



To: MJG Capital Limited Partners
From: Matt Geiger
Date: July 21, 2022
Subject: 2022 First Half Review

Below is set forth MJG Capital Fund, LP's performance through June 30, 2022.

6 Month Performance

MJG Capital Fund, LP (net of all fees and expenses)	(20.73) %
S&P 500 (with dividends included)	(19.96) %
S&P/TSX Venture Composite Index	(34.28) %

1 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	(19.70) %
S&P 500 (with dividends included)	(10.62) %
S&P/TSX Venture Composite Index	(35.75) %

3 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	118.77 %
S&P 500 (with dividends included)	35.29 %
S&P/TSX Venture Composite Index	5.43 %

5 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	171.02 %
S&P 500 (with dividends included)	70.86 %
S&P/TSX Venture Composite Index	(19.51) %

10 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	18.72 %
S&P 500 (with dividends included)	238.16 %
S&P/TSX Venture Composite Index	(48.16) %

Performance Since Inception (9/1/11)

MJG Capital Fund, LP (net of all fees and expenses)	(1.75) %
S&P 500 (with dividends included)	284.89 %
S&P/TSX Venture Composite Index	(65.91) %

Note: All returns for MJG Capital partners are estimated and subject to the completion of an audit at a future date. The returns for each limited partner may vary depending upon the timing of their individual contributions and withdrawals.

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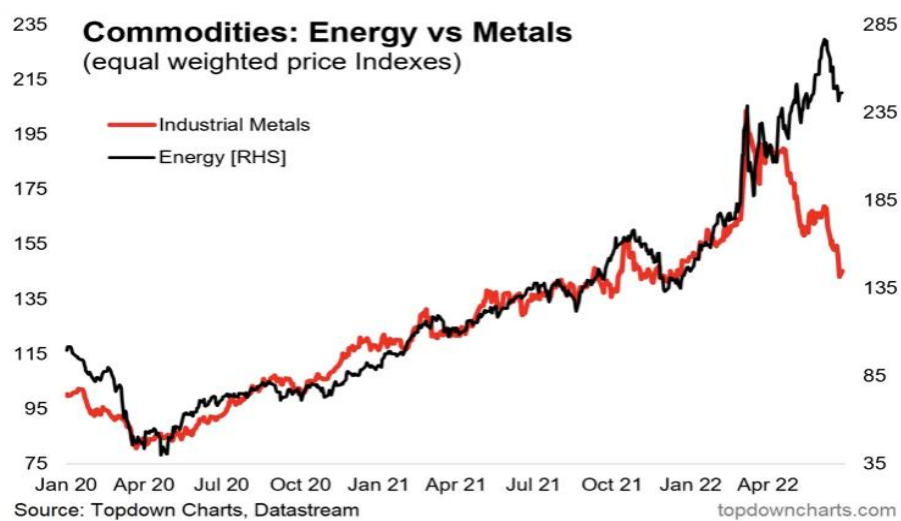
Introduction

The MJG partnership was formed roughly eleven years ago, with returns detailed on the previous page. The S&P 500 represents the alternative investment of choice, while the TSX Venture is the closest proxy to the universe of resource equities that fits the MJG investment mandate.

The partnership was not immune to the broader market turmoil – with a 20.73% decline net of fees and expenses through June 30, 2022. This becomes the first reporting period where the partnership has seen its investments lose value since the second half of 2018.

We now find ourselves in the “wicked risk-off event” contemplated in the January 2022 partnership letter, a consequence of historically high valuations across most major asset classes coupled with the euphoric investor sentiment that persisted from mid 2020 through early this year. Assets deemed to be “risk-on” or speculative are now being liquidated in unison, irrespective of industry or individual merit. The MJG partnership’s investments have not been spared in the melee, with the speed and extent of this drawdown rivaling that of the COVID financial panic in spring 2020.

Adding insult to injury, the MJG partnership has eschewed oil and natural gas investments since its inception while homing in almost exclusively on hard-rock mining. This has worked to our benefit in past years (most recently in 2020) and may also pay dividends over the course of this decade as global decarbonization efforts push metal-intensive alternatives to hydrocarbon-based power generation. But the truth is that energy and metals are highly correlated historically over any reasonable timeframe and will likely continue to be so.



With this said, there are occasional periods where their fortunes diverge sharply and – as evidenced by the above chart – these past few months have been one of those periods. As such, despite beating its TSX Venture benchmark handily, the MJG partnership will have underperformed most any commodity-

focused investment alternative with exposure to energy over this period. While frustrating, this bifurcation should be viewed as a short-term phenomenon that has possibly already run its course. The partnership will continue to stick to its knitting and has no plans to enter the hydrocarbon arena.

Over this period, the MJG partnership performed in line with the broader market as represented by the S&P 500. This is not always the case in periods of raw panic given the speculative nature of MJG investments, with a median market capitalization of approximately US\$30m at present. This lower-than-expected beta can be attributed partially to the partnership's cash buffer and partially to exposure to out of favor corners of the market, such as prospect generators, where little to no speculative premium was built into share prices to begin with.

The long-term outlook for natural resource investments remains favorable. As seen in the below chart courtesy of GMO, natural resource equities remain exceptionally cheap by historical standards when compared to the broader US stock market. (GMO utilizes a blend of normalized historical earnings, price to book values, and dividend yields to draw this conclusion.) This same phenomenon is borne out across a host of additional datasets, including relative comparisons of physical commodity prices to the US equities as well as the historically low weightings of resource equities within broader market indices.

Valuation of Energy/Metals Companies Relative to the S&P 500



As of 3/31/2022 | Sources: S&P, MSCI, Moody's, GMO

These various datapoints do not preclude there being further pain – and perhaps acute pain—ahead. They do, however, collectively suggest that those invested in natural resource equities and willing to think in five-plus year time horizons will be rewarded handsomely. This knowledge – particularly when combined with an outsized cash position – goes a long way in settling the nerves.

Regarding cash positioning, there is one tactical adjustment that bears mention. The partnership has seen its cash weighting increase from 1% in January 2020 to 15% as it stands today, with the past three

partnership letters emphasizing that building a cash buffer was a top priority in preparation for times like these.

Now that we find ourselves in the belly of the beast, the MJG partnership has in recent weeks loosened its purse strings and begun to tentatively deploy some of this dry powder via open market purchases of existing positions. This marks a shift from cash accumulation to incremental deployment.

There is one caveat, however. Each of the four most vicious stock market crashes of the past century saw strong bear market rallies in their first twelve months. Should a similarly sharp move materialize in the second half of 2022, an abrupt shift back to cash accumulation could very well be warranted. Ultimately, this decision-making process will remain fluid. But if there's an assumption being made, it's that this current downturn is unlikely to resemble the plain vanilla, V-shaped recovery seen in the COVID crash and instead be a more drawn-out affair.

This letter's *Market Musings* examines the characteristics of the four most severe bear markets experienced over the past century and how this has informed the MJG partnership's cash positioning plans outlined above.

In the *Overview of Partnership Holdings*, the fund's portfolio construction is reviewed by commodity, jurisdiction, and business model. As of June 30th, the partnership held twenty-one publicly traded positions and two private investments in the portfolio.

This letter's *Featured Investment* is Star Royalties (TSXV: STRR). Updates on the following eight MJG investments featured in previous letters are also included: Altus Strategies, Strategic Resources, Nova Royalty, Tonogold Resources, Lara Exploration, Salazar Resources, Adriatic Metals, and Sama Resources.

Market Musings

On Bear Markets

This *Market Musings* takes a departure from the more typical mining or natural resource-related topic to focus on bear markets. More specifically, we will be looking at the characteristics of the four most severe stock market crashes of the past century to see what lessons, if any, can be gleaned for the circumstances that we find ourselves in today. This will then be linked back to the MJG partnership cash positioning plans touched on in this letter's *Introduction*.

Before proceeding, it's worth stating a few broader assumptions being made. The first is that this current market downturn, which began in early January 2022 using the S&P 500 as a barometer, will not resemble the plain vanilla, V-shaped recovery seen in the COVID crash and instead be a more drawn-out affair. This assumption stems from the following: (1) a proper bear market is the logical result of the confluence of animal spirits and extreme valuations exhibited in the post COVID investing era and (2) inflation fears and political realities ensure a tepid fiscal and monetary response to further financial market turbulence – especially in comparison to the unprecedented measures taken just a couple years ago. Those anticipating another short-lived, “buy the dip” pullback characteristic of the post-GFC era may not find this analysis particularly relevant.

