PATHFINDER

Pathfinder Small Cap
Quarterly Report

December 31, 2024

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 +20.0% in 2024 and +3.6% in the fourth quarter of 2024. This compares to the TSX Venture Exchange which had a return of +8.1% for the year and +2.9% in the fourth quarter. Our annualized 10-year return is +14.8% compared to the TSX Venture Exchange's return of -1.5% over the same period. The table below provides the performance summary.

Performance: December 31, 2024

	3M	6M	1 Yr	3 Yr	5 Yr	10 Yr	Incpt. *
Pathfinder Partners' Fund[1]	3.6%	9.0%	20.0%	1.7%	13.7%	14.8%	8.0%
S&P/TSX Venture	2.9%	4.9%	8.1%	-14.0%	0.7%	-1.5%	-9.1%

	2024	2023	2022	2021	2020	2019	2018
Pathfinder Partners' Fund[1]	20.0%	10.5%	-20.6%	19.6%	50.6%	26.3%	-17.0%
S&P/TSX Venture	8.1%	-3.0%	-39.3%	7.3%	51.6%	3.7%	-34.5%

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

*Inception Date: March 2011

Our top contributors for the year were **Vitalhub Corp. (TSX:VHI), NameSilo Technologies Corp. (CSE:URL)** and **Imaflex (TSXv:IFX)**, while our main detractors were **Char Technologies Ltd. (TSXv:YES)** and **Spectra7 Microsystems Inc. (TSXv:SEV)**.

In the fourth quarter, we saw growing appetite for Canadian small-cap companies. While acquisitions in the small and mid-cap space have surged, IPO activity remains limited. Investor enthusiasm is unmistakably positive, with excess capital chasing a scarce number of high-quality, profitable opportunities. We expect this scarcity to create a favorable environment for the Partners' Fund's core holdings, which stand out as attractive options for other investors reallocating capital from recent takeouts.

Several companies we've followed for years and built strong relationships with reached key inflection points this year, raising substantial capital. Thanks to a more bullish market environment, they secured funding quickly - something unlikely in 2023. Time spent building relationships and investing early in the business cycle continues to generate value for our funds by positioning us as a preferred investor to secure allocations in such financings.

This year, we repositioned our portfolio, locking in gains from our successful biotech investments and redeploying profits into other sectors, including manufacturing. With declining interest rates, manufacturers are well-positioned to efficiently expand operations, automate facilities, and drive greater shareholder value. As the need for modernization grows, investments in more efficient methods of producing housing, consumer goods, product packaging and the expansion of critical infrastructure across North America will be essential. While we continue to see opportunity in biotech, we are taking a more selective approach given the opportunities emerging in other sectors.

One of our core holdings, **NameSilo Technologies Corp. (TSXv: URL)** delivered an impressive 140% return in 2024. NameSilo simplifies domain registration for businesses and individuals, helping them quickly establish an online presence. Since 2018, the company has more than doubled its domain registrations to over 5 million, driving significant revenue and profit growth. This long-term growth trajectory reflects strong management execution, but the standout performance in 2024 was driven by growth in ancillary services and pricing power—successfully passing price increases onto customers while maintaining high retention. With minimal capital expenses and an effectively limitless market for domain registrations, NameSilo is well-positioned for continued growth.

A new addition to our portfolio this year is **Kits Eyecare Ltd. (TSXv: KITS)**, a vertically integrated eyewear manufacturer based in Vancouver. Kits designs and produces its own frames and prescription lenses, selling directly to consumers online. By controlling its supply chain, the company can offer high-quality eyewear at lower prices while passing cost savings directly to customers.

Kits has demonstrated impressive growth, with revenue increasing at a 30% CAGR over the past five years. This success is driven not only by its positioning as a low-cost provider, but also by its speedy delivery. Operationally, management continues to unlock efficiencies. When we first met Kits, its manufacturing facility was operating at 30% capacity, with an estimated revenue ceiling of $200M per year. Just a year later, that same facility has expanded its capacity to support over $400M in annual revenue—with further upside still to be realized. With strong leadership, a scalable model, and a growing market presence, we believe Kits has significant long-term potential and we look forward to tracking its progress in the years ahead.

We believe our core portfolio is built on strong, resilient companies. While some holdings may face short-term headwinds from shifting trade policies between Canada and the US, our focus remains on the quality of management and the strength of their products. If they are as exceptional as we believe, we are confident that these companies will continue delivering value to shareholders.

