Canada and the U.S. and we therefore expect the pace of cuts to be slower than the market is forecasting.

We enter 2024 wary that bond and equity markets could turn quickly from being fairly valued to being overvalued and will look to take profits where appropriate. Credit spreads on bonds narrowed in 2023 back to long-term averages, but we see some frothiness, particularly in certain high-yield names. Similarly on the equity side, much of the return in 2023 was due to multiple expansion and exuberance in high-tech names.

We will continue to focus on the long-term prospects for income and capital appreciation for the investments in the portfolio. We believe there are always attractive opportunities irrespective of market conditions, and individual security selection remains paramount to the long-term success of the company. We are invested in companies that we believe will outperform the market in the long-term and will ignore short term equity and bond price volatility.

## Overall Performance

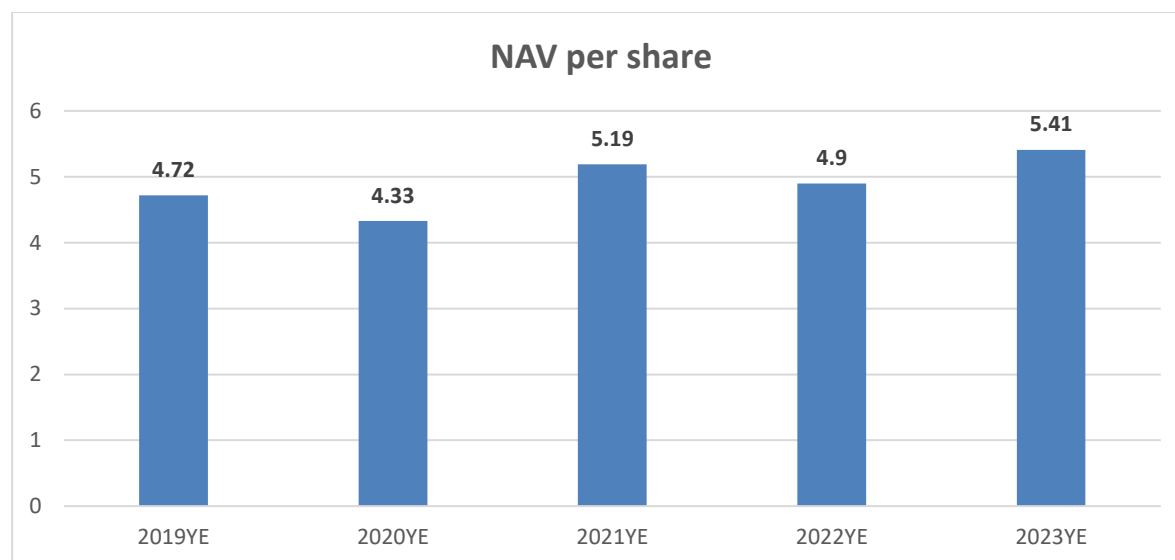
The Corporation's ability to generate income and to pay dividends depends on the performance of the holdings in its portfolio. Each fixed income and equity investment in the portfolio is unique. Portfolio companies vary from early-stage start-up enterprises to private companies in more advanced stages of development, to publicly traded companies operating in mature industries.

Investments in corporate bonds and preferred shares are based on relative value analysis of the security compared with other securities available in the market. CSOC will invest in corporate bonds and preferred shares where the yield spread above the relevant government benchmark is attractive given the relative risk of the investment.

The performance of equity securities in the investment portfolio depends on a variety of factors, which include but are not limited to, economic conditions, interest rates and investor confidence as indicated by equity market performance. In addition, for private equity investments factors such as access to capital and improving performance are key factors to long-term success.

### *Specific Factors*

For the year ended December 31, 2023, CSOC shareholders' equity increased by \$14,633,170 (\$0.51 gain per Class A or B share) versus a net decrease in 2022 of \$804,472 (\$0.29 loss per Class A or B share). The increase in value per share was 10.4% for the Class A and the Class B shares on the year, as compared with a loss of 5.6% in 2022. While the portfolio does not have a specific benchmark against which its performance is measured, it outperformed the Canadian corporate bond index and performed roughly in line with the S&P/TSX Composite index which was up 10.8% in the year.