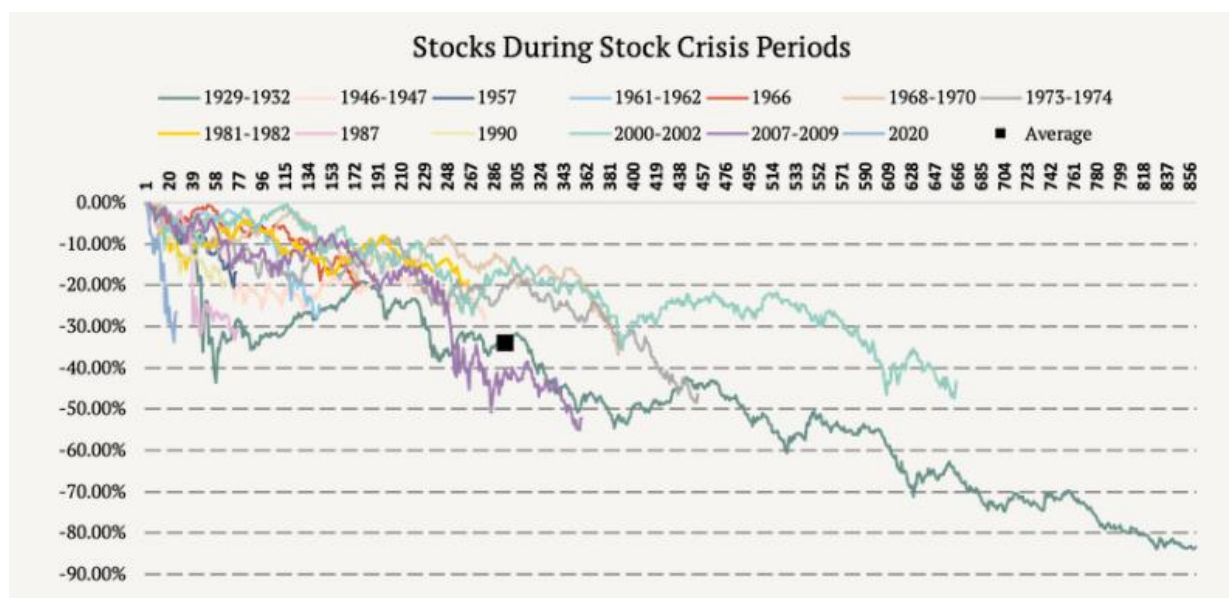
The second assumption is that, during times of panic, financial assets classified as “risk-on” and/or speculative prove to be highly correlated. This shouldn't be particularly controversial given recent experience and explains why studying the behavior of US equities in previous bear markets can be a useful exercise to a diverse set of market participants, from biotech venture capitalists to bitcoin punters to natural resource investors. For the time being at least, the fortunes of seemingly disparate asset classes will be largely intertwined.

The third premise is that it is better to anticipate the worst-case scenario and be pleasantly surprised by the ultimate result, rather than plan around an optimistic outcome only to be caught offside. This isn't true in all aspects of life, but most certainly is when it comes to investing in a highly volatile asset class like natural resources – and even more so when it comes to the junior explorers and developers. (Readers who experienced the savage 2011-2015 resource bear market will surely relate.) It is in this spirit that we contemplate modern history's worst market crashes, while also acknowledging that the current downturn is unlikely to be quite as extreme as these past events.

By The Numbers

Over the past century, there have been four stock market crashes that stand above the rest. These are The Great Crash of 1929-1932, The Nifty-Fifty Bust of 1973-1974, The Dot-Com Bust of 2000-2002, and The Great Financial Crisis of 2007-2009. These market dislocations are notable both in terms of their

depth and breadth, not to mention the dramatic and long-lived shifts in investor psychology driven by each of these episodes.



Source: "Trend-Following in Times of Crisis". Daniela Hanicova. Quantipedia. June 10, 2022.

These four bear markets were of course unique, both in their causes and how they ultimately unfolded. Rather than chronicle the ins and out of each, we will confine our focus to the broader market behavior with a view for any similarities between the events. The aim is not to predict the future with any degree of certainty, but rather to use these past episodes to think through potentialities and then plan around them.

The table below provides some preliminary numbers on the market crashes in question. The data for The Great Crash of 1929-1932 refers to the Dow Jones Industrial Average, while the S&P 500 is used for the other three market crashes in question. All return figures provided are in nominal terms.

	Duration (months)	Peak to Trough Decline (%)	# of Bear Market Rallies	Bear Market Rally in Year 1?
The Great Crash 1929-1932	34	89%	10	Y
Nifty-Fifty Bust 1973-1974	21	48%	5	Y
Dot Com Bust 2000-2002	31	49%	5	Y
GFC 2007-2009	17	58%	4	Y
Average	26	61%	6	

Sources: TradingView Inc, Yahoo! Finance, & MacroTrends LLC.

A few things become immediately clear, beginning with the sheer magnitude of each event. In this regard, The Nifty-Fifty Bust was the mildest of these four episodes with a 48% decline peak-to-trough. In the most extreme scenario, The Great Crash of 1929-1932 registered a soul-crushing 89% decline as it ran its course. Were the average 61% peak-to-trough decline play out in today's market, we would see the S&P 500 at 1880 before this bear market was over.

Similarly, each decline took a significant amount of time to play out. The shortest lasted 17 months peak-to-trough, while The Great Crash of 1929-1932 was again the most severe at 34 months. The four crashes lasted 26 months on average, which would take us through February 2024 were the current downturn to persist for this exact duration.

It is also evident that bear market rallies – defined as moves greater than 10% from a local low – have proven a persistent feature of each of these episodes. On average, there have been six of these head fakes before the bottom is ultimately reached. In The Great Crash, again the most extreme scenario, we saw no less than ten bear market rallies in the Dow Jones Industrial Average before the downturn had fully run its course.

There is a lesson here; anyone trying to time the bottom with any degree of precision will almost certainly be wrong. In times of panic, the prospect of going fully to cash and then buying back into the market at a later date can be tempting. But for those that do this, the likelihood of either (a) being suckered into going “all in” on a bear market rally or (b) getting burned by what ultimately turns out to be a V-shaped recovery far outweighs the chances of getting it right.

Year-One Bear Market Rallies

Another similarity, which we'll now examine more closely, is the fact that all four of these market crashes included moderately to extremely powerful bear market rallies within their first year. The below table provides details of the year-one bear market moves for each of the crashes in question.

	Decline from Top to Local Bottom	Duration from Top to Local Bottom (months)	Year 1 Bear Market Rally Advance	Year 1 Bear Market Rally Duration (months)
The Great Crash 1929-1932	48%	2	48%	5
Nifty-Fifty Bust 1973-1974	18%	8	13%	1
Dot Com Bust 2000-2002	14%	1	14%	5
GFC 2007-2009	21%	5	15%	2
Average	25%	4	23%	3

Sources: TradingView Inc, Yahoo! Finance, & MacroTrends LLC.

In the most extreme case, the Dow Jones Industrial Average – after falling precipitously from its September 1929 high – proceeded on a rollicking 48% run between November 1929 to March 1930 before resuming its march lower. In the mildest instances, the S&P 500 gained 13% over short periods in the first year of both the Nifty-Fifty Bust and Great Financial Crisis. On average, these year-one bear market rallies started 4 months into the bear market, lasted for 3 months, and returned 23% over their durations.

Nifty-Fifty Bust of 1973-1974



Great Financial Crisis of 2007-2009



There is a key distinction however between the year-one bear market rallies in the Great Crash and Dot-Com Bust from those in the Nifty-Fifty Bust and GFC. In the former two cases, the year-one bear market rallies played out with the market still above its long-term moving average (50-week SMA).

Conversely, as seen in the two charts above, the year-one bear market rallies in the Nifty-Fifty Bust and the GFC both (a) began with the respective indexes appreciably below their 50-week moving averages and (b) stalled out very near their 50-week moving averages. At this point both markets lurched lower, marking the start of their respective capitulation phases.

Why the fixation on year-one bear market rallies? The answer is evident from the data provided below. Historically, they have provided an opportunity to boost cash and offload all but one's highest conviction holdings before the real pain sets in. In the mildest instance, the Nifty-Fifty Bust saw a 46% decline from its year-one bear market rally high to the ultimate bear market low. The Great Crash of 1929-1932 was again the outlier, with a stunning 86% decline from the year-one bear market high to its ultimate low.

	Year 1 Bear Market Rally High to Capitulation Lows (% Decline)	Year 1 Bear Market Rally High to Capitulation Lows (months)
The Great Crash 1929-1932	86%	27
Nifty-Fifty Bust 1973-1974	46%	12
Dot Com Bust 2000-2002	50%	25
GFC 2007-2009	54%	10
Average	59%	19

Sources: TradingView Inc, Yahoo! Finance, & MacroTrends LLC.

Thought Experiment

If a year-one bear market rally were to materialize in today's market, what can these past crashes tell us about its potential duration and magnitude?

In terms of duration, it's interesting to note that each of these rallies had fully run their course before the one-year anniversary of their respective market crashes. Were this pattern to hold, it would mean that any bear market rally that materializes in the coming months will have fizzled out by early January 2023.

(It's also possible that we are already in a year-one bear market rally as this is being written, with the June 17th local low of 3636 in the S&P 500 marking its start. Were this to be the case, the move would

last 6.5 months at the very most should the historic pattern hold – though it’s worth noting that none of the previous year-one bear market rallies persisted longer than five months.)

2022 Crash



Today, the S&P 500 is currently sitting well below its 50-week moving average. In this regard, it is more akin to the Nifty-Fifty Bust and the GFC than our other two market crashes of focus.

This ties back to the magnitude question contemplated above. Under the assumption that we do indeed see a year-one bear market rally in 2022, it would not be surprising to see this move top out near the 50-week moving average as it did in these two past instances. This corresponds roughly with the 4375 level on the S&P 500, roughly 11% higher from its current level.

(In the scenario that a year-one bear market rally has already begun, this would mean a move of just over 20% from the June 17th local low before the 50-week moving average is reached. This corresponds quite closely with the 23% average magnitude of the year-one bear market rallies in the four historic crashes that we’ve examined.)