Pathfinder Resource Fund

The Resource Fund had a net return of +26.9% for the 2024 calendar year and -2.0% in the fourth quarter of 2024. This compares to the benchmark which had a net return of +17.5% for the year and -3.5% for the fourth quarter. Since inception (July 16, 2018), the Resource Fund has returned +13.4% annualized versus the benchmark's return of +6.9%. The table below provides the performance summary.

Performance: December 31, 2024

	3M	6M	1 Yr	3 Yr	5 Yr	Incpt. *
Pathfinder Resource Fund[1]	-2.0%	11.5%	26.9%	1.8%	17.2%	13.4%
Benchmark	-3.5%	3.1%	17.5%	8.8%	10.3%	6.9%

	2024	2023	2022	2021	2020	2019
Pathfinder Resource Fund[1]	26.9%	2.2%	-18.7%	23.6%	69.9%	15.6%
Benchmark	17.5%	-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 year were **Orogen Royalties Inc. (TSXv:OGN)**, **Montage Gold Corp. (TSX:MAU)**, and **Altius Minerals Inc. (TSX:ALS)**, while our main decliner was **Pan Global Resources Inc. (TSXv:PGZ).** Many junior exploration companies struggled, failing to make discoveries of significance. Our larger investments generally performed well while the juniors lagged across the board. Sector-wise, precious metals led the way with strong gains, base metals and bulks were flat, and battery metals performed poorly.

Historically, our portfolio was weighted toward higher-torque, riskier companies focused on precious metals, complemented by advanced-stage companies for liquidity and downside protection. This strategy paid off in 2020 and 2021 where a rising tide lifted all boats amidst the euphoria in precious and base metals. However, in recent years, access to capital has been constrained for speculative pre-revenue companies and juniors have struggled to get funding. Traditionally, as a cycle advances, capital rotates from producers to developers and then finally to explorers. Despite a strong gold price, we haven't seen the valuation increase in producers that allows this capital to move down-cap. This is because operating costs have increased in lockstep with gold prices, meaning that producers have seen little to no operating leverage.

Commodities are cyclical in nature and our strategy is to take profits in precious metals and reallocate to out of favour sectors. Gold has outperformed over the past two years while a variety of other metals have lagged. Given this cyclicality, we believe there are overlooked opportunities in these commodities as most investors are focused on what's 'en vogue'.

We are currently exploring investment opportunities in platinum and palladium, anticipating a near-term opportunity based on a looming structural supply deficit. Major producers – including Sibanye Stillwater, Anglo American, and Implats have all indicated that they are operating at or below the cost curve, potentially leading to production cuts this year. Thus, on the overall supply side, we see margins being squeezed with most miners operating uneconomically on an all-in sustaining cost basis. We believe production cuts will lead to supply constraints, structural deficits, and potentially higher prices. Therefore, we see limited downside going forward as the deficits continue to mount and demand remains stable or increases for platinum and palladium.

Another emerging theme is the shift towards green steel production. Demand for green steel is set to increase as countries such as Germany, the U.K., and the U.S. are moving towards steel made via the electric arc furnace (EAF) method, which can reduce emissions by 2-7x compared to conventional blast furnaces. EAF's require higher iron ore purity above the common 62% Fe found in most jurisdictions around the world. EAF steelmaking is set to increase from 5% to 25% in market share by 2050. Thus, despite iron ore being available in many parts of the world, high-quality iron ore is a very niche market and there are limited jurisdictions that can provide low impurity, low cost, environmentally friendly iron ore compared to other jurisdictions.

We are optimistic on the nickel, lithium, and fertilizer sectors where we have accumulated positions in some of the best companies in these sectors, in our opinion. Last quarter, we discussed **Magna Mining Inc. (TSXv:NICU)** referencing their acquisition of producing assets from KGHM transforming the company from a junior explorer to a near term multi-asset producer. NICU's goal by the end of 2025 is to ramp up production at the newly acquired McCreedy West mine and begin generating cash flow which can then be deployed to re-start the Levack Mine. These assets have long been thought of as nickel assets, but the copper endowment is just as prolific, generating cash flows in a trough environment for nickel pricing. Once in production, NICU will be producing cash flow from copper while retaining significant leverage and optionality in nickel.

Similarly, phosphate fertilizer demand is rising due to soil degradation and the growing use of lithium-iron-phosphate (LFP) batteries. While electric vehicle adoption has been slower than anticipated, China's LFP battery demand continues to grow and low phosphate prices have curtailed production, further exasperating the pending supply issues.

We remain optimistic about the commodity sector's long-term fundamentals, despite the malaise in mining compared to the broader market. We recognize that there are inefficiencies in the market and seek to find these overlooked opportunities. Thank you for your continued support and investment.

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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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