Management is pleased with the performance of the portfolio in the past two years, having performed in line with the main Canadian equity benchmark in 2023 and outperforming all major

indices in 2022. We believe the portfolio is well positioned to generate attractive investment returns in 2024 and beyond.

## **Summary of Investment Portfolio**

### *Investment Activity in 2023*

The acquisition of Lysander shares in January 2023 was transformative for CSOC. In 2023 Lysander provided CSOC with significant dividends and also accounted for the bulk of the growth in net asset value per share for the year. In the first quarter we purchased shares of Cineplex, and purchased two private securities in the quarter, a US\$350,000 convertible note for AdHawk Microsystems and \$50,000 in common shares in Portfolio HiWay.

In second quarter 2023 we sold the Air Canada senior secured bond to buy a Bank of Nova Scotia 3.7% alternative tier one note that was trading at a material discount to par.

During the third quarter we sold approximately 1/3<sup>rd</sup> of our holdings in Bird Construction in order to further diversify the portfolio. At quarter end we continued to maintain a large weight in Bird at 5.1% of the portfolio.

We established a new position in Enbridge Inc. in September with a weight of about 1.5% of the portfolio. We believe Enbridge is well positioned for long-term business stability and revenue and cash flow growth. We view positively the recently announced acquisition of assets from Dominion Energy as well as an attractive dividend yield of about 7.5%.

In fourth quarter we purchased small weights in Air Canada stock, as well as bonds in Corus Entertainment, American Airlines and Spirit Aerosystems. In addition, we purchased convertible notes of Horizon Aircraft which completed a reverse take-over on the NASDAQ in first quarter 2024. The company was renamed New Horizon and trades under the ticker HOVR.

### *Investment Performance in 2023*

The acquisition of Lysander shares in January 2023 was the major contributor to the overall positive performance for the portfolio during the year. The shares were up 20% and in addition CSOC received \$525,000 in dividends from Lysander during the year and another \$175,000 in January 2024.

Other material positive contributors to performance where the shares held in Bird Construction, MDA Ltd. and Manulife, whose share prices were up 177%, 80% and 21%, respectively. Detractors to performance where the public shares held in Aegis, Hertz and Yellow Media which were down 45%, 34%, and 37% respectively. We also lowered our valuation on private investments Brill Power and Fibracast during the year. We revised the price lower on Brill due to a change in pricing methodology. Fibracast raised new capital during the year at a much lower valuation which caused the drop in value of that security.

## Detailed Investment Portfolio

CSOC's corporate structure provides a permanent capital base allowing the realization of value from its existing portfolio over time. We have modified the discussion around the portfolio to provide more granular detail around our public and private investments to give investors a better sense of the opportunities and risks in the portfolio. We begin with a review of the private investments which form the largest portion of the portfolio followed by a discussion of public equity and fixed income investments.

The table below summarizes CSOC's investments into Private and Marketable securities. A full list of securities held is listed in the subsequent table.

December 31, 2023

Description	Average Cost \$	Fair Value \$	% of Portfolio
<b>Cash and Marketable Securities</b>	<b>\$ 477,941</b>	<b>\$ 477,631</b>	<b>1.7%</b>
<b><u>Private Investments</u></b>			
Common Equity Held Long	\$ 13,578,219	\$ 15,620,164	56.2%
Private Fixed Income	\$ 1,766,585	\$ 1,561,510	5.6%
Private Preferred Shares	\$ 928,567	\$ 748,333	2.7%
<b>Total Private Investments</b>	<b>\$ 16,273,371</b>	<b>\$ 17,930,007</b>	<b>64.6%</b>
<b><u>Marketable Investments</u></b>			
Marketable Fixed Income	\$ 2,638,951	\$ 2,700,823	9.7%
Fixed Income Held Short	\$ (1,263,290)	\$ (1,258,506)	(4.5%)
Common Equity Held Long	\$ 10,613,399	\$ 6,408,462	23.1%
Preferred Shares	\$ 1,779,584	\$ 1,515,300	5.5%
<b>Total Marketable Investments</b>	<b>\$ 13,768,644</b>	<b>\$ 9,366,079</b>	<b>33.7%</b>
<b>Total Marketable and Private Assets</b>	<b>\$ 30,519,956</b>	<b>\$ 27,773,717</b>	<b>100.0%</b>
Other Assets, Net of Liabilities		\$ 59,415	
<b>CSOC's Investments at Fair Value</b>		<b>\$ 27,833,132</b>	

## Private Equity Investments

Private equity investments represented 56.2% of the portfolio at December 31, 2023, with Lysander being the largest single investment in the portfolio at about 52.9%.