Takeaways for MJG

We now turn our attention to how this past bear market behavior has informed the MJG partnership’s tactical approach to cash positioning. As mentioned in this letter’s *Introduction*, the partnership has in recent weeks dipped into its cash cushion amongst the palpable panic. Should the broader market continue to grind lower without a discernible year-one bear market rally, then we will continue to deploy this dry powder in dribs and drabs at a rate that sees the MJG partnership fully deployed again by early 2024.

Should however a sharp bear market rally materialize in the second half of this year, an abrupt shift to a cash weighting of as high as 25% could well be warranted (perhaps as the broader market nears its long-term moving averages). In the case that market turbulence then resumes, the MJG partnership would shift back to deploying its cash position in a drip-like fashion rather than attempting to time the bottom with any degree of precision.

The risk of course is that we do indeed see a plain vanilla, V-shaped recovery – with MJG partnership holdings, alongside the broader market, running to all-time highs in short order. If this were to occur, an elevated cash position will have left some gains on the table. This would be unfortunate. But it's worth remembering that, when things go well for the MJG portfolio, they tend to go very well. One must look no further than the V-shaped recovery after the COVID crash, which saw the partnership return 113% net of fees and expenses in FY 2020. Were the trick to be repeated – but this time with a 25% cash weighting – the MJG partnership would still be looking at a hypothetical advance of 85%, far from an intolerable outcome.

To conclude, a disclaimer that any good plan is subject to change should the circumstances truly dictate. For our purposes, one such circumstance would be a repeat of late 2015 where – for a few months at least – even the Ivanhoe Mines of the world were trading below their cash breakup value. Should we see a similarly extreme scenario materialize, the MJG partnership wouldn't hesitate to deploy its very last dime, irrespective of the goings-on in the broader market. But absent such a circumstance, we will proceed with the plan outlined above, keeping firmly in mind Carveth Read's quip that "it's better to be approximately right than exactly wrong".

Overview of Partnership Holdings

The MJG partnership is exposed to different commodities, jurisdictions, and business models. As of June 30th, the partnership held twenty-one publicly traded positions and two private investments.

The MJG partnership had an unexpectedly busy start to the year, with three new positions (two via private placements) initiated in January and February. No new investments have been made in the five months since.

To maintain both its cash buffer and appropriate concentration within the portfolio, the partnership liquidated eight positions over the period. (Separately, our position in Aussie nickel producer Western Areas was closed out in late June after an all-cash takeover by IGO Limited.) The January 2022 letter stated that “the focus over the coming months will be more on subtraction than addition” and this has indeed been the case.

Ultimately the MJG investment philosophy has very little to do with commodity price speculation, and everything to do with management expertise, insider incentivization, asset quality, financial structure, upcoming catalysts, and price to value metrics. In essence, bottom-up investing based on company-specific fundamentals and the people involved.

With that said, we continue to monitor our exposure to specific commodities, jurisdictions, and business models to manage risk. There are no significant concerns from an allocation perspective at the present time, though it’s safe to say that we are full on Brazil, Mexico, Argentina and Mali-based investments for the time being.

Should the right opportunities emerge, the MJG partnership has capacity to add additional positions in the latter half of 2022 – though we will adhere to a “one in, one out” policy for the foreseeable future.

The MJG cash weighting sits at roughly 15%. Should a bear market rally materialize in the second half of this year, an abrupt shift to a cash weighting of as high as 25% could well be warranted. Absent such a move, this cash buffer should be closer to 10% at year-end 2022.

Included below is a snapshot of the MJG partnership’s investments as of June 30, 2022.

Allocation by Commodity	
Precious Metals	
Gold	22%
Silver	11%
PGMs	4%
Energy Metals	
Copper	23%
Nickel	5%
Vanadium	4%
Ag Minerals	
Phosphate	8%
Potash	4%
Carbon Credits	
Regenerative Agriculture	4%
Cash (USD)	15%

Allocation by Jurisdiction	
Canada	30%
Brazil	11%
Mexico	8%
Argentina	7%
United States	6%
Mali	5%
Côte d'Ivoire	4%
Finland	4%
Bosnia	3%
Mongolia	2%
Serbia	2%
Chile	1%
Ecuador	1%
Sweden	1%
Cash (USD)	15%

Allocation by Business Model	
Prospect Generation	22%
Exploration	15%
Development	26%
Production	0%
Royalty/Streaming	22%
Cash (USD)	15%

Featured Investment

Star Royalties (TSXV: STRR)

The MJG partnership first initiated a position in Star Royalties in a C\$0.625 financing in September 2020 while the company was still private. Upon STRR's IPO in February 2021, subsequent open market purchases have lowered the partnership's cost basis to approximately C\$0.55 per share. The Star Royalties share price sits at C\$0.55 as of July 20th, 2022.

Star Royalties can best be described as two royalty businesses in one vehicle, led by a capable and well-incentivized management team. The first of these businesses is its subsidiary Green Star Royalties, a first mover in the nascent carbon credit royalty space. Green Star is 62% owned by Star Royalties, with the balance split between gold mining heavyweight Agnico Eagle (35%) and management/insiders (3%). While it will take years to properly build this business, Green Star provides the "blue sky" for patient STRR shareholders to make many multiples on their investment.

The second business is traditional precious metals-focused royalty & streaming. Star's most significant mineral asset is a US\$18m stream on the past producing Copperstone Gold Mine in Arizona. The company also owns royalties on two producing assets – the Elk Gold Mine in British Columbia and the Keysbrook Mine in Western Australia. The mineral royalty & streaming business comes for free at the company's current valuation.

Given this split focus between carbon credits and precious metals, the market doesn't know what to make of STRR – and this has been reflected in the company's lethargic share price performance since listing. What appears to be overlooked, however, is that the company has always planned to spin out its carbon credit royalty business once a marquee strategic partner was secured. This box was checked in late March 2022 when Agnico Eagle's investment into Green Star was announced, and management is now guiding for a "near-term go public event" for Green Star – potentially in the latter half of 2022.

In this respect, Star Royalties can be thought of as an "event-driven" opportunity as the Green Star spin out nears. However, from a MJG partnership perspective, this is a long-term investment alongside a quality management team at a reasonable valuation.

This *Featured Investment* begins with an overview of the company's corporate history, the background of key players, insider incentivization, financing history, share structure, and balance sheet.

Next, the company's two distinct royalty businesses are covered in more detail. Valuations are then assigned to each.

This *Featured Investment* concludes with the expected Star Royalties share price catalysts over the coming year, along with some parting thoughts on potential outcomes and risks for the company longer-term.

Company Background

Star Royalties was founded in 2019 by Alex Pernin, Kevin MacLean, and Tony Lesiak. Each remains involved with the company's day-to-day operations and serve as CEO, Chief Investment Officer, and Executive Chairman, respectively. The trio have worked together in various capacities over the past two decades and form a formidable team – with over sixty years of combined experience investing and transacting in the mining space. The resumes of each can be seen below, courtesy of Haywood.

- **Alex Pernin** is the Chief Executive Officer and a Director of Star Royalties. He was previously responsible for managing capital allocation and corporate development at Barrick Gold where he oversaw all major internal, joint-venture and M&A opportunities. He was involved in the US\$6 billion Randgold Resources acquisition, the largest gold sector acquisition in a decade, as well as the US\$5 billion Barrick Gold – Newmont Mining Nevada Joint Venture. Prior to Barrick Gold, Mr. Pernin was in equity research at Canaccord Genuity where he covered junior and mid-capitalization precious metals producers as well as royalty and streaming companies.
- **Kevin MacLean** is the Chief Investment Officer of Star Royalties. He has over 30 years of experience specializing in precious metals and mining investments. He was the senior portfolio manager heading the resource investment team at Sentry Investments until 2017, with peak assets under management of approximately \$2 billion. Mr. MacLean received 13 Lipper awards over multiple time periods for best risk-adjusted returns in the gold mining sector and was the recipient of seven Brendan Wood International Top Gun awards for recognition of being a leading mind in the gold mining sector.
- **Tony Lesiak** is the Executive Chairman and a Director of Star Royalties. He was formerly Senior Advisor, Investment Banking at Canaccord Genuity where he focused on the mining royalty and streaming space. Mr. Lesiak was previously Managing Director and Global Head of Mining Research at Canaccord Genuity and was responsible for coverage of the Canadian large capitalization precious metal equities.

Source: Haywood Capital Markets. INDUSTRY REPORT – Carbon/Emissions. Feb 8, 2022.

Unlike most every newly minted junior, Star Royalty management did not load themselves up on cheap founders shares and have participated heavily in each financing round since inception. As such, the average cost basis of each of these key players sits at roughly C\$0.40 per share – not far below the current C\$0.55 STRR share price. This presents the opportunity for prospective STRR investors to grow their wealth alongside management, versus padding the pockets of a team already flush with penny and nickel shares.

As seen in the below image, the Star management team owns a healthy 7.7% of the company as it currently stands. Key backers include the Australian investment group ICM at roughly 14% ownership and Paul Stephens, a renowned royalty investor, at just below 10%. Followers of the prospect generator space will also recognize Almadex Minerals, which owns 2.3% of STRR after selling a 2% royalty on the Elk Gold Mine to Star Royalties in September 2021 in exchange for cash and shares. Star has seen healthy insider buying activity over the past thirty days, with Executive Chairman Tony Lesiak purchasing 150k shares in late June between C\$0.53-C\$0.60 per share.

Ownership



Source: Star Royalties Presentation. June 15, 2022.

