

Dear Shareholders,

The year 2022 could probably be described by all gold mining investors as an “Annus Horribilus”. Over the course of the year the US dollar price of bullion waxed and waned, initially rising to US\$2,070 then sliding to US\$1614, but ended the year almost where it started, at \$1830. Higher US Dollar interest rates were widely blamed for the sell-off in September and October down to US\$1614 but, in reality, I believe it was more correctly attributed to a shortage of dollars amongst European banks. The American banks, which had plenty of dollars to lend, would not lend against European Government bonds, thus forcing the European banks to borrow gold and sell against dollars to be able to access the currency that their clients required to pay dollar debt interest. Credit Suisse was a clear example, where the Swiss National Bank had to arrange a US\$60 billion swap with the US Federal Reserve to provide Credit Suisse with the dollar liquidity it required. This selling of gold was a great opportunity for the Central banks that were queuing up to buy gold bullion. Having seen the confiscation of Russia’s foreign exchange reserves they suddenly became more interested in the return of their money than the return on their money. This culminated in China disclosing that it had added 30 tons in November and a further 30 tons in December.

Gold stocks magnified these moves with the HUI Index rising 30% by early April to 332.0, then plunging to 175 by September before recovering to close the year at 230 down only 12% from the start of the year. The Phoenix Fund, I am sorry to report, underperformed rather badly, falling by 42% over the year. The reason for this is that we had allowed the fund to become too skewed towards the smaller company end of the market where it is difficult to sell when sentiment turns adverse. Even those smaller companies which operationally performed well fell sharply during the sell off during the middle of the year but were further hit by year end tax-loss selling in the final quarter and so did not share in the bounce that the senior mining companies enjoyed. The further problem that the exploration stocks face is that they regularly have to raise new capital in order to expand their known resources by further drilling until such time as they are acquired by a larger group or are able to build the mine. When sentiment towards gold mining stocks is very negative, as it was in 2022, as soon as the market spots that an exploration company has depleted its treasury to the point that it will want to raise further capital, aggressive selling can drive the price down substantially thereby forcing the company to sell new shares at a very depressed price. A classic example of this is Cabral Gold, a Canadian listed company with a substantial deposit in Brazil. Phoenix has been a large shareholder since 2019 and, although we did sell some when the stock soared eight-fold, we continue to expect the deposit to grow and continue to hold it. However, the company had to undertake a small capital raise at 20 cents in October and was somewhat horrified another large shareholder chose that moment to crush the share price down from 21 cents to 11 cents in a matter of days! Miraculously the company still managed to issue shares at 20 cents

