PATHFINDER

Pathfinder Small Cap
Quarterly Report

JUNE 28, 2024

The Pathfinder Small Cap mandates investment in high-torque, early-stage companies that have the potential to generate superior returns.

Pathfinder Partners' Fund

The Partners' Fund had a net return of -0.4% in the second quarter of 2024. This compares to the TSX Venture Exchange return of +1.1%. Our annualized 10-year return is +12.8% compared to the TSX Venture Exchange's return of -5.7% over the same period. The table below provides a performance summary.

Performance: June 28, 2024

	3M	6M	1 Yr	3 Yr	5 Yr	10 Yr	Incpt. *
Pathfinder Partners' Fund[1]	-0.4%	10.3%	11.3%	-0.3%	12.9%	12.8%	7.6%
S&P/TSX Venture	1.1%	3.1%	-8.3%	-16.0%	-0.5%	-5.7%	-9.8%

	2023	2022	2021	2020	2019	2018	2017
Pathfinder Partners' Fund[1]	10.5%	-20.6%	19.6%	50.6%	26.3%	-17.0%	36.6%
S&P/TSX Venture	-3.0%	-39.3%	7.3%	51.6%	3.7%	-34.5%	11.6%

[1] Performance based on Class C Master series, please see disclosures below

*Inception Date: March 2011

Our top contributors for the quarter were **Imaflex (TSXv:IFX)** which added +1.8%**, and Vitalhub Corp. (TSX:VHI)** which added +1.0%. Our main detractors were **Spectra7 Microsystems (TSXv:SEV)** at -1.6%, **Namesilo Tech Corp. (TSXv:URL)** at -0.9% and **Eupraxia Pharmaceuticals (TSX:EPRX)** at -1.3%.

Small companies, especially in Canada, have been out of favour in the last few years as investors focused their capital and attention on large technology companies in the US. We are starting to see some signs of change and are optimistic that the market is beginning to rotate in favor of small caps, benefiting our portfolio.

The inflation and supply-chain challenges that have plagued business decisions over the past three years are now fading, allowing the fundamental economics of businesses to come to the forefront. We have built a diversified portfolio with a blend of profitable firms and exciting speculative opportunities across various sectors and are excited about the progress and potential of our holdings as market conditions heat up and the Bank of Canada considers further rate cuts.

We take a contrarian approach – when risk appetite is low, we shift focus to early-stage, speculative companies. Conversely, during bullish markets, we rebalance by trimming speculative outperformers to increase positions in defensive, profitable companies. As part of this approach, we are always looking for out of favor sectors, recognizing that markets are cyclical, and the tide will eventually change. Currently, junior mining stocks and biotech stocks are beginning to wake up from their slumber and come into favor. The clean-tech space is an underperformer as investors have grown exhausted by sluggish revenue growth, a lack of profitability, and unfulfilled promises in technological advancements.

Despite the challenges clean-tech companies face, we are witnessing successful implementations of transformative technologies such as high-temperature pyrolysis, direct lithium extraction from oil production processes, electrolysis in hydrogen generation, and biological remediation of both air and water pollution. The Canadian market currently offers few options for high-quality clean-tech companies. Consequently, those firms that achieve profitability are poised to stand out and deliver significant returns for their shareholders.

In our 3Q 2023 small-cap quarterly, we discussed the concepts of over-earning and under-earning, particularly in cyclical industries. We highlighted the opportunity in identifying oversold sectors could provide meaningful shareholder returns once cyclical margins normalized—**Neo Performance Materials (TSX:NEO)** is one such company. Neo's margins have faced pressure over the past year due to volatile rare earth metal prices, leading to a corresponding decline in its stock price. We determined that the "normalized" earning power of the company was higher than what the market was valuing, and that the stock would recover once others realized this as well.

NEO holds strategic significance in its sector, specializing in the recycling and processing of rare earth metals and the production of permanent magnets. China's recent restrictions on exporting rare earth metals and magnet production technology underscore Neo's strategic advantage as one of the few fully integrated supply-chain producers of permanent magnets outside of China. With China controlling significant portions of the global rare earth supply chain, any non-Chinese supply source becomes strategically valuable. In late 2023, Neo announced a strategic review which should unlock additional value. Previously, a strategic investor injected $135 million in 2022 at $15 per share, valuing the company at $614 million for a 22% stake. Despite this, the current market capitalization stands at $350 million, suggesting strong upside potential.

Diversification is important, and as the S&P500 continues to be concentrated in the tech sector, we think economic tailwinds make the small cap market a great place to be searching for strong uncorrelated returns. Q2 saw continued fund inflows into the small-cap sector, and companies that have persevered through recent challenges are now reaching profitability. We are hopeful that the market has reached a turning point and reward enterprising investors who turn over as many rocks as possible, looking for unique ideas.

Pathfinder Resource Fund

The Resource Fund had a net return of +4.5% in the second quarter of 2024. This compares to the benchmark which had a return of +5.0%. Since inception (July 16, 2018), the Resource Fund has returned +12.6% annualized versus the benchmark's return of +6.9%. The table below provides a performance summary.