If there is a flaw in the Star Royalties capital structure, it's that the company was compelled to include a full, 3-year warrant exercisable at C\$1.00 in its February 2021 IPO (priced at C\$0.611). To the company's misfortune, the precious metals market cooled off appreciably between when Star green-lighted its public listing in Q3 2020 and when the IPO was officially priced in early 2021. STRR had no option but to go ahead with the listing, given that it had already agreed to its first major transaction (a US\$18m stream on the Copperstone Gold Mine) and was subject to a US\$6m drawdown.

The inclusion of this full warrant in the IPO financing – while no other STRR financing included even a half warrant – partially explains the company's sluggish share price performance out of the gates. The impact at this point is minimal however, as any "warrant clipping" IPO participants are long gone at this juncture. The STRR share price would have to roughly double over the next nineteen months to see these 38.1 million C\$1.00 warrants ultimately exercised, which would bring C\$38.1m into the company's treasury. Conversely, should these warrants expire worthless in February 2024, STRR would see its fully-diluted share count fall appreciably from 117.1 million to 79 million. Either of these outcomes should be acceptable to those positioning at current levels.

Excluding its subsidiary Green Star, Star Royalty's cash position currently sits at roughly C\$3m. Given that the company has no debt, an annual overhead of roughly C\$2m per year, and two cash flowing royalties set to generate a total of roughly C\$1.8m per year at current metal prices, the company is positioned to go years without issuing equity at the top-co level if it so chooses. It is incumbent on the company's brain trust to ensure that any future mineral royalty acquisitions are distinctly accretive on a per share basis – with the potential value of the 62% stake in Green Star at very top of mind.

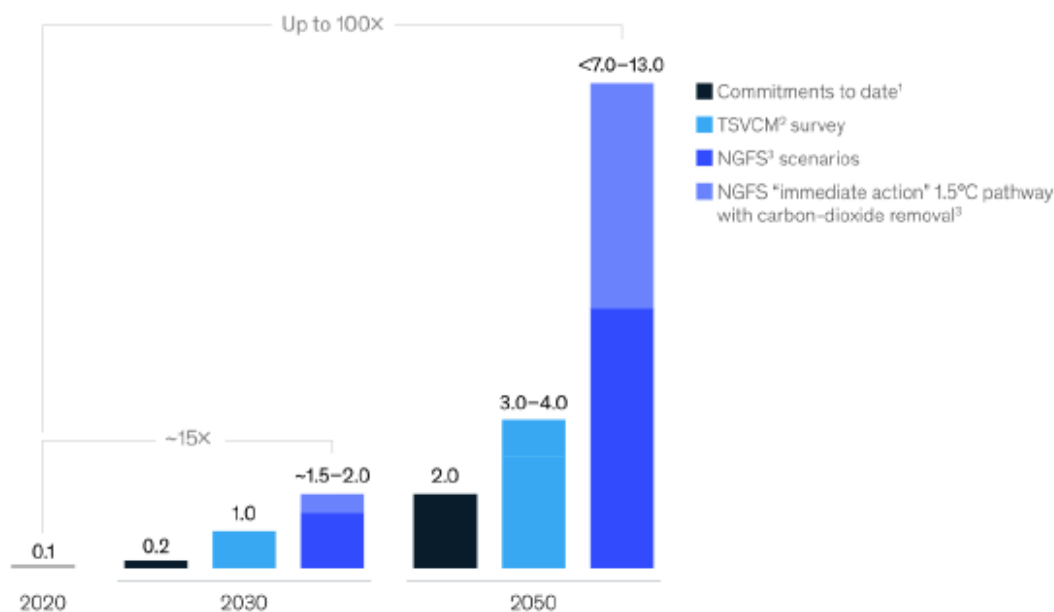
Green Star

The fortunes of STRR investors will ultimately hinge on the company’s subsidiary Green Star Royalties. Green Star is a first mover in the nascent carbon credit royalty space. Green Star provides STRR shareholders exposure to the potentially explosive growth of the carbon credit market in the years ahead, alongside a capable, well-incentivized management team and two world-class partners.

The carbon credit market probably deserves a full-length write up of its own, but for our purposes we will keep this description brief. A carbon credit is a way to measure, value, and trade a quantifiable amount of greenhouse gas emissions, with one credit equivalent to one tonne of carbon dioxide or equivalent (tCO₂e). Carbon credit projects, which can be either nature-based or technology-based, aim to avoid, reduce, remove, or sequester greenhouse gas emissions.

There are two primary markets for carbon credits: the compliance market and the voluntary market. The compliance market can best be described as carbon credit demand from businesses that is driven by government regulation. The voluntary market, on the other hand, is demand for carbon credits (from both individuals and businesses) not driven by a regulatory mandate. Looking forward, demand growth for carbon credits – particularly from the voluntary market – is expected to be astronomical.

Figure 2: TSVCM Voluntary Carbon Credit Demand Scenarios (GtCO₂e per year)



¹These amounts reflect demand established by climate commitments of more than 700 large companies. They are lower bounds because they do not account for likely growth in commitments and do not represent all companies worldwide.

²TSVCM = Taskforce on Scaling Voluntary Carbon Markets. These amounts reflect demand based on a survey of subject-matter experts in the TSVCM.

³NGFS = Network for Greening the Financial System. These amounts reflect demand based on carbon-dioxide removal and sequestration requirements under the NGFS's 1.5°C and 2.0°C scenarios. Both amounts reflect an assumption that all carbon-dioxide removal and sequestration results from carbon credits purchased on the voluntary market (whereas some removal and sequestration will result from carbon credits purchased in compliance markets and some will result from efforts other than carbon-offsetting projects).

Source: NGFS; TSVCM; McKinsey analysis

Source: McKinsey.com

As seen in the McKinsey graphic above, the most optimistic NGFS demand forecast suggests a 15x increase in the voluntary carbon market over this decade, and up to a 100x increase between 2020 and 2050. While this forecast is likely to prove excessively optimistic, more sober-minded estimates – including a recent demand forecast from TD Securities – still anticipate 10x growth in the voluntary market between 2020 and 2030.

Only time will tell whether these forecasts prove remotely accurate. There are also legitimate reasons to be skeptical of the carbon credit industry as whole, including the potential for fraud and concerns around measurement error, permanency, additionality, regulatory uncertainty, and double counting. Even with this in mind, all but the most ardent skeptics following the space would concede that the industry has at least the *potential* for massive scale should the global decarbonization push continue at its current trajectory.

It is therefore notable that STRR is one of only three publicly traded vehicles available to investors for carbon credit royalty/streaming exposure. The two others are Carbon Streaming Corp and Base Carbon.

Carbon Streaming is the largest of the three, with a C\$150m market capitalization and roughly C\$80m in capital commitments across a variety of REDD+, cookstove, water filtration, biochar, and mangrove projects. Carbon Streaming’s project portfolio spans four continents, with their two largest projects located in Indonesia and the Democratic Republic of Congo.

Base Carbon listed publicly in early March 2022 and currently sports a C\$60m market capitalization. The company has announced capital commitments of roughly C\$39m – with an emphasis thus far on cookstove and water purification projects. Base Carbon’s two largest projects are in Vietnam and Rwanda.

The third of course is Star Royalties and its 62%-owned subsidiary Green Star. Green Star originates carbon credit projects in North America and then finances them via royalties or streams. The company has announced capital commitments to date of roughly C\$28m, with lion’s share of this total going towards its CarbonNOW regenerative agriculture program.

CarbonNOW was originally announced in mid-December 2021, before being expanded fourfold in early April 2022 on the heels of Agnico Eagle’s C\$14.13m strategic investment into Green Star. This first-of-its-kind program aims to incentivize American growers to utilize sustainable farming practices over 1.32m acres of cropland. The effort is a collaboration between four different parties: the participating growers, Anew, Locus Ag, and Green Star. In simple terms, the CarbonNOW program works as following:

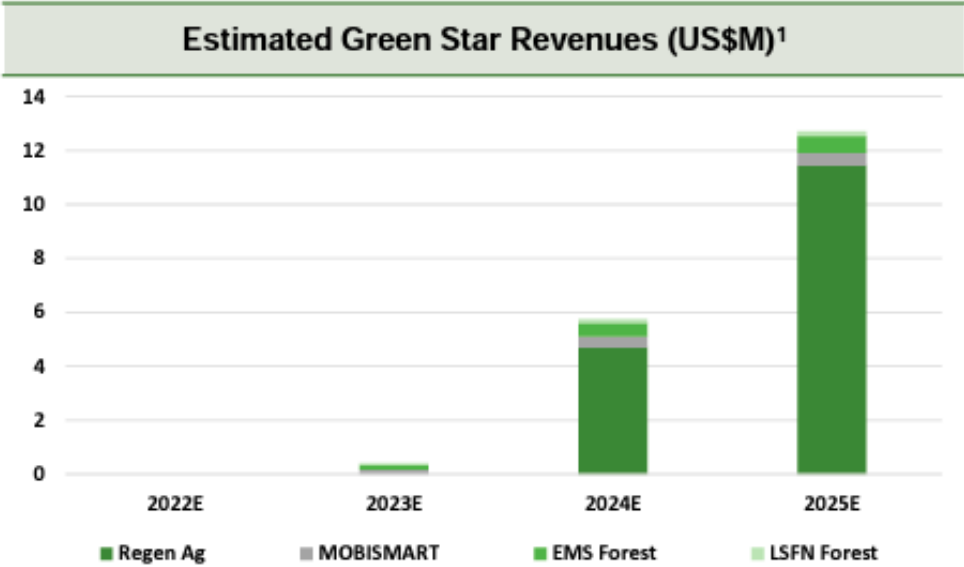
- (1) Locus Ag manufactures the soil health probiotics to be used by the growers in lieu of traditional inorganic fertilizer,
- (2) Locus Ag and its team of agronomists recruit the growers,
- (3) Green Star finances the upfront cost of the Locus Ag soil health probiotics,

- (4) The participating growers apply the Locus Ag soil health probiotics as part of a sustainable farming program,
- (5) Anew quantifies the amount of sequestered carbon, develops carbon offset credits, and then sells them to a variety of companies looking to voluntarily offset their CO2 emissions, and
- (6) The proceeds from the carbon offset sales are split between the participating growers, Anew, and Green Star.