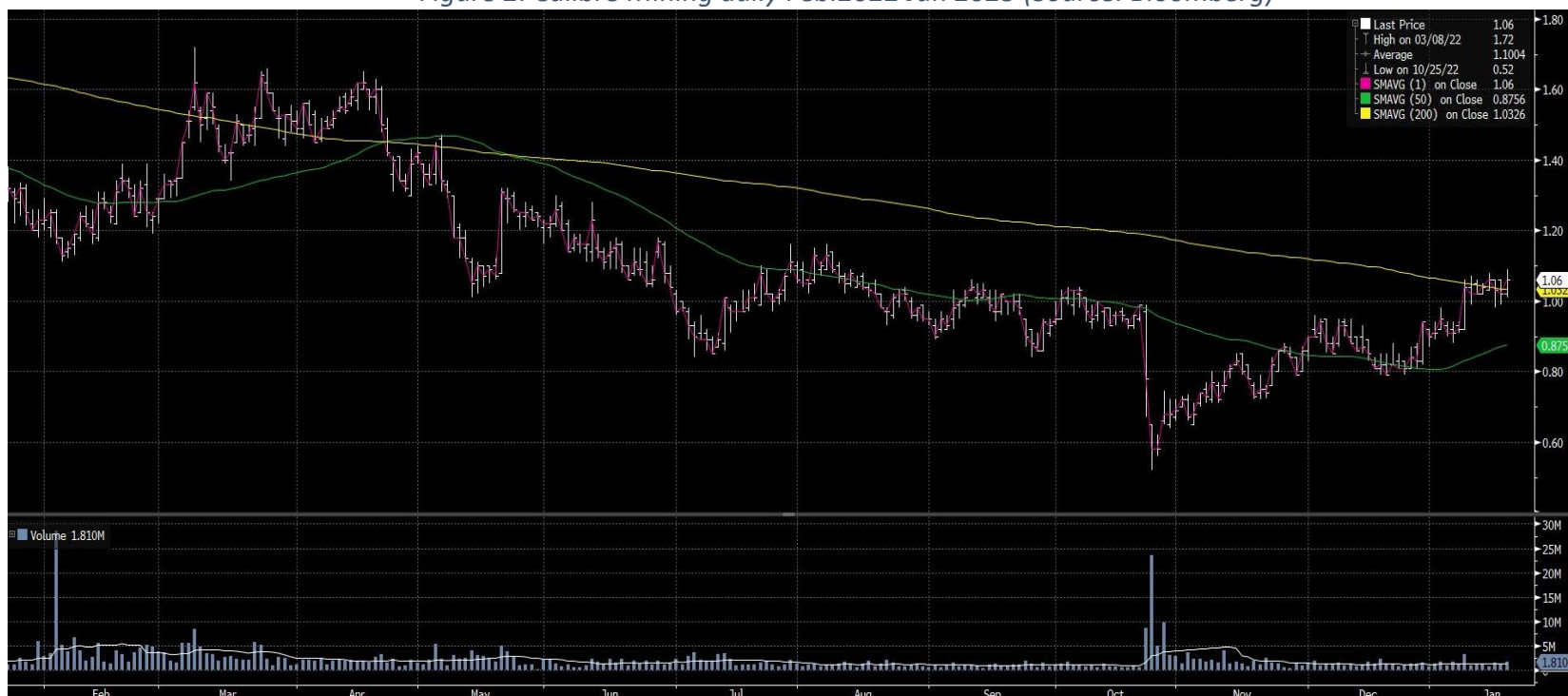
Figure 1: Cabral Gold 2018 to 2023, weekly (Source: Bloomberg)



Politics also weighed on our portfolio as several South American countries marched to the left and decided that mining was bad despite geology having blessed them with rich resources. Chile, Peru and Colombia are all heavily endowed with copper, gold and other minerals but recent changes of Government in these countries has held up licenses and made the mining companies very nervous. Nicaragua, with some excellent gold mines, is a “bête noire” of Uncle Sam so it and its gold suddenly found itself sanctioned! As usual, the sanctions do not seem to very effective and gold is still leaving the country but it clearly affects sentiment. We hold one victim Calibre Mining that has a strong balance sheet with over \$65 million in cash and produced last year over 250,000 ounces at a cash cost of about US\$1,000 an ounce. That did not spare its share price from being torpedoed by Biden’s announcement of sanctions. Fortunately the quality of the company’s assets has enabled the share price to fully recover and it is now back above the pre-sanction level but note (below) the volume traded on the sanctions announcement and the 50% fall in price. Mining for gold is certainly not for the faint hearted.

As Larry Hill, who is now co-managing the fund, has also prepared a report, I will hand the floor to him.

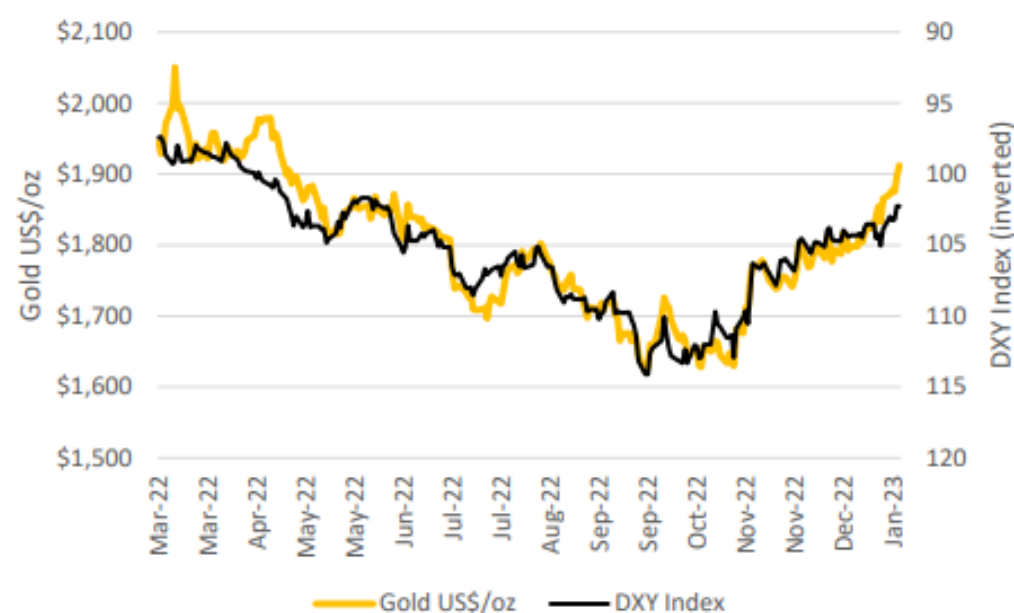
Figure 2: Calibre Mining daily Feb.2022 Jan 2023 (Source: Bloomberg)