CSOC obtained an independent third-party valuation on Lysander shares and will do so on an annual basis in future. We also intend to provide investors with a quarterly estimate of the per share value of Lysander. A formal valuation was completed by Blair Franklin Capital Partners dated December 31, which pegged the value per share at \$210, an increase of 20% from the price paid for the shares at acquisition.

Lysander has performed very well since the acquisition of shares in January 2023. Total assets under management (AUM) at Lysander at year end were approaching \$15 billion and AUM growth in 2023 was 38%. Revenues, cash flow and net income have all grown in excess of 20% as well.

In addition to the capital appreciation on the Lysander shares, the current annualized dividend is \$10.00 per share or the equivalent of \$700,000 in expected dividends per annum.

Lysander is a multi-asset manager which provides an attractive addition to the CSOC portfolio. The purpose of the transaction was to diversify the company's portfolio of investments and to increase its cash flows by way of consistent dividends. The primary growth in Lysander funds over the past ten years has come from its partner portfolio manager, Canso Investment Counsel Ltd..

Further information on the transaction, the background and approval process can be found in CSOC's Notice of Meeting and Management Information Circular dated November 30, 2022 available on SEDAR+ and at [www.selectopportunitiescorporation.com](http://www.selectopportunitiescorporation.com).

We added one new small private equity investment to the portfolio in 2023. We purchased \$50,000 in common shares of related-party Portfolio HiWay Inc. The value of the shares at the end of the year was \$62,500.

There were three other changes to private equity valuations during the year. We lowered the price on the Brill Power from GBP5.74 to GBP4.15 based on a change in pricing methodology to an option pricing model (OPM). We have determined that an OPM pricing methodology is more appropriate for investments where there are multiple classes of equity securities. This had an overall negative affect on the portfolio of about 30 basis points. For the same reason, we also used the OPM for the pricing of the securities held in Hashtag Paid, which resulted in a very marginal change in valuation. We also revalued shares of Fibracast lower in the year. In third quarter 2023 Fibracast raised new preferred shares in a private placement at a price of \$0.45 per share and we therefore lowered the price from \$0.74/share to \$0.45 per share, or a decline of 39%. This resulted in an overall negative impact on the net assets of CSOC of about 90 basis points in the year.

#### *Private Fixed Income Investments*

At December 31, 2023, private fixed income investments represented 5.6% of CSOC's invested assets. In third quarter we purchased a 1.8% portfolio weight in convertible notes of Horizon Aircraft. Horizon is developing an electric vertical take off and landing aircraft which will have multiple applications once fully developed and certified. The company completed a reverse takeover in January 2024 and is now listed on the NASDAQ as New Horizon Aircraft under the ticker HOVR. There were no changes in the valuations of other private fixed income investments during the year.

#### *Private Preferred Share Investments*

At December 31, 2023, private preferred share investments represented 2.7% of CSOC's net assets. We lowered the price on the preferred shares of both Flint and Hashtag Paid in the fourth quarter, but overall they both had only a marginal negative impact on the portfolio.

### *Marketable Equity Investments*

At December 31, 2023, public equity investments represented 23.1% of the portfolio, with the largest holdings in Bird Construction (5.2%), Manulife (3.4%), Yellow Pages (3.9%), MDA Ltd. (2.6%), and Cineplex (2.2%).

Positive performance was driven by unrealized gains in the share prices of Bird Construction (up 171% in the year). Manulife and MDA were also up 21% and 80% respectively during the year, whereas Yellow Pages was down 37% during the year. For the second year in a row Yellow completed a pro rata share buyback of outstanding shares reducing our holdings by about 25%. Cineplex was a new position added during the year and was relatively unchanged at year end. Other smaller holdings had an immaterial affect on the portfolio.