The project investment has a term of 11.5 years and expects to generate revenues from an average of over 2 million carbon offset credits per annum, starting in 2023. To its own account, Green Star Royalties expects to generate cash flow equivalent to over 200,000 attributable carbon offset credits in 2024 and over 400,000 attributable carbon offset credits per annum starting in 2025.

Green Star has also deployed roughly C\$1m into two forest management projects, both in collaboration with Anew. These projects protect forests that otherwise would have been impacted by logging operations. The first of these is the EMS Forest Carbon Project in Alberta, Canada. EMS covers a forested area of 15,457 hectares and has the potential sequester significant amounts of CO2 per year. Green Star holds a 40.5% GRR at EMS, with the royalty expected to generate annual revenues equivalent to approximately 9,000 carbon offset credits starting in 2023.

The second is the LSFN Carbon Pilot Project covering 22,063 hectares of First Nation’s Reserve Lands in Ontario, Canada. Green Star holds a 16% GRR at LSFN, with the royalty expected to generate annual revenues equivalent to approximately 2,500 carbon offset credits starting in 2023. Revenue from both the EMS and LSFN forest management projects will commence as soon as the Canadian Greenhouse Gas Offset Credit System is implemented, which is currently anticipated in early 2023.



Source: Green Star Investor Presentation. July 1, 2022.

If Green Star has a clear weakness, it is that the current project portfolio is heavily dependent on the success of the CarbonNOW program. (CarbonNOW accounts for approximately 95% of Green Star's capital commitments to date.) While unexpectedly strong demand from growers and the support from Anew do bode well for the ultimate success of the program, Green Star would be well served by continuing to diversify its project portfolio.

Green Star also has a couple of clear competitive advantages. In stark contrast to its publicly traded peers, Green Star has confined its investments to "first world" jurisdictions like the United States and Canada. There is already enough risk and uncertainty inherent to this early-stage industry. Unlike its peers, Green Star management has chosen not to add country and geopolitical risk to this mix. This should ultimately result in premium multiples for Green Star relative to peers as its revenues begin to scale in 2024.

More significant is the two world-class partners that Green Star has aligned itself with. The first is financial partner Agnico Eagle, which took a 35% strategic stake in Green Star through a C\$14.1m investment this spring. Given Agnico Eagle's immense scale and reputation as the world's savviest major gold miner, this investment provides clear validation of Green Star's management team, business plan, and existing project portfolio. It also affords Green Star the ability to punch above its weight as it sources new deals, as Agnico Eagle is eager to co-invest alongside Green Star in new projects. For Agnico Eagle's part, the company presumably is looking to leverage this relationship to get to the point where it can declare itself the world's first carbon-neutral gold miner – potentially as soon as later this decade.

The second of these strategic partners is Anew, which was formerly known as Bluesource before a recent merger with Element Markets. Anew is North America's largest carbon offset developer, backed by TPG's Rise Fund (\$14 billion in assets under management) and Dallas-based private equity fund NPG (\$10 billion under management). As mentioned, Green Star has worked with Anew on both of its forestry management projects and is also Anew's "preferred partner" for the financing of future regenerative agriculture projects. While the partnership with Anew isn't technically exclusive at this point, Green Star is the only one of the carbon credit royalty companies to have worked with Anew. This collaboration provides validation of Green Star's team and strategy, but more significantly provides a competitive advantage over competitors as the company looks to scale its portfolio within North America.

To conclude, a few notes on what to expect from Green Star going forward. The most significant near-term catalyst is the spin-out and IPO. This could happen as soon as later this year, despite the challenging market conditions. Management is insistent that the demand is there, and Green Star is hungry for additional growth capital with the C\$14.1m raised from Agnico Eagle fully committed to the CarbonNOW regenerative agriculture program.

Looking to next year, Green Star expects first revenues from the EMS Forest Project (~9,000 CC/year) and LSFN Carbon Pilot Project (~2,500 CC/year) as soon as the Canadian federal compliance market for carbon credits is finalized. First revenue is also expected from CarbonNOW (~560,000 CC/year) in 2023, though it will take until 2026 for this program to fully scale.

Precious Metals Royalty & Streaming

The second of Star's two businesses is traditional precious metals-focused royalty & streaming. The company holds royalty/streaming interests on three key assets – the Copperstone Gold Mine in Arizona, the Elk Gold Mine in British Columbia, and the Keysbrook Mine in Western Australia. Each of these will be detailed in brief below.

The company's most significant investment to date is a US\$18m uncapped stream on the past producing Copperstone Gold Mine in western Arizona. The deal, which was announced in November 2020, stipulates that Star will purchase 9.9% of gold produced at Copperstone until a cumulative 21,000 ounces of refined gold are delivered, then 3.3% of gold produced until a cumulative 27,200 ounces are delivered, and 1.2% of gold produced thereafter for the remaining life of the mine. Star will pay 25% of the spot gold price for these ounces.

Copperstone has produced over 500k ounces of gold since 1987, with the mine last in operation in 2013. Proven and probable reserves sit at 175k ounces grading 6.8 g/t Au. A September 2021 resource update outlined an additional 306k ounces of M&I resources grading 7.3 g/t Au and 212k ounces of Inferred resources grading 5.9 g/t Au. Star management believes that there is 1 million ounces or more of near-mine resource potential at Copperstone.



Source: Star Royalties Corporate Presentation. June 2022.

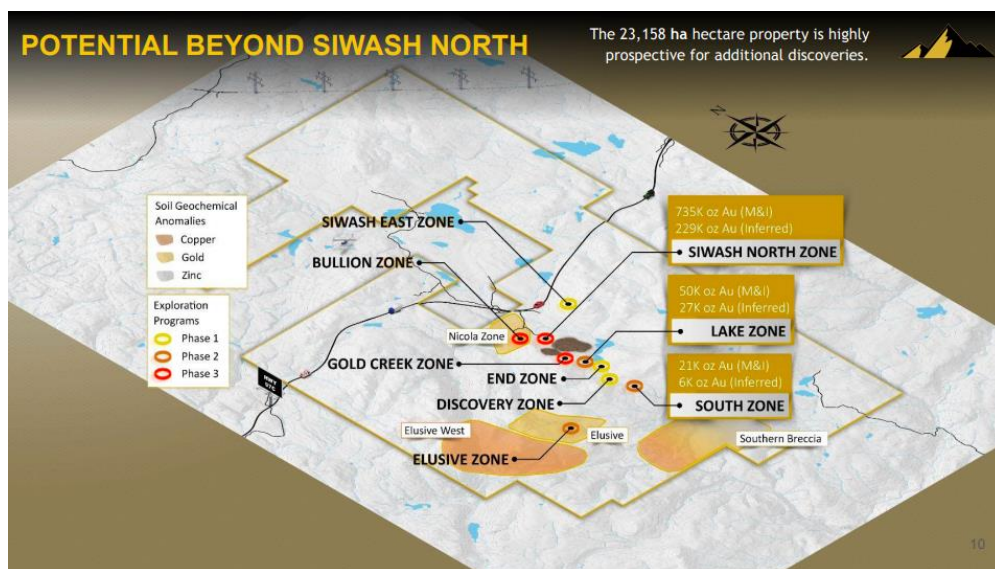
Given the recent production history, over US\$100 million in mining and processing infrastructure remain in place at Copperstone. This in theory allows for relatively modest restart capital costs and a shorter timeline to first production. Progress towards a restart however has gone far from smoothly in the roughly eighteen months since this streaming deal was inked. Star initially anticipated first production at Copperstone in Q1 2022, but a June 2021 merger between STRR's original partner Arizona Gold and Golden Predator abruptly put the restart on pause. The combined entity Sabre Gold states in its most recent update that it is "actively engaged with lenders" to secure debt financing for Copperstone – the final remaining component of the project's construction financing package—and "remains on track to

advance to production within twelve months from funding”. This means that, in a best-case scenario, Star’s streaming interest at Copperstone won’t begin paying until late 2023.

Arguably for good reason, this slower than expected progress at Copperstone has weighed on the STRR share price. Even in the best-case scenario where Copperstone is up and running by late 2023, the opportunity cost associated with this delay will have been significant. As such, Sabre Gold finalizing its construction financing package at Copperstone would be a significant catalyst for the STRR share price. Star to date has paid two of the three US\$6m installments to Sabre Gold, with the third installment entirely at Star’s election.

Star’s most significant production-stage royalty is a 2% NSR on the Elk Gold Mine in British Columbia. Star purchased this royalty for US\$10.6m in Q3 2021. Similar to Copperstone, Elk Gold is a high-grade, narrow vein gold asset with a history of past production. However, in the case of Elk Gold, its operator Gold Mountain Mining is initially employing open-pit mining methods to access the ore body before transitioning to underground. Another key distinction is that, rather than process the ore on site, Gold Mountain is shipping the material to the nearby New Afton Mill in a long-term purchase agreement with mid-tier gold miner New Gold.