May 2023 be safe and prosperous to you all as we gladly see off 2022 in the rear-view mirror and reflect on the wild gyrations of the market in response to a less accommodative US Fed than had characterized much of the year. While the net impact of seven straight rate rises to their highest level in 15 years was effectively flat, with the gold price closing the year at US\$1,800/oz, volatility experienced was anything but that. Upon hitting a new high at US\$2,050/oz in March with the onset of the Ukraine conflict, the gold price soon retreated to US\$1,614/oz as US inflation showed little sign of abating which ramped interest rates off their previous zero rate level.

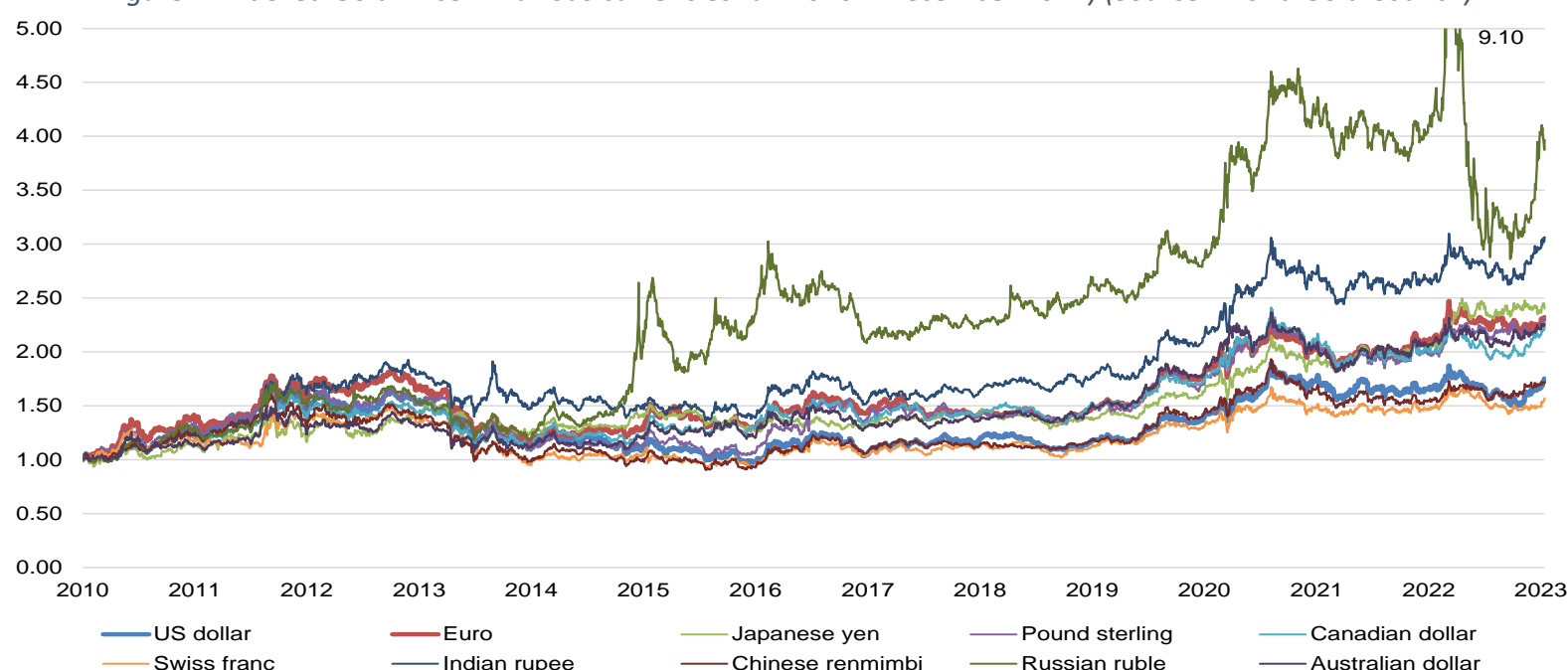
Against this backdrop one would suspect that the gold equities would catch a bid or at least return to favour after record ETF outflow over the first half of 2022 (110 tonnes in total over 2022). Alas, the gold price for much of the year was under pressure as the US Dollar index (DXY) surged to near manic highs of 115 (coinciding with a 28-month low in the gold price). The successive rate rises that caught out several European banks in meeting interest payments often through liquidating gold holdings as mentioned earlier. In the case of Credit Suisse, it had to access US\$60B in swaps via the Swiss National and US Federal Bank while the UK government stepped in and purchased £19.3B in government bonds as the pound hit a 37 year low. The inverse correlation between gold and the U.S. dollar (Figure 3 below) held over 2022 and was the key headwind on the gold price.