Performance: June 28, 2024

	3M	6M	1 Yr	3 Yr	Incpt. *
Pathfinder Resource Fund[1]	4.5%	14.0%	6.6%	-1.2%	12.6%
Benchmark	5.0%	13.9%	13.8%	10.4%	6.9%

	2023	2022	2021	2020	2019
Pathfinder Resource Fund[1]	2.2%	-18.7%	23.6%	69.9%	15.6%
Benchmark	-2.1%	12.0%	19.8%	6.0%	19.0%

Benchmark: 75% S&P/TSX Capped Materials Index, 25%, S&P/TSX Capped Energy Index *Inception Date: July 16, 2018

[1] Performance based on Class C Master series, please see disclosures below

Our top contributors for the quarter were **Orogen Royalties Inc. (TSXv:OGN)** which added +2.6%, **Fox River Resources (CSE:FOX)** which added +1.6% and **Adventus Mining Corp. (TSXv:ADZN)** which added +1.0%. The main detractors were **Volt Lithium Corp. (TSXv:VLT)** at -1.4%, **Orezone Gold Corp. (TSX:ORE)** at -0.7%, and **Northisle Copper & Gold Inc. (TSXv:NCX)** at -0.7%.

The spot price of most commodities remained strong through the first half of the year with gold hitting an all-time high in May on the back of central bank buying led by China and India. On the copper front, prices have broken out to all-time highs in May linked to supply and demand fundamentals. As we have discussed before, copper is a high conviction trade based on tighter supply inventory and long lead times to build new mines. Supply concerns have led to copper concentrate treatment and refining charges (TC/RC) falling into negative territories as copper smelters have increased spot purchases. The TC/RC number typically falls during supply deficits and rises when supply is abundant.

Meanwhile, despite strong commodity prices, equities have lagged. Comparing this year to last, only $1.3 B has been raised (down ~20%) and the number of financings is down by ~10%. This indicates that investors are still risk averse and looking for advanced projects as compared to junior explorers that offer more torque but higher risk as well. For example, **Montage Gold Corp. (TSXv.MAU)** closed an upsized private placement of $35 M earlier in the year and recently upsized another private placement for $180 M. This general market trend is in-line with our views. Despite the lack of interest by most investors, this "stock pickers" market allows us to sharpen our pencils and take advantage of companies that have materially improved over the last 12-18 months but are still attractively priced.

One of our highest conviction names is **Altius Minerals Corporation (TSX.ALS)**. ALS is a mineral royalty company with assets in Canada, the United States, and Brazil. A key differentiator from most royalty companies is ALS's predominant focus on non-precious metals companies to create one of the first real diversified mining royalty companies. ALS also generates revenue through their project generation arm that leverages their technical expertise to stake prospective mineral claims which are then optioned to junior exploration companies for cash or shares and a royalty.

ALS offers high operational margins via royalties in world class assets operated by strong counterparties. These include several potash mines in Saskatchewan, the Chapada copper mine, Kami iron ore royalty, and most recently their royalty on the Expanded Silicon deposit. Management focuses on investing in high-quality, long-life assets (30-50 years) and seizing opportunities in bad markets to acquire royalties on capital-starved projects. ALS has done the hard work in building a world class portfolio and is now concentrated on returning value to shareholders through dividends and buybacks. The company is also awaiting an arbitration decision on the Expanded Silicon Gold project which could add significant value. When ALS acquired a 1.5% royalty on Silicon, a section of the royalty contract stated that "…any mineral lease or grant which may at the time be contiguous with or adjacent to any mineral licence or property…" will be subject to a royalty. Since the discovery of Silicon, Anglogold has established a mineral resource of 13.3 Moz of oxide gold on the core property. The discovery prompted Anglogold to consolidate the district and acquire all the contiguous deposits around the property at an estimated cost of C$570 M. According to the royalty agreement, we believe the 1.5% royalty to ALS will also apply to all the new ground acquired by Anglogold that is contiguous with the existing claims. As the arbitration hearing was conducted in April, we anxiously await results.

Orezone Gold Corp. (TSX.ORE), a West African gold producer in Burkina Faso, operates the Bomboré mine, which achieved commercial production in December 2022. The project was built on time and on budget, producing ~150 koz of Au in 2023 but since then has had a major sell-off in the share price despite the run up of spot gold prices. The downward pressure on the stock has been due to a change in the mining sequence, leading to lower-grade ore and poorer recoveries, as well as a delay in connecting to the power grid, increasing production costs. Based on discussions with management, these issues have been resolved and we can expect a strong H224. Correspondingly, ORE is fully financed to complete an expansion of operations that will result in almost a 50% increase in production by 2026 for an estimated 170 koz/year of gold. Compared to its peers, ORE is quite undervalued due to short term issues and as the team executes on production and expansion we can expect a fundamental re-rate.

We remain steadfast as active investors focusing on our core positions and adding value in what we believe is a stock pickers market. Despite strong commodity prices, only select companies have outperformed while overall the broad junior exploration market is still out of favour. This works in our advantage as it allows us to acquire oversold companies ahead of a positive set up for the pending commodities boom.

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Disclosure

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* All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund are presented based on the Class C Master series except prior to its inception in July 2011 when the Class A Master series was used. Inception returns include the 10 months from inception in March 2011. Returns greater than one year are annualized. Returns from the Pathfinder Resource Fund are presented based on the Class C Master series since its inception in July 16, 2018. The S&P/TSX Venture Composite Index (C$), the S&P/TSX Venture Composite Index, the S&P/TSX Capped Materials Index and the S&P/TSX Capped Energy Index provide general information and should not be interpreted as a benchmark for your own portfolio return. Further details of the Partners' Fund are available on request.

Changes in Leverage. We are increasing the liabilities ceiling to 2.0 times the market value of equity for Pathfinder International Fund and **Pathfinder Conviction Fund** to be consistent with Pathfinder Partners' Fund and Pathfinder Resource Fund.

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