Gold Mountain commenced production in late 2021, with Star receiving its first royalty payment in February. Elk Gold hosts Measured & Indicated resources of 806k ounces grading 5.6 g/t AuEq, with an additional 262k ounces grading 5.3 g/t Au in the Inferred category. An updated PEA released in mid 2021 outlined an eleven-year operation, with a production profile of 19k ounces per annum in years 1-3 and then 65k ounces per annum in years 4-11. At the current gold price, STRR expects to receive a relatively modest C\$900k in annual royalty income in years 1-3 – with the figure jumping closer to C\$3m per annum assuming the year 4 expansion is completed.



Source: Gold Mountain Mining Corporate Presentation. June 2022. <https://gold-mountain.ca/>

STRR management is bullish on the broader exploration potential at Elk Gold, as the 2% NSR covers the full 16,716 ha property. The project’s historical discovery cost has been approximately C\$8 per ounce,

which implies that every C\$1m in additional exploration expenditures will yield roughly C\$4.5m in payable gold to Star Royalties should this discovery cost hold. Gold Mountain has been aggressive with the drill bit, having completed roughly 40,000 meters of drilling across three different programs in the past twenty-four months. Gold Mountain's Phase III program just concluded in late June – with the bulk of the assays still pending and an updated resource estimate expected later this quarter. It appears as if Gold Mountain exceeded its original meterage budget of 15,500 for the recent Phase III program, which is rarely a bad sign.

Given that Star purchased the 2% NSR at Gold Elk less than a year ago, it's far too early to render a verdict on the transaction. This will ultimately come down to two factors: (1) the extent of future exploration success at the asset and (2) whether the planned mine expansion goes ahead in 2025 as anticipated. To the latter point, Gold Mountain did announce in its latest news release that it "has begun to lay the groundwork for the expansion contemplated in the Elk Gold Project's technical report" and recently commenced the permitting process for mine expansion approval.

Star's second production-stage royalty is a 2% GRR on the Keysbrook Mine in Western Australia. Keysbrook is an open-pit mineral sands operation owned and operated by Japanese conglomerate Iwatani Corporation. Keysbrook commenced production in late 2015 and is expected to remain in operation through at least 2027.

Star acquired the Keysbrook royalty from mining fund RCF for US\$3m in October 2020. Given the short mine life and the limited exploration potential inherent in a mineral sands asset, the cashflow generated by Keysbrook is no more than a bridge until Copperstone resumes production and/or production at Elk Gold is expanded. Absent an unexpected shutdown, developments at Keysbrook will have little to no influence on the STRR share price.

With this said, the Keysbrook royalty has modestly outperformed expectations since the royalty was purchased. When Star announced the acquisition in 2020, the company estimated that the royalty would generate US\$500-600k in annual after-tax cash flow. This estimate was exceeded by a healthy margin in 2021, with the GRR generating US\$692k after-tax. When considered alongside the 2% NSR at Elk Gold, Star's annual royalty revenue of ~C\$1.8m covers 90% of the company's annual cash overhead.

Valuation

For valuation purposes, we will start with Green Star and then look at the company's mineral royalty & streaming interests separately.

Green Star can be most readily valued with the help of the price set by Agnico Eagle earlier this spring, when the gold major invested C\$14.13m into Green Star at C\$1.00 per share. (Star's board and management team invested an additional C\$1.25m at the same price.) Post financing, Green Star's issued and outstanding share count sits at 40.4m shares – with the company owned 61.9% by Star, 35% by Agnico Eagle, and 3.1% by Green Star management.

Given that C\$15.4m was raised, this means a C\$25m pre-money valuation set by Agnico Eagle. Green Star at the time of the investment had made capital commitments of approximately C\$7.7m between its initial US\$5m CarbonNOW regenerative agriculture investment and its two forest management projects. Agnico Eagle, unquestionably a sophisticated investor, was therefore comfortable investing at a 3.25x multiple of Green Star's cumulative capital commitments at the time.

In the period since the strategic investment was announced, Green Star has increased its capital commitments nearly fourfold to approximately C\$28m. Under the assumption that Agnico Eagle paid a fair price on its investment, this level of capital commitments suggests a fair value of approximately C\$91m for Green Star today. STRR's 61.9% share of Green Star would therefore be worth approximately C\$56m at this valuation, or C\$0.77 per issued share.

While there is room to quibble about Green Star's precise fair value, C\$91m in broad strokes is entirely reasonable. Green Star has already seen at least three of its peers raise their most recent financings at valuations well north of C\$100m. This includes both Carbon Streaming and Base Carbon, Green Star's publicly traded peers. In the case that market conditions significantly worsen, it's safe to say that Star Royalties and Agnico would rather delay the Green Star IPO than accept any valuation appreciably below this level.

Turning to the mineral royalties, Elk Gold and Keysbrook can reasonably be valued at their combined book value – given that both investments were made recently and are up to this point going largely to plan. Star paid US\$10.6m for its 2% NSR at Elk Gold and US\$3m for the 2% GRR at Keysbrook, or US\$13.6m in total.

(Thought of a different way, this US\$13.6m valuation is a ~10x multiple on expected 2022 revenues between the two assets. This is in line with the 8-10x revenue multiples currently being assigned to Elemental Altus, Maverix Metals, and Vox Royalty – which are the cheapest of STRR's precious-metal focused junior royalty peers.)

While the US\$18m streaming deal at Copperstone was also consummated relatively recently, the investment has objectively not gone to plan given the significant delay in the restart timeline. To better reflect both the opportunity cost and added uncertainty associated with the delay, we will apply a 50% haircut to Star's US\$12m investment into Copperstone thus far – marking down the fair value estimate to US\$6m given the circumstances.

Assuming the above, the cumulative value of STRR's mineral royalty/streaming interests can be estimated at US\$19.6m, or C\$25m at the current exchange rate. Given STRR's issued share count of 73.2 million, this results in a value of C\$0.34 per share for the company's three key mineral assets.

In sum, the two businesses appear to be worth C\$81m, or roughly C\$1.11 per issued share. (On a fully diluted basis, this drops slightly to C\$1.07 after reflecting the additional dilution and C\$44m in warrant/option exercise proceeds.) This suggests roughly 100% upside from the current STRR share

price before both the Green Star stake and the mineral royalty interests are properly reflected in the company's valuation.

Upcoming Milestones

Provided below are the Star Royalties milestones that can be expected over the coming eighteen months. Milestones for 62%-owned subsidiary Green Star are also included. The most significant STRR share price catalyst is the anticipated IPO of Green Star later this year. This is closely followed in importance by the announcement of a debt financing package to restart production at Copperstone. While optimistically this could happen as soon as later this year, the timing is ultimately out of STRR's hands.

- Gold Mountain announces Updated Resource at Elk Gold Mine **by end Q3 2022**
- Green Star spin-out and IPO **by end 2022**
- Sabre Gold announces debt financing for Copperstone restart **by end 2022**
- First revenues from EMS Forest Carbon Project **by end 2023**
- First revenues from LSFN Carbon Pilot Project **by end 2023**
- First revenues from CarbonNOW regenerative agriculture program **by end 2023**

Conclusion

At the current STRR share price, investors are presented with the opportunity to buy Star's carbon credit royalty business at a roughly 30% discount to fair value. The company's mineral royalty and streaming interests come entirely for free.

There are reasons for the sluggish STRR share price performance since listing, including the delays at Copperstone, the overhang of C\$1.00 warrants, and the somewhat strange combination of precious metals and carbon credits in a single vehicle. Each of these concerns however will be resolved in due course – with Green Star becoming a standalone publicly-traded vehicle as soon as this year, the warrants either expiring worthless or providing a C\$39.4m capital injection within the next nineteen months, and Sabre Gold inching towards a resolution on Copperstone construction financing.

While Star could be considered a short-term trade opportunity as the Green Star IPO nears, the MJG partnership is approaching this as a multi-year investment in both the team and the tremendous growth potential inherent to Green Star. This is the partnership's sole carbon credit-focused investment, and there seems little reason to look elsewhere until the STRR interest in Green Star is more appropriately valued.

Featured Investment Updates

Over the course of previous MJG investor letters, *Featured Investment* write-ups have been included for twenty-two different companies. These write-ups give current and prospective investors a glimpse into the MJG portfolio, while also providing insight into the methodology utilized to identify undervalued securities. The MJG partnership remains invested in eight of these companies, with updates provided for each of these below.

At the end of this section, the *average cost per share* and *exit price* is provided for legacy MJG holdings featured in previous letters.