Figure 3: Gold Price vs US Dollar index (DXY inverted). (Source: Bloomberg)



While past gold bull markets of the 1970's and early 2000's were driven by inflation and emerging from the rubble of the dotcom/subprime crises, each of these occurred during a bear market for the US dollar. This distinguishes the gold market over much of 2022 and muted the impact from the current geopolitical tail risks (supply chain disruptions, Ukraine conflict) that still exist. The relative strength of the US Dollar since the onset of the Pandemic can be seen in Figure 4 where the gold price across major currencies has appreciated +20% and up to 40% in the case of the Japanese Yen.

Figure 4: Indexed Gold Price in various currencies Jan 2010 – December 2022) (Source: World Gold Council)



Upon the fourth consecutive 75 base point rate rise by the Fed gold hit a low of US\$1614/oz in late September and sentiment even amongst the most strident gold contrarians collapsed with chartists pointing to gapping down below US\$1,500/oz. Ironically during this period, physical purchasing of bullion was strong across all key markets led by central banks in Uzbekistan, Qatar, and India.

Perhaps the most meaningful data point came during gold's run up in December 2022 from the People's Bank of China (PBOC). It reported an increase of 30 ton, the largest reported purchase in November and, together with a further 30 ton in December, the first announced increase in its gold reserves since September 2019. Previously, the PBOC purchased consistently for numerous months after long periods of inactivity. If this behaviour holds, we expect China to continue to be a more active participant in the physical gold market over 2023.

In addition, we note President Xi Jinping's visit to Saudi Arabia last year where China agreed to purchase more oil from the Middle East and boost coordination on energy policy and exploration. As part of this China wants to settle trade in yuan rather than the petrodollar resulting in gold potentially returning as a settlement medium for currency conversion. Building sufficient gold for this facility could explain the recent increase in Chinese purchases as well as mitigation of any potential sanction risks that the US has tended to impose on those that stray from the accepted norm that the dollar is king. In fact, this practise is already in place on the Shanghai Futures exchange where oil suppliers sell oil and buy gold with any Yuan surplus.

Figure 5: 2022 Central Bank Gold Purchases (Source: World Gold Council)

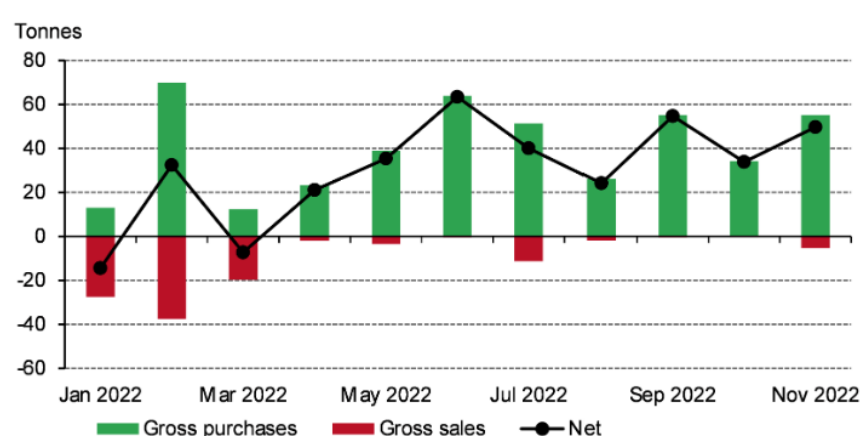
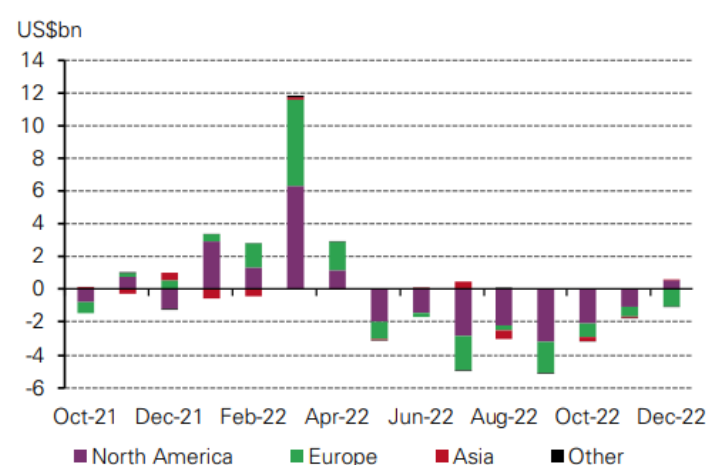


