PATHFINDER

Pathfinder Small Cap

Quarterly Report

December 29, 2023

The Pathfinder Small Cap mandates invest 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 +10.5% in 2023. This compares to the TSX Venture Exchange which had a return of -3%. Our annualized 10-year return is +14.6% compared to the TSX Venture Exchange's return of -5.1% over the same period. The table below provides the performance summary.

Performance: December 29, 2023

	3M	6M	1 Yr	3 Yr	5 Yr	10 Yr	Incpt. *
Pathfinder Partners' Fund[1]	7.8%	1.0%	10.5%	1.6%	14.8%	14.6%	7.1%
S&P/TSX Venture	-1.1%	-11.0%	-3.0%	-14.2%	-0.2%	-5.1%	-10.3%

	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 year were **Vitalhub (TSX:VHI)**, **Eupraxia Pharmaceuticals (TSX:EPRX)**, and **Terra Firma Capital (Acquired)**, while our main decliners were **Imaflex (TSXv:IFX)** and **Next Hydrogen Solutions (TSXv:NXH)**.

It was a difficult year for small companies as the TSX Venture delivered negative returns and the US small cap stocks significantly lagged large caps, adding to a valuation gap between small and large cap that is the largest in over 20 years, according to some accounts. We are pleased to have protected capital last year, and believe the portfolio is positioned attractively for 2024 with high quality holdings at deeply discounted valuations.

Throughout the year, we positioned ourselves in more defensive companies that are cash flow positive and diversified our portfolio into sectors with lower correlations to the broader market or economy such as the biotech space. These moves proved fruitful and allowed us to protect capital in a difficult market where funding has dried up for early-stage companies. Towards the end of the year, we saw a positive resurgence in the market with a notable breakout performance in small caps and the biotech sector. With these promising signs in the market, we are looking to go 'risk-on' in the portfolio and increase our position in early-stage companies that have been locked out of the capital markets and had their share prices punished. The discounted venture market provides opportunity to buy companies at attractive valuations and creates takeout targets that can supercharge returns.

Our thesis of a biotech M&A cycle has started to play out and the sector was further aided by expectations that central banks will begin to lower interest rates in 2024. Biotech valuations can swing wildly based on events such as trial readouts (i.e. Phase 1, 2, 3) or even rumors. We found success in several biotech events this year that have de-risked our positions and validated our investment thesis. Notable positive events came from **Eupraxia Pharmaceuticals (TSX:EPRX)** with a positive phase 2b osteoarthritis trial, **Delcath Systems (DCTH)** with an FDA approval for the HEPZATO KIT, and **Mereo BioPharma (MREO)** reporting outstanding results from its partnered drug in Osteogenesis Imperfecta.

One of our more attractive cash flow positive companies that can leverage the discounted valuations of smaller companies to make highly accretive acquisitions is **Vitalhub (TSX:VHI)**. Vitalhub is a patient-flow solutions provider to hospitals and clinics. They can handle anything from mobile appointments, check-in and registration, all the way to the availability of specific staff and equipment required to perform a procedure, post-op care, and check-out. Naturally, they offer data analytics and operational insights for the hospital, even a network of hospitals, so that hospital management teams can make better decisions that improve patient outcomes. Vitalhub has recently been "discovered" by investors and its share price increased by over 50% in 2023. They have ~$42M annual recurring revenue (ARR), no debt, $30M cash on hand and trade at a discounted valuation with the potential to grow 15-20% per year. Their technology is sticky (i.e. not easy for clients to shift to a competitor) as it integrates into the hospital's daily operations, and they have grown operations outside of the UK and Canada into Australia and the Middle East. M&A is key to their expansion and success, and we think Vitalhub will be an excellent stock for the foreseeable future.

Going forward, we think a contrarian position in quality companies whose shares have underperformed over the last few years will benefit greatly from the reversal in interest rates that the market expects. We don't know the extent of the rate cuts we'll see in 2024, but it is worth considering our portfolio positioning with them in mind. For example, biotechnology companies may see continued strength as access to capital becomes easier, patent cliffs force major pharma companies to conduct M&A and falling interest rates make "drug approval math" attractive, as $1 earned 7 years from now after an FDA approval becomes closer in value to $1 earned today. Additionally, renewable and clean energy stocks have been some of the worst performing over the last year, but finding the diamonds that survived the pressure cooker could yield some great returns. In general, easier access to capital should lead small-cap valuations to perform similarly to how their large-cap counterparties have, and that makes us optimistic for 2024.