Altus Strategies (LSE: ALS)

Featured In: **January 2022**

Average Cost Per Share: **£0.53**

Current Market Price (July 20, 2022): **£0.43**

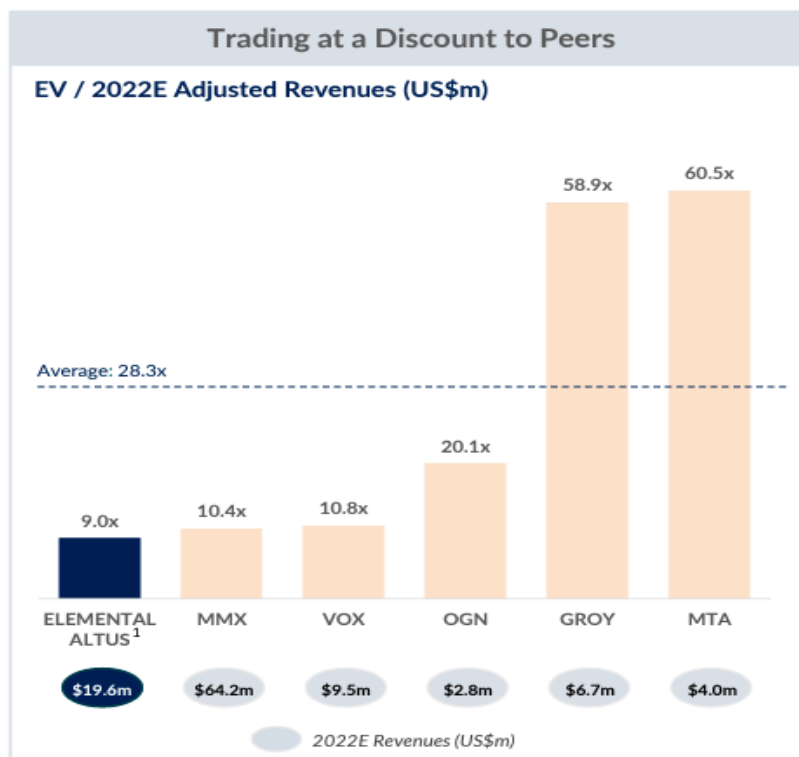
Altus Strategies was featured in the most recent MJG partnership letter. The company has been a MJG holding since an April 2018 private placement. Open market purchases, as recently as earlier this week, have lowered the partnership's cost basis to £0.53 per share.

The Altus share price has had a rough run over the past six months, falling by roughly 28% year-to-date. This can be attributed primarily to political instability within Mali, which was subject to sanctions and border closures imposed by regional bloc ECOWAS between January 9th and July 3rd. Over this period, roughly US\$24m has been shaved off the Altus Strategies market capitalization. For context, this figure is over half of the US\$39m valuation that we assigned to the company's Diba Project in Mali in the January 2022 *Featured Investment* write up.

From a corporate perspective, far and away the most significant development was the "merger of equals" announced by Altus and junior royalty peer Elemental Royalties Corp on June 14th. While Elemental is not a MJG partnership holding, it is a story that we've followed closely. The company has done a commendable job building a diverse precious metals-focused royalty portfolio since its founding in 2017 and is backed by a number of well-respected royalty investors – a few of whom are also invested in Altus.

Upon completion of the merger – which is very likely to go ahead given strong support from both sets of shareholders – the combined entity will be owned 52.9% by Elemental shareholders and 47.1% by Altus shareholders. The company will be named Elemental Altus Royalties Corp, with Altus CEO Steve Poulton serving as Executive Chairman and Elemental's Fred Bell serving as CEO. The company's board will have representation from both La Mancha (Karim Nasir) and Discovery Group (John Robins).

There are multiple benefits to the deal. The first is increased scale, which will lower the combined company’s cost of capital and open the door to larger deals. The second is the complementary nature of the respective royalty portfolios – with Elemental lacking in organic growth potential and Altus light on near-term royalty cashflow. Then there are the overlapping shareholders bases as referenced above, which should ensure continuity as the combined company moves forward. Another benefit is increased liquidity, an issue that has dogged Altus in particular (with its dual TSXV and AIM listing).



Source: Elemental Altus Combined Company Presentation. June 14, 2022.

From a valuation perspective, the combined entity looks quite attractive relative to precious metal-focused junior royalty peers. Of the companies listed above, only Maverix Metals is expected to generate more royalty revenue in FY 2022 than Elemental Altus. It also becomes evident that Diba and the 100%-owned ground in Egypt are not being accounted for.

Included below are the milestones expected from the combined entity for the remainder of this year. The Diba-related milestones were originally expected in Q2 2022 but have since be delayed, presumably due to both the merger and Mali-related uncertainty. Now that Mali’s government is back onside with ECOWAS, we can expect movement at Diba in the second of the year.

- “Merger of equals” with Elemental Royalties completed **by end Q3 2022**
- Updated Resource announced at Diba **by end Q3 2022**
- Maiden Resource announced at Diba NW and Lakanfla Central **by end Q3 2022**

- Updated PEA at Diba **by end Q3 2022**
- Resource + Reserve Update at Karlawinda from Capricorn Metals **by end 2022**

To conclude, credit is due to the Altus and Elemental management teams for putting egos and personal incentives aside to consummate this transaction. While it may take some time for the dust to settle, the deal serves the long-term interests of both sets of shareholders in what remains a competitive royalty space. Altus currently sits at a roughly 5% weighting within the MJG portfolio, and we plan to hold the combined company as a core royalty position moving forward.

Strategic Resources (TSXV: SR)

Featured In: **July 2021**

Average Cost Per Share: **C\$0.29**

Current Market Price (July 20, 2022): **C\$0.22**

The MJG partnership first initiated a position in Strategic Resources via a private placement in October 2020. Subsequent open market purchases have lowered the MJG cost basis to C\$0.29 per share. The partnership has not added to its SR position thus far in 2022.

There is frankly not much to discuss regarding the company's activities over the past six months. Strategic Resources is ultimately a vanadium optionality play and, until there is a sustained rise in the ferrovanadium price, the best thing the company can do is sit tight and keep expenditures to a minimum.

The company issued only one substantive news release over the period, announcing in early March that it had (a) applied for an exploration license at Mustavaara, (b) submitted an application to extend the existing Mustavaara water permit, and (c) submitted a proposal for a baseline environmental monitoring program at the project. SR hopes to hear back from the relevant authorities on each of the above items by the end of the year.

In the same news release, the company also announced that it was "evaluating commencing a Pre-Feasibility Study" with a decision expected to be made in Q2 2022. We have yet to hear back from the company on this front, which suggests that the company is either (a) waiting on the above permit approvals before going ahead, (b) considering deferring the PFS until market conditions improve, or (c) holding off on a decision as it pursues an M&A opportunity. The expected budget to complete the Mustavaara Prefeasibility Study is a meager €1.4m, or just under C\$2m.

Included below are the SR milestones expected in the second half of the year. As noted above, it is unclear at this point whether the company will ultimately go ahead with the Mustavaara PFS.

- Exploration license granted at Mustavaara **by end 2022**
- Three-year extension granted for water permits at Mustavaara **by end 2022**
- Formal approval for environmental baseline program at Mustavaara **by end 2022**
- Commence Prefeasibility Study at Mustavaara **by end 2022**

The MJG partnership will remain patient with this investment given the quality of both the management team and investor base. History shows that investors who have aligned themselves with the Lumina Group and Ross Beaty, particularly at a similar cost basis, have been treated extraordinarily well. SR at its current C\$11m fully diluted market cap provides an opportunity to do just that.

Nova Royalty (TSXV: NOVR)

Featured In: **January 2021**

Average Cost Per Share: **C\$0.30**

Current Market Price (July 20, 2022): **C\$1.55**

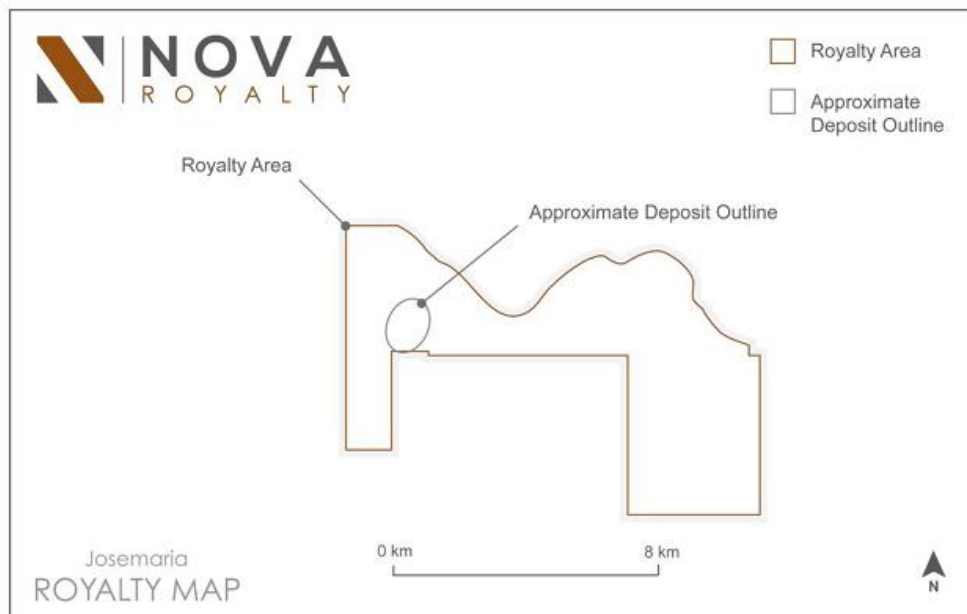
Nova Royalty has been a MJG partnership holding since an October 2018. The partnership's cost basis sits at C\$0.30, including warrant exercises. Assuming that Nova stays lean on the corporate level and avoids straying from its narrow copper and nickel royalty mandate, the company is set to remain a fixture in the MJG portfolio for the foreseeable future.