Figure 6 2022 ETF Gold Purchases (Source: World Gold Council)



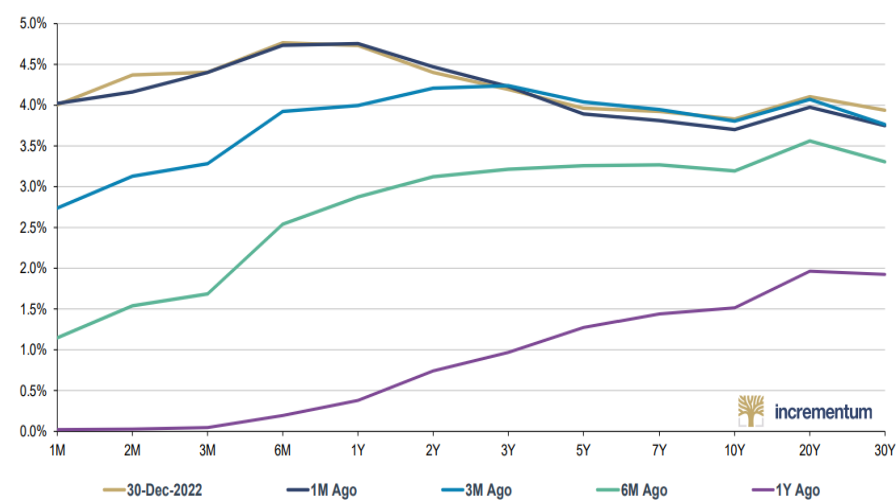
The US inflation index (CPI) has trended down from its peak of 9.1% in June to 6.5% in December, but history tells us that the inflation genie cannot typically be so easily stuffed back into the bottle as depicted in Figure 7 below. Post the oil shock 1974, CPI initially peaked at 12.3%, then fell to 4.9% in 1976 before re-emerging with vengeance to 14.7% in 1980. As depicted in Figure 7 during this time the gold price rose over ten times to over US\$500/oz as the printing presses ramped up to ward off the onset of inevitable stagflation.

Figure 7: Gold price performance in past inflationary periods. (Source: Financial Times)

Date (start hike cycle)	Date (end hike cycle)	Effective Federal funds rate (start)	Effective Federal funds rate (end)	USD gold price (start)	USD gold price (end)	Gold price return (%)
31/1/72	31/7/74	3.5	12.9	47.60	157.30	230.5%
31/1/77	31/1/81	4.6	19.1	131.30	506.50	285.8%
31/10/86	31/5/89	5.9	9.8	404.66	363.17	-10.3%
31/12/93	30/6/95	3.0	6.0	390.50	384.15	-1.6%
31/5/04	30/9/06	1.0	5.3	393.80	597.80	51.8%
31/12/15	31/7/19	0.2	2.4	1060.91	1413.55	33.2%

Across most economies, labour markets remain tight and we expect that the decline in capital investment across energy and commodity markets will keep upwards price pressure. These systemic risks will remain clear and present as the Fed starts its rate pause/pivot toward the onset of recession. An inversion of the 2 years/3-month US treasury yield curve has commenced (Figure 8 below) which usually precedes a US FED rate pause and with it a further weakening of the US dollar. An improvement in gold’s investment outlook over December is not just apparent in increased central bank purchasing of bullion but also bullion ETF flows. After experiencing sustained outflow from April to November (Figure 6) this has now abated with increased inflow likely dependant on generalist investors awaiting a catalyst such as a US Fed rate pause.