### *Marketable Fixed Income Investments*

At December 31, 2023, marketable fixed income investments (net of government securities shorted) represented 5.2% of CSOC's invested assets. Several bonds performed well in the year with notable increases in LATAM airlines (up 12% in the year), AMC Entertainment (up 25%) and Corus (up 5.8%). The Air Canada convertible bond was down 8% in the year. Overall public bond positions made a modest positive contribution to performance.

### *Marketable Preferred Share Investments*

At December 31, 2023, marketable preferred share investments represented 5.5% of CSOC's invested assets. The market value of investments at \$1.5 million was relatively unchanged from December 31, 2022.



## Detailed Investment Portfolio

December 31, 2023

Description	Average Cost \$	Fair Value \$	% of Portfolio
<b>Marketable Investments</b>			
<b>Cash and Cash Equivalents</b>	\$ 477,941	\$ 477,631	1.7%
<b>Fixed Income Held Long</b>	\$ 2,638,951	\$ 2,700,823	9.7%
Air Canada convertible	\$ 207,684	\$ 182,134	0.7%
American Airlines	\$ 352,861	\$ 358,026	1.3%
AMC Entertainment Holdings	\$ 237,219	\$ 171,493	0.6%
Bank of Nova Scotia	\$ 563,450	\$ 573,317	2.1%
Corus Entertainment	\$ 246,000	\$ 260,333	0.9%
Latam Airlines Group	\$ 641,209	\$ 752,369	2.7%
Spirit Aerosystems	\$ 390,528	\$ 403,151	1.5%
<b>Fixed Income Held Short</b>	\$ (1,263,290)	\$ (1,258,506)	-4.5%
Government of Canada	\$ (514,437)	\$ (511,601)	-1.8%
US Treasury Note	\$ (748,853)	\$ (746,905)	-2.7%
<b>Common Equity Held Long</b>	\$ 10,613,399	\$ 6,408,462	23.1%
Aegis Brands Inc. (previously Second Cup Ltd.)	\$ 3,400,936	\$ 310,658	1.1%
Air Canada	\$ 191,516	\$ 214,934	0.8%
Bird Construction Inc.	\$ 672,874	\$ 1,432,109	5.2%
Cineplex Inc	\$ 618,090	\$ 610,173	2.2%
Enbridge Inc	\$ 384,298	\$ 386,370	1.4%
Flint Corp (previously ClearStream Energy SVCS Inc.)	\$ 2,012,939	\$ 131,811	0.5%
Hertz Global Holdings Inc.	\$ 424,452	\$ 330,180	1.2%
Manulife Financial Group	\$ 694,689	\$ 941,536	3.4%
MDA Ltd.	\$ 879,998	\$ 724,113	2.6%
NorthStar Gaming Holdings Inc (Escrow)	\$ 3,041	\$ 243	0.0%
NorthStar Gaming Holdings Inc	\$ 5,514	\$ 496	0.0%
VerticalScope Holdings Inc	\$ 54,397	\$ 31,122	0.1%
Yellow Pages Limited	\$ 1,119,866	\$ 1,069,083	3.9%
UBS Group AG (previously Credit Suisse Group AG)	\$ 150,789	\$ 225,634	0.8%
<b>Preferred Shares</b>	\$ 1,779,584	\$ 1,515,300	5.5%
Bombardier Inc.	\$ 379,277	\$ 496,129	1.8%
Canadian Life Companies Split	\$ 78,572	\$ 85,932	0.3%
M-Split Corp	\$ 838,474	\$ 507,454	1.8%
Sun Life Financial Corp	\$ 483,261	\$ 425,785	1.5%
<b>Total Marketable Investments</b>	\$ 13,768,644	\$ 9,366,079	35.4%
<b>Private Investments</b>			
<b>Common Equity Held Long</b>	\$ 13,578,219	\$ 15,620,164	56.3%
Brill Power Limited	\$ 105,559	\$ 211,577	0.8%
Fibracast	\$ 800,000	\$ 377,580	1.4%
Lysander Funds Limited	\$ 12,250,000	\$ 14,700,000	52.9%
Our Home and Miniature Land Inc. Warrant	\$ -	\$ -	0.0%
Smooth Payment Inc. July 5, 2031 Warrant	\$ -	\$ -	0.0%
Smooth Payment Inc. May 12, 2031 Warrant	\$ -	\$ -	0.0%
TC Fund I LP	\$ 12,541	\$ 12,537	0.1%
Portfolio HiWay Inc.	\$ 50,000	\$ 62,500	0.2%
Reformulary Group Inc.	\$ 200,000	\$ 250,000	0.9%
X-Spectrum 1 Inc. (previously Xplornet Wireless Inc.)	\$ 108,327	\$ 5,969	0.0%
X-Spectrum 2 Inc. (previously Xplornet Mobile Inc.)	\$ 51,792	\$ 1	0.0%
<b>Fixed Income Held Long</b>	\$ 1,766,585	\$ 1,561,510	5.6%
AdHawk Microsystems Inc	\$ 466,585	\$ 461,510	1.7%
Horizon Aircraft	\$ 500,000	\$ 500,000	1.8%
Our Home and Miniature Land Inc.	\$ 400,000	\$ 400,000	1.4%
Smooth Payment Inc.	\$ 400,000	\$ 200,000	0.7%
<b>Preferred Shares</b>	\$ 928,567	\$ 748,333	2.7%
BZ Holdings Inc.	\$ -	\$ 2	0.0%
Flint Corp - Preferred (previously ClearStream Energy Services - Preferred)	\$ 729,400	\$ 377,571	1.4%
HashTag Paid Inc.	\$ 199,167	\$ 370,760	1.3%
<b>Total Private Investments</b>	\$ 16,273,371	\$ 17,930,007	64.6%
<b>Total Marketable and Private Assets</b>	\$ 30,519,956	\$ 27,773,717	100.0%
Other Assets, Net of Liabilities		\$ 59,415	
<b>CSOC's Investments at Fair Value</b>		\$ 27,833,132	