Pathfinder Resource Fund

The Resource Fund had a net return of +2.2% for the 2023 calendar year, and -1.1% in the fourth quarter of 2023. This compares to the benchmark which had a net return of -2.1% for the year and -1.5% for the fourth quarter. Since inception (July 16, 2018), the Resource Fund has returned +11.2% annualized versus the benchmark's return of +5.1%. The table below provides the performance summary.

Performance: December 29, 2023

	3M	6M	1 Yr	3 Yr	Incpt. *
Pathfinder Resource Fund[1]	-1.1%	-6.3%	2.2%	0.9%	11.2%
Benchmark	-1.5%	-0.1%	-2.1%	9.5%	5.1%

	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

Our top contributors for the year were **Calibre Mining (TSX:CXB), Sprott Physical Uranium Trust (TSX:U.UN)** and **Northisle Copper & Gold (TSXv:NCX)**, while our main decliners were **Pan Global Resources (TSXv:PGZ)** and **Geodrill Ltd (TSX:GEO).**

As you may recall, our portfolio has been structured with a mix of larger core names and smaller junior exploration companies. The core names are bigger and higher quality than our exploration pipeline names and offer greater liquidity and downside protection. These companies are typically higher conviction ideas that are generating revenue through production or royalties and/or catalyst rich development names. Our exploration pipeline is comprised of names that are much lower market cap but offer greater torque and upside. In the last year, our core positions performed strongly, and the early-stage exploration companies struggled.

Having a defensive portfolio has been great to help protect downside risk, but as positive sentiment increases in the sector, we hope an opportunity presents itself to increase our exposure to companies offering greater upside. Our hope is that as commodity prices increase, the producers will move first, allowing us to rebalance our position sizes and move down into the developers and then eventually to the junior exploration companies. Our current analysis of market conditions is that new discoveries (which are rare) offer the most upside and advanced stage developers are attractive takeover targets as majors look to replenish reserves.

We have seen varied performance across multiple sectors. Precious metals have started to outperform, but the positive gold price hasn't yet translated to performance of miners. Our agricultural thesis is beginning to produce green shoots as we see incremental gains in phosphate fertilizer prices after a steady decline since mid 2022, as demand for agricultural and lithium-iron-phosphate batteries usage increases. In Uranium, a continued supply deficit and increasing demand translated to positive share performance in producers and the underlying uranium price. Meanwhile, the base metals sector has had multiple false starts due to recession fears, but we feel that many of the base metal companies have been oversold and the recent political turmoil (Cobre Panama) further exacerbates the looming supply constraint.

As mentioned earlier, our focus over the last year has been to protect the downside risk in the portfolio via going up stream to royalty companies and the underlying commodity. This has off set our losses in our junior portfolio. Diversification into names such as **Sprott Physical Uranium Trust (TSX:U.UN)** which is the world's largest physical uranium fund has allowed us exposure to the recent uranium upswing while eliminating the operational or deposit risk of a specific company. SPUT invests and holds in physical uranium predominantly in the form of U_3O_8 (also known as yellow cake) and offers investors an ability to purchase trust units that are exchange traded thus providing ample liquidity. Nuclear power has re-emerged as consistent stable source of power and the positive sentiment has been reflected in uranium prices.

Calibre Mining Corp. (TSX:CXB) started out as a single asset producer with a focus on Nicaragua but has steadily increased production at their flagship asset through organic growth while also mitigating risk through jurisdictional diversification. In 2021, Calibre acquired Fiore's Pan Gold mine and recently have completed the acquisition of Marathon Gold's Valentine Mine project. This deal will potentially double the company's production to almost 500 koz (2026) of gold catapulting them from a junior producer to a diversified mid-tier producer. CXB's management team has repeatedly shown the ability to transform underperforming assets into high margin producers and with over $97 M (as of Q323) in cash and an estimated current annual free cash flow of $150-170 M, CXB has the expertise and capital to get Valentine into production. We believe the market has yet to realize the value of the transaction and with a significant growth profile in the pipeline, CXB is well positioned for a meaningful re-rate.