Figure 8: US Fed treasury rate expectations (Source: Incrementum)



PGF Portfolio Update: Over the final quarter of 2022 the PGF returned 5.85%, in line with the broader market (S&P 500 +7%) yet lower than the GDX (+21%) and the HUI (18%) that are weighted to larger producers that usually are the first to attract renewed investor interest.

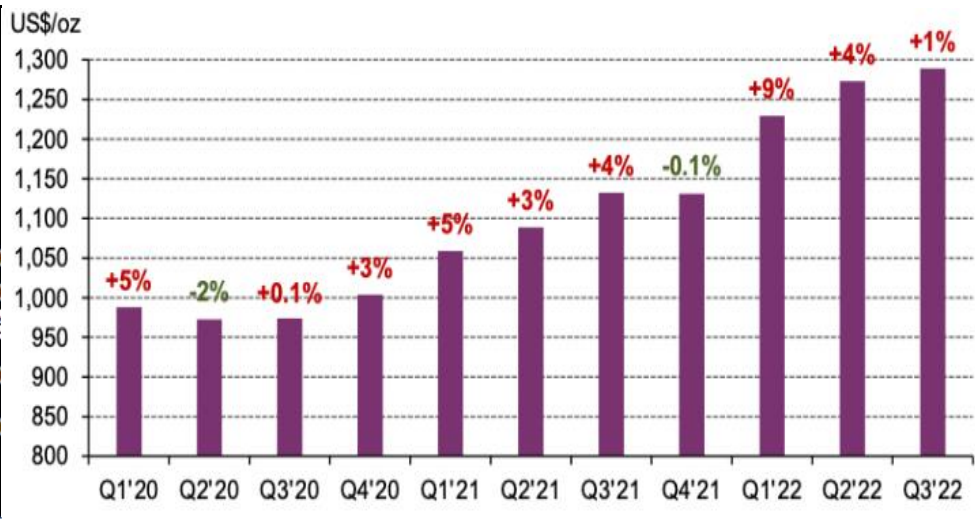
While we had previously commented on the divergence in market value of the junior miners (GDXJ) vs the rising gold price as despite the operational leverage on offer, many investors have shied away for a multitude of reasons; be that perceived alternatives (bitcoin, crypto) or the commodity ‘du jour” (lithium) or more soberingly, scar tissue from previous gold bull markets (expensive M+A, lowering cut off grades) and an inherent lack of trust in the ability to deliver on operation expectations. More specifically the challenge over much of the last two years of investing is not just forming a view on the gold price direction but also the cost base as labour and equipment shortages and inflation unsettled even the most diligent of management teams. Guidance downgrades (at best) or complete withdrawals (at worst) from major producers put another dint in the convictions of even the most battle-hardened investors with the subsequent cooling off in equity capital markets activity.

Since the onset of the pandemic, valuation multiples of the gold stocks have continued to compress (i.e., EV/EBITDA <5x) highlighting reduced earnings margins. Cost inflation has been more apparent in the mining sector (explosives, diesel, and reagent prices) has seen the average All in Sustaining cost (AISC) of top 20 producers rise from US\$1,000/oz to US\$1,300/oz over the past three years against a relatively flat gold price.

Figure 9: GDX EV/EBITDA (Source: Bloomberg)

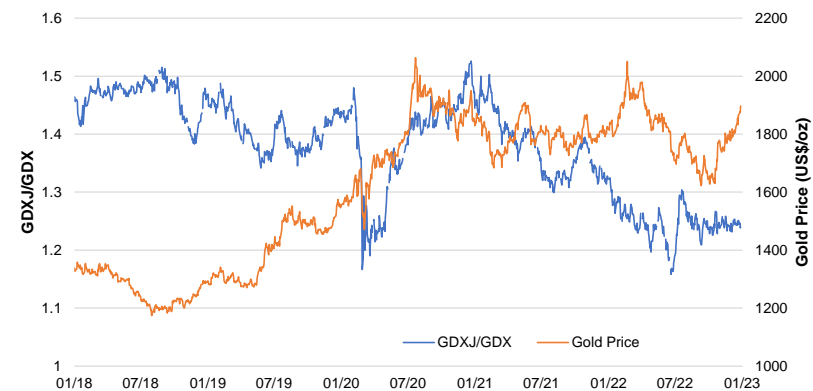


Figure 10: AISC of major gold miners (Source: World Gold Council)



