PATHFINDER

Pathfinder Small Cap
Quarterly Report

SEPTEMBER 30, 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 +5.0% in the third quarter of 2024. This compares to the TSX Venture Exchange return of +2.3%. Our annualized 10-year return is +14.0% compared to the TSX Venture Exchange's return of -4.4% over the same period. The table below provides a performance summary.

Performance: September 30, 2024

	3M	6M	1 Yr	3 Yr	5 Yr	10 Yr	Incpt. *
Pathfinder Partners' Fund[1]	5.0%	4.7%	24.9%	0.0%	13.9%	14.0%	7.9%
S&P/TSX Venture	2.3%	5.1%	4.0%	-12.2%	0.8%	-4.4%	-9.5%

	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 +2.1%**, Altius Minerals Corp. (TSX:ALS)** and **NameSilo Tech Corp. (TSXv:URL)** added +2.0% and +1.1%, respectively. Our main detractors were **Char Technologies Ltd. (TSXv:YES)** at -0.6% and **Next Hydrogen Solutions (TSXv:NXH)** at -0.5%.

In Q3, we saw the continued easing of inflation, and the Federal Reserve implemented a 50-basis-point rate cut, reducing the benchmark rate from 5.5% to 5%. Following the aggressive rate hikes of 2022, it appears the market may soon see an end to high interest rates, hopefully signaling the close of a volatile macroeconomic period.

Against this shifting backdrop, small-cap stocks remain significantly discounted compared to their large-cap counterparts. However, this discount appears to be correcting itself, and there are a few positive factors that support this outlook. Investors who previously shifted into money market funds and government T-bills are likely to seek higher-yielding assets, such as small-cap equities, as interest rates decline. The drop in rates is expected to drive a significant amount of sidelined capital back into the equity markets.

Last quarter, we noted that biotech stocks had been out of favor, but signs were emerging that the market was beginning to recognize their value. This trend materialized in Q3, allowing us to realize gains on our holdings that outperformed, but we think there is still plenty of untapped value in the space for anyone willing to look through dozens of small, ignored companies. The clean tech sector delivered positive returns in Q3 2024, but it continues to lag all other sectors year-to-date. As the industry matures and government funding remains substantial, our enthusiasm for select companies strengthens. We seized the opportunity to invest in businesses with innovative technologies and strong management teams at steep discounts, believing they will deliver significant value in the coming years.

One of our top performers, **Imaflex (TSXv: IFX)**, delivered an exceptional quarter with revenues up 18% year-over-year and net income of $3.4 million, translating to a price-to-earnings ratio of 5.4x and an EBITDA margin of 20%. Notably, their gross margin surged to 26%, significantly higher than the 12-18% range seen throughout 2023. A key challenge for IFX had been their weak margins and elevated capital expenses due to their investment in three state-of-the-art plastic extruders capable of integrating more layers into their packaging films. The first extruder is now online and producing higher margin products, as reflected in their latest financials. With two more extruders set to come online over the next year, we anticipate ongoing margin expansion through 2025 accompanied by topline growth. Lastly, IFX has material optionality from Advaseal, a controlled-release pesticide mulch film they developed that is currently under review by the EPA. Although the timeline for EPA approval is uncertain, a favorable decision could move IFX stock considerably higher.

We are optimistic about the market's strong reactions to positive press releases—something that has been muted over the past two years. We think that the appetite for risk is gradually returning to the Canadian small-cap market, and while this momentum is trickling down from the large and mid-cap sectors, the positive developments upstream bode well for our high-torque portfolio.

Pathfinder Resource Fund

The Resource Fund had a net return of +13.6% in the third quarter of 2024. This compares to the benchmark which had a return of +6.8%. Since inception (July 16, 2018), the Resource Fund has returned +14.3% annualized versus the benchmark's return of +7.8%. The table below provides a performance summary.

Performance: September 30, 2024

	3M	6M	1 Yr	3 Yr	5 Yr	Incpt. *
Pathfinder Resource Fund[1]	13.6%	18.8%	28.1%	5.2%	20.0%	14.3%
Benchmark	6.8%	12.1%	19.9%	14.0%	12.8%	7.8%

	2024 YTD	2023	2022	2021	2020	2019
Pathfinder Resource Fund[1]	29.5%	18.8%	-18.7%	23.6%	69.9%	15.6%
Benchmark	21.7%	12.1%	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

Top contributors for the quarter include **Altius Minerals Corp. (TSX:ALS)** which added +3.1% and **Itafos Inc. (TSXv:IFOS)** which added +1.4%. The main detractors were **Strikepoint Gold Inc. (TSXv:SKP)** at -0.6% and **Pan Global Resources Inc. (TSXv:PGZ)** at -0.5%.