2022 has been a year to forget for Nova shareholders, with the NOVR share price sliding by roughly 45% through mid-July. While little consolation in the immediate term, this selling pressure can be attributed to hot money fleeing the copper trade and not to an adverse development at the company level. There was no shortage of copper-focused vehicles down over 50% in this period – with Hudbay Minerals, Solaris Resources, Taseko Mines, Copper Mountain Mining, and Oroco Resource Corp each serving as examples in the US\$100m-US\$1 billion market cap bracket.

The copper thesis remains blindingly obvious for investors with any sort of time horizon. Demand is set to soar as global decarbonization efforts kick into high gear, with Dr. Richard Schodde from MinEx Consulting estimating that more copper will be consumed in the next two decades than in all of human history up to this point. On the supply side, decades of underinvestment have left the world dependent on aging mines with dwindling head grades and a limited number of advanced development stage assets to pick up the slack. Copper remains the MJG partnership's second largest metal by weighting, and we won't be shaken out of our positions absent a company-specific reason.

Turning back to Nova, there have been two developments of note since the last MJG update. In late May, the company announced its latest copper royalty acquisition – a 0.5% NPI royalty on Lundin Mining's Josemaria Copper Project in San Juan, Argentina. Josemaria is one of the most advanced large-scale copper development projects globally, with a production decision expected as soon as later this year. The total purchase price for the royalty is US\$13.7m payable in multiple installments. The 0.5% NPI is capped at ten years from first production and includes a US\$2m lump-sum payment to Nova payable within six months of the completion of the second full year of production.

Upon the Josemaria acquisition, Nova now owns royalties on four of the ten largest open pit copper projects in the Americas as measured by copper equivalent reserves. Three of these four – Taca Taca, Copper World/Rosemont, and now Josemaria – are actively being advanced by credible operators towards production. Josemaria should be the first of these three to enter production, potentially as soon as 2025 (given a late 2022 production decision and a three year build as envisioned in the 2020 Feasibility Study).



Source: Nova Royalty News Release. May 24, 2022.

The second development pertains to Hudbay’s Copper World/Rosemont Project in Arizona, over which Nova holds a 0.135% NSR (with a ROFR for an additional 0.54% NSR covering the same area). Hudbay announced on June 8th what it describes as a “robust” PEA for the integrated project, as well as an accelerated development timeline for Phase I of the project – which includes the seven copper deposits at Copper World over which Nova holds its royalty.

The June 8th news release advises that a Prefeasibility Study for Phase I can be expected in the second half of 2022 and that Hudbay had “increased its 2022 spending guidance for Arizona by \$30 million, which includes an additional \$15 million in capitalized exploration, \$10 million in evaluation expenses and \$5 million in growth capital expenditures”. Hudbay goes on to state that a Phase I Feasibility Study can be expected next year, along with all required state and local permits for Phase I. A production decision could follow “as early as 2024”. This is music to the ears of NOVR shareholders.

Looking forward, Nova has a number of expected milestones over the next eighteen months. The most significant would be a positive construction decision at First Quantum’s Taca Taca Project in Salta, Argentina, over which Nova holds its most significant royalty. Based on public pronouncements made by First Quantum, a decision could be made on Taca Taca’s future as soon as next year.

- Construction decision at Josemaria from Lundin Mining **by end 2022**
- PFS announced at Copper World Phase I from Hudbay Minerals **by end 2022**
- Waterton announces sale or strategic funding partner at Dumont **by end 2022**
- Updated Resource at Vizcachitas from Los Andes Copper **by end Q1 2023**

- First Quantum makes construction decision at Taca Taca **by end 2023**
- Feasibility Study at Copper World Phase I from Hudbay Minerals **by end 2023**
- PFS announced by Los Andes Copper at Vizcachitas **by end 2023**
- PFS announced by Anglo American/Glencore at West Wall **by end 2023**

As was stated in the most recent partnership letter, Nova has successfully executed on its strategy since we first invested roughly three and a half years ago. This makes it easy to remain patient with this management team led by CEO Alex Tsukernik. The copper royalty sandbox in which the company is playing is large enough to support another order of magnitude increase in Nova's market capitalization from current levels over this coming decade. Given the nature of the royalty business model, time is on the company's side.

Tonogold Resources (OTC: TNGL)

Featured In: **July 2020**

Average Cost Per Share: **US\$0.05**

Current Market Price (July 20, 2022): **US\$0.07**

Tonogold Resources was included as the *Featured Investment* in the July 2020 letter. Performance in the two years since has been nothing short of a disaster, due to a combination of failed corporate governance, poor capital management, and a lack of execution at the project level. While there have been tangible steps in the right direction over the past ninety days, the company's future remains very much in limbo – with a full loss of capital firmly on the table.

If there is a glimmer of hope, it comes from the recent corporate activity. As was discussed in the January 2022 partnership letter, Tonogold's only feasible path forward is "a wholesale change of company leadership" given that the key decision makers had "lost the trust of investors through a series of missteps and false promises". It was therefore welcome news to see the appointment of Bill Hunter – formerly the Head of Global Mining Investment Banking at Jefferies – as interim CEO in mid-April, along with the departures of Travis Miller and Gustavo Mazon from the Tonogold board of directors.

Just over a month later, the company announced the appointments of Gil Playford and Cody Whipperman to the Tonogold board. Playford has over forty-years of mining experience and a significant success under his belt as a founder of LionOre, which was sold to Norilsk Nickel for C\$6.8 billion in 2007. Whipperman in turn serves as the CEO of a private copper producer in Chile and has held previous roles at OceanaGold, Barrick, and Rio Tinto.

After these personnel changes, Bob Kopple is the sole remaining director to have been a part of the previous regime. Tonogold's new decision makers would be well served by finding a replacement for Kopple as soon as possible. If the company is to regain the faith of the capital markets, it must do everything within its power to demonstrate a clean break from the sins of the past.

There is limited value in providing the expected Tonogold milestones, given that any future progress at the Comstock asset is contingent upon additional funding. The company's immediate goal is a US\$2m financing, which would provide sufficient funds to recommence drilling at the Occidental/Brunswick Lode targeting additional near-surface mineralization. (Occidental/Brunswick remains highly prospective, with the most recent drill program yielding a 25 meter intercept grading 13.5 g/t Au and 48.4 g/t Ag from 8 meters depth.) Ultimately, the company will need to secure US\$8m in funding to fully eliminate its debt load – a formidable challenge in the current market environment.

This has been a humbling experience for those invested, serving as a stark reminder that asset quality is entirely irrelevant without the right people at the helm. The tricky aspect here is that the previous Tonogold regime was admittedly successful in securing the Comstock Mining District, cashing up the company, and generating market excitement in advance of the maiden drill program. It has become apparent however that, behind the scenes, the company was plagued by infighting, ineptitude, and conflicted dealings – and the

chickens have since come home to roost. It is now incumbent on the company's new leadership to pick up the pieces, with the immediate focus on securing sufficient funding for a modest Phase II drill program at Occidental/Brunswick.

Lara Exploration (TSXV: LRA)

Featured In: **January 2020**

Average Cost Per Share: **C\$0.65**

Current Market Price (July 20, 2022): **C\$0.85**

Lara Exploration was featured in the MJG partnership's January 2020 letter. The position was first initiated at C\$0.44 in November 2019. Subsequent purchases, as recently as late last year, have lifted the MJG cost basis to approximately C\$0.65 per share.

Lara remains a bet on an honest, previously successful management team utilizing the prospect generation business model. The company's fortunes have shifted dramatically over the past ninety days, which has been reflected in the company's impressive share price performance (up roughly 55% year-to-date) in what has been an incredibly challenging market for copper-focused juniors.

In the interests of time, we will home in on the two most significant developments. The first of these, announced on May 16th, was the first batch of drill assays from the Capstone-funded Phase III drill program at Planalto. Five holes were announced in total, each drilled on the newly optioned Tariana license located to the north of the existing Homestake deposit. The results were game changing – with hole Plan-21-002 returning 341.3 meters of 0.65% CuEq from just 12.8 meters of depth and hole Plan-21-005 returning 339.75m of 0.53% CuEq from 73.29 meters.

If there were concerns previously on whether the IOCG system at Planalto was big enough for Capstone, they were put firmly to rest upon the May 16th news release. This looks like a mine in the making, and Lara is set to benefit with its 30% free-carried interest through production. Additional drill results from the Phase III program at Planalto can be expected this quarter.

The second development, entirely unrelated to Planalto, was announced just one day later. Lara issued a press release stating that the company had been advised by partner Codelco "that the court has given a positive ruling in the lawsuit defending the validity of our Liberdade exploration license with the Brazilian Mining Agency". Liberdade is another compelling copper development asset, with past intercepts of 197m of 0.72% CuEq and 128m of 0.75% CuEq in historic drilling. The project however has been mired in litigation for nearly a decade, with no progress having been made in the interim.

At the very least, this long-awaited decision suggests that Lara's partner Codelco has the upper hand from a legal perspective – though it's important to note that the ruling is subject to appeal. More optimistically, the ruling provides a window for some sort of settlement between the parties. Lara holds both a 49% project-level interest and a 2% NSR at Liberdade. A resolution to this long-standing lawsuit would serve as a significant share price catalyst.

Provided below are the expected Lara milestones in the second half of 2022. Absent a resolution to the Liberdade litigation, the Planalto Project will be the key driver of the Lara share price for the foreseeable future.

- Additional Phase III drill results at Planalto **by end Q3 2022**
- Commercial production at Celesta Copper Mine **by end 2022**

One final point of note. On July 6th, Altius Minerals – also a MJG partnership holding – announced that it had invested C\$550k into Lara’s recently closed C\$