In this environment many junior resorted to “battening down the hatches” and slowing down drilling activity however reviewing many quarterly accounts this practice doesn’t always slow the cash burn as expected! The downward spiral of tepid news flow, drying up liquidity and delayed project progress adversely impacted the performance of the PGF. However, several of our conviction positions have re-rated heavily with improved liquidity enabling some profit taking. As indicated in Figure 11 the junior miners index (GDXJ) is trading near five-year lows vs the senior miners (GDX) however any run up in the gold price, such as a move above 2020 levels should see this rapidly normalised.

Figure 11: Gold Price (RHS, Orange) vs Price ratio of Junior (GDXJ) vs Senior (GDX) gold miners Source: Bloomberg



Late in the quarter, several developers that we view favourably secured construction finance through using strategic investors, a testament to the project quality in a challenging equity market. These projects include Ascot Resources (AOT-TSX) Premier Mine in British Colombia that had a pause halfway through its project build as the senior lender got twitchy regarding life-of-mine reserve classification (an unrealistic expectation for an underground operation) and subsequently the stock capitulated. Enter Peruvian listed company Poderosa, operators of a highly profitable 300kozpa mine in Peru who provided C\$45m in equity at a premium and along with a reduced gold stream (reduced from 10% to 8.75%) fully funds completion of the build and first production in 18 months. Since the deal the stock price has risen 70%.

A similar outcome is one we would hope for with Erdene Resource Development (ERD-TSX) which has provided a 50% equity interest to Mongolia conglomerate MMC (HKEx:975) in its suite of advanced stage development projects in Mongolia in exchange for US\$40m plus retaining a 5% net smelter royalty that will fully fund the construction of the ~100kozpa high grade Bayan Khundii Gold Project. This approach has been successfully deployed and value accretive in such projects as Gold Road's (GOR-ASX) Gruyere project with Goldfields (NYSE-GFI) and we expect will mitigate the execution of the project build through leveraging MMC's in-country logistics and construction capabilities.

Figure 12: Ascot Resources (AOT:TSX) 12 Month price performance (Source: Bloomberg)