Montage Gold Corp. (TSXv:MAU) is an advanced stage exploration company with assets in Côte d'Ivoire. The company recently tabled an updated feasibility study on their Koné Gold project that outlines an after-tax net present value of $1.1 billion with a 31 % IRR. This includes the Mankono acquisition from Barrick and Endeavour which improved the project, adding over 550k ounces at over twice the grade of the main deposit. The company is expected to receive environmental permits and reach a construction decision this year, if it hasn't already been taken out by a producer. We have started to see increased activity in gold developers with recent acquisitions of Osino Resources, Marathon Gold and OreCorp. We are also seeing majors deploy capital into exploration companies through strategic investments, which we view as an indicator that majors are feeling the pressure to replace reserves after decades of under investment in exploration.

While general market sentiment has not yet trickled down to the junior explorers, we maintain exposure to advanced exploration plays with strong management teams and quality projects through companies such as **Pan Global Resources (TSXv:PGZ)**, **Talon Metals Corp. (TSXv:TLO)**, and **Kenorland Minerals (TSXv:KLD).** Pan Global is a copper exploration company with projects in the prolific Iberian Pyrite Belt in Spain host to several world class deposits. Pan Global is backstopped by a significant near surface high grade copper discovery and is looking to test an additional ten targets with similar signatures to the original discovery. Talon Metals has recently signed a deal with the US Department of Energy for a grant of $114 M to help continue to advance their strategic Tamarack Nickel project to production. Kenorland is a project generator company that has recently completed a transformative deal with Sumitomo converting their project interest into a royalty. We believe this will create significant value over time and allows the advancement of their project without having to suffer ongoing dilution. Despite an overall "risk-off" sentiment in the commodities sector, green shoots of optimism are beginning to emerge as majors look to re-deploy capital into the junior sector. As mentioned, our portfolio is diversified across junior producers, developers, and early-stage exploration companies structured to capitalize on free cash flow growth and discovery potential as the sector is ripe for increasing investment.

Rob Ballard, CFA | Portfolio Manager
Mark Ouellette | Trader
Gary Sidhu, MBA | Analyst
Jared Fehr, P.Eng | Analyst

Pathfinder Asset Management Ltd. | Equally Invested™

1450 – 1066 W. Hastings Street, Vancouver, BC V6E 3X1

E info@paml.ca | T 604 682 7312 | www.paml.ca

Disclosure

National Instrument 31-103 requires registered firms to disclose information that a reasonable investor would expect to know, including any material conflicts with the firm or its representatives. Doug Johnson and/or Pathfinder Asset Management Limited are an insider of companies periodically mentioned in this report. Please visit www.paml.ca for disclosures.

* 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 Real Fund to be consistent with Pathfinder Partners' Fund and Pathfinder Resource Fund.

Pathfinder Asset Management Limited (PAML) and its affiliates may collectively beneficially own in excess of 10% of one or more classes of the issued and outstanding equity securities mentioned in this newsletter. This publication is intended only to convey information. It is not to be construed as an investment guide or as an offer or solicitation of an offer to buy or sell any of the securities mentioned in it. The author is an employee of PAML, but the data selection, analysis and views expressed herein are solely those of the author and not those of PAML. The author has taken all usual and reasonable precautions to determine that the information contained in this publication has been obtained from sources believed to be reliable and that the procedures used to summarize and analyze such information are based on approved practices and principles in the investment industry. However, the market forces underlying investment value are subject to sudden and dramatic changes and data availability varies from one moment to the next. Consequently, neither the author nor PAML can make any warranty as to the accuracy or completeness of information, analysis or views contained in this publication or their usefulness or suitability in any particular circumstance. You should not undertake any investment or portfolio assessment or other transaction on the basis of this publication, but should first consult your portfolio manager, who can assess all relevant particulars of any proposed investment or transaction. PAML and the author accept no liability of any kind whatsoever or any damages or losses incurred by you as a result of reliance upon or use of this publication.