The third quarter marked a significant breakout for gold, with prices rising from the low $2300's to the $2600's per ounce. When gold miners release their third quarter results in November, we expect strong results with significant free cash flow, highlighting the low valuation multiples of gold equities. Throughout the first half of the year, we have been heavily tilted towards gold-related equities, which have comprised nearly half of the portfolio. As the market recognizes the value of these positions, our process is to rebalance by trimming our winners in order to invest in out-of-favor sectors.

We have frequently highlighted the cyclical nature of commodities and our process of trimming holdings after a period of outperformance (ideally via an acquisition) and re-deploying to other sectors. Currently, there are three commodities in a downturn that deserve attention in our opinion: nickel, palladium and lithium.

Nickel is in a deep downturn on the back of significant supply growth from Indonesia. Many new plants, primarily backed by Chinese funding, have come online and are mining the highest-grade portion of their resources. In the coming years, we anticipate increased demand alongisde mine shutdowns, which should eventually rebalance supply and demand and an drive nickel prices higher.

Palladium is also in a deep depression amidst weak auto demand. The main use for palladium is automotive catalytic converters, which reduce harmful emissions from vehicles. Palladium skyrocketed in the 5 years leading up to 2022 as environmental requirements in cars were tightened. This led to a supply increase right as demand peaked, as electric vehicles (which don't use palladium) became popular. Similarly to nickel, the price of palladium is deep into the cost curve and we anticipate mine shutdowns putting a floor on the palladium price. An additional wild-card in palladium is the concentration of supply, with a large portion of worldwide production coming from risky jursidictions such as Russia and South Africa.

The final commodity, lithium, is in oversupply as high prices over the last few years led to supply growth. Of the three, we believe lithium is nearest to its trough and closest to bottoming. As demand grows due to electric vehicles, the price of lithium will need to rise to incentivize new production. Supplementing our bullish view is the recent acquisition announcment that Rio Tinto is acquiring Arcadium Lithium for US$6.7 billion.

One of our favourite nickel names is **Magna Mining Inc. (TSXv.NICU)** operating in the Sudbury Region of Ontario, Canada. Until recently, the team was focused on advancing their projects towards development. However, they have now entered into an agreement with KGHM International Ltd. to acquire a producing mine (McCreedy) and three past producers in Sudbury. KGHM, with a C$11 billion market cap, is one of the world's largest base metal producers. In our view, this is a transformational agreement that propels NICU from a junior exploration company to a near term multi-asset producer overnight. We believe NICU is on the same trajectory as FNX Mining, which also started in Sudbury by acquiring stranded assets in the late 1990's, and by the early 2000's FNX was a top three producer in Sudbury, ultimately being acquired for C$1.8 billion. NICU management is intimately familiar with the newly acquired assets. CEO Jason Jessup ran the operations at two of the mines (McCreedy & Levack) and believes the geological potential has barely been uncovered. The company is funded to increase current production by ~50% at the McCreedy Mine and plans to use free cash flow to ramp up their Levack Mine (on care and maintenance) which could soon be the flagship asset. The nickel price has seen a lot of downward pressure over the last few years which has allowed Magna Mining not only to be able to acquire assets at a discount but also strike favourable milling and offtake deals with Sudbury's major mining companies ahead of production.

We discussed **Itafos Inc. (TSXv.IFOS)** in the past as being one of only a few North American phosphate producers and would like to revisit the company to highlight recent positive developments. Since we last discussed IFOS in Q2 2023, they paid down their entire debt, over C$160 million, all through free cash flow. In H1 2024, Itafos recorded US$60.2 million in free cash flow and monetized a non-core asset for US$21 million. Earlier this year, they announced increased reserves at their Conda project increasing mine life past 2037 from 2026, exposing Itafos to a prolonged commodity cycle and increasing the importance of domiciled production and supply. A strong balance sheet and sustained free cash flow generation underpins a compelling outlook going forward for Itafos.

As discussed, we have seen strengthening in certain commodity prices but as valuations increase, we believe it is prudent to be active and build new positions in out of favour sectors. This strategy allows us to build postions at lower valutions with higher potential upside. As our theses unfold, we will continue to leverage our relationships and technical capabilities to navigate volatility and manage risk. Thank you for your support.

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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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