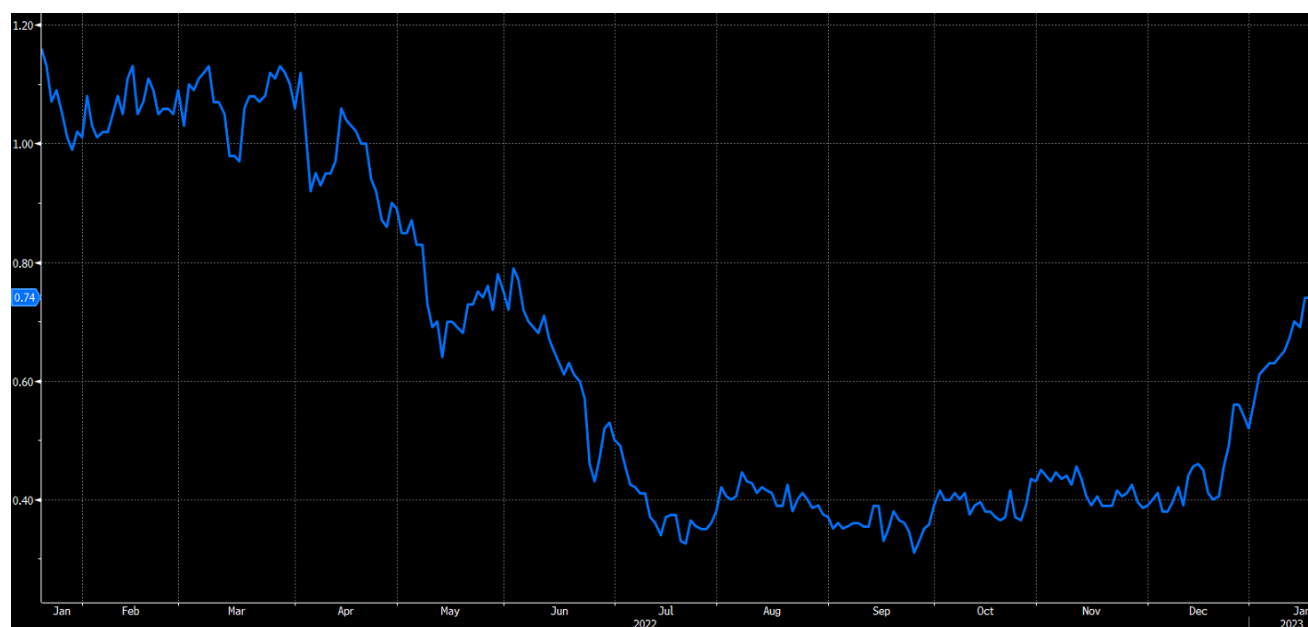
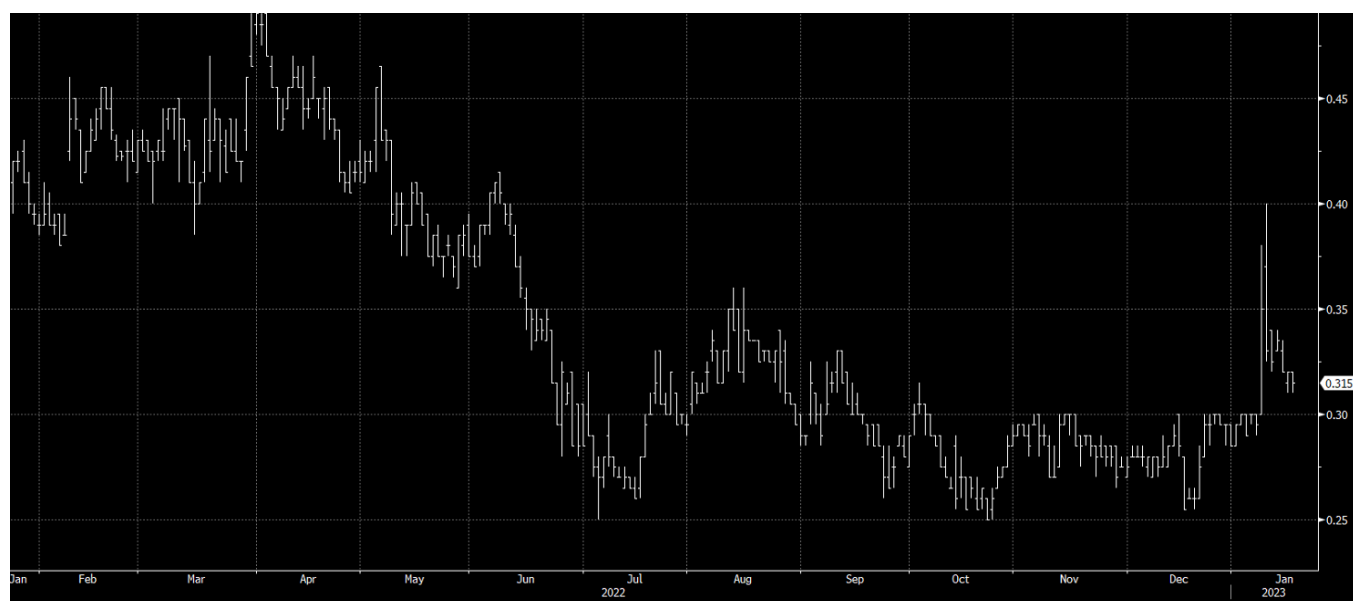


Figure 13: Erdene Development Corporation (ERD: TSX): 12 Month price performance (Source: Bloomberg)



With the improvement in the gold tape, we have used the opportunity of improved trading volumes to take profit on some better performing exploration stocks and believe that interest will return to the advanced developers/construction stocks that were the main laggards over 2022 as fears of cost and timing blowouts was the dominant theme in investors' minds. We expect these developers of single assets will be the most likely to be acquired over the next round of M+A as the enormous sunk investment in capital and knowledge to get decent projects to the cusp of production is something corporates will value more highly than the market gives them credit for.

We expect the opportunities to improve the quality of the portfolio will continue to present themselves should a US Fed pause eventuate through improved trading liquidity enabling us to prune out poor performing explorers in preference for developers that are still at attractive valuations (<0.5x P/NAV). When the start of the next bull run in gold eventuates, we aim to be positioned in the right stocks for this.

Yours Sincerely,

David Crichton Watt

Larry Hill