## Selected Annual Information

The following table shows selected annual information about CSOC for the two most recently completed financial years of the Corporation:

Description	2023 (CAD\$)	2022 (CAD\$)
Total Revenue (Loss)	3,126,632	(721,274)
Net Income (Loss)		
Total	2,383,170	(804,472)
Per Share (Class A and B)	0.46	(0.29)
Diluted Per Share (Class A and B)	0.46	(0.29)
Total Assets	28,360,871	13,784,659
Equity per Class A Share	5.41	4.90
Equity per Class B Share	5.41	4.90

During the year ended December 31, 2023, CSOC reported net income of \$2,383,170 or 0.46 per Class A or B share versus a 2022 loss of \$804,472 ((\$0.29) per Class A or B share). In 2023, total assets increased by approximately 106% and equity per share increased by approximately 10.4% for Class A or B shares.

## Discussion of Operations

See “Investment Strategy and Activity” above.

## CSOC Tax Status

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

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

## Liquidity

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

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

## Summary of Quarterly Results

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

Description	31-Dec-2023	30-Sep-2023	30-Jun-2023	31-Mar-2023	31-Dec-2022	30-Sep-2022	30-Jun-2022	31-Mar-2022
Total Revenue	\$3,067,904	\$300,770	\$268,773	(\$510,815)	\$71,413	(\$210,696)	(\$561,770)	(\$20,221)
Total Revenue Per Share	\$0.59	\$0.06	\$0.05	(\$0.10)	\$0.03	(\$0.08)	(\$0.20)	(\$0.01)
Realized Gains (Losses)	(\$35,606)	(\$2,280)	\$0	\$52,169	\$200,381	\$49,943	\$201,696	(\$5,921)
(Losses) Per Share	(\$0.01)	(\$0.00)	\$0.00	\$0.01	\$0.07	\$0.02	\$0.07	(\$0.00)
Unrealized Gains (Losses)	\$2,654,955	\$115,711	\$87,987	(\$558,562)	(\$121,315)	(\$255,414)	(\$787,177)	(\$36,762)
Gains (Losses) Per Share	\$0.51	\$0.02	\$0.02	(\$0.11)	(\$0.04)	(\$0.09)	(\$0.28)	(\$0.01)
Shareholders' Equity	\$28,239,244	\$25,593,112	\$25,358,365	\$25,374,742	\$13,606,074	\$13,565,387	\$13,793,149	\$14,326,086
Equity per Class A Share	\$5.41	\$4.89	\$4.82	\$4.81	\$4.90	\$4.88	\$4.96	\$5.16
Equity per Class B Share	\$5.41	\$4.91	\$4.88	\$4.88	\$4.90	\$4.88	\$4.96	\$5.16

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

## Subsequent Events

In early January 2024, the convertible notes held in Horizon Aircraft at year end 2023 were converted into 93,566 common shares of New Horizon Aircraft following its reverse takeover of Pono Capital III on the NASDAQ.

## Capital Resources

CSOC has no commitments for any capital expenditures as of December 31, 2023.

## **Off-Balance Sheet Arrangements**

CSOC does not have any off-balance sheet arrangements.

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

There were no changes during the period ending December 31, 2023 to the Corporation's accounting policies. The Corporation's accounting policies for its financial instruments are disclosed in detail in Note 2 of the Annual Audited Financial Statements.

## **Financial Instruments and Other Instruments**

For the period ended December 31, 2023, CSOC continued to have the capability to hold derivatives and short positions in an investment portfolio in accordance with its investment mandate. At year-end CSOC held short positions in two US Treasury bonds and one Government of Canada bond. These three positions were held to hedge the interest rate risk on certain corporate bonds held in the portfolio. There were also three warrant securities held in two private companies that were value at nil at year end. The list of all associated risks are disclosed in detail in Notes 3 and Note 11 of the Annual Audited Financial Statements.

## **Transactions between Related Parties**

On August 1, 2018, CSOC entered into an operational services agreement with Canso Investment Counsel Ltd. ("Canso"). The operational services agreement sets out that Canso will provide the day-to-day operational services to carry out the business affairs of CSOC. Under the terms of the agreement, until August 1, 2022, no fees are payable for services provided by Canso to CSOC. On August 1, 2022, and August 1, 2023 this arrangement was extended for a further 12 months, respectively. There were no management fees charged for the year ended December 31, 2023 (December 31, 2022: \$0).

## **Disclosure of Outstanding Share Data**

As at December 31, 2023, there were 1,531,860 Class A Shares and 3,686,577 Class B Shares of the Corporation outstanding.

## **Litigation**

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

In August 2021, a proposed class action complaint was brought in the Superior Court of the State of California relating to the sale of BZ Holdings, Inc. ("**BZ**"), a Delaware corporation, to Centerfield Media Parent, Inc., which was accomplished by merger approved by BZ's board of directors in December 2020. The proposed representative plaintiffs are three former common shareholders of BZ, purporting to represent a class of other common shareholders. As a result of the merger

transaction, which was managed and approved by a special committee of the BZ board of directors, who were advised by sophisticated U.S. legal counsel and an investment banking advisor, the preferred shareholders recovered some, but not all of their investments, and the common shareholders did not receive any compensation. The defendants named in the complaint are BZ's board of directors, certain officers of BZ, BZ's financial adviser, and certain preferred shareholders who the plaintiffs allege promoted and approved the merger. CSOC, was a preferred shareholder of BZ and CDS & Co. is named in the complaint as the registered holder of CSOC's preferred shares. CDS & Co. has not been served with the complaint. Upon motions by the other defendants, on February 22, 2022, the court stayed the lawsuit on jurisdictional grounds. The Corporation denies the allegations in the complaint and, if necessary, will vigorously defend the action.

### **Other MD&A Requirements**

Additional information relating to the Corporation is available on SEDAR+ at <https://www.sedarplus.ca>.

**FORWARD-LOOKING STATEMENTS**

*This report may contain forward-looking statements and information within the meaning of applicable securities legislation. Forward-looking statements can be identified by the words “seeks”, “expects”, “believes”, “estimates”, “will”, “target” and similar expressions. The forward-looking statements reflect the current expectations of CSOC regarding future results or events and are based on information currently available to it. Certain material factors and reasonable assumptions were applied in providing these forward-looking statements. All forward looking statements in this press release are qualified by these cautionary statements. CSOC believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions; however, CSOC can give no assurances that the actual results or developments will be realized. These forward-looking statements are subject to several risks and uncertainties that could cause actual results or events to differ materially from current expectations. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. CSOC undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances except as required by securities laws. These forward-looking statements are made as of the date of this report.*

*Additional information about CSOC is available under its SEDAR+ profile at <https://www.sedarplus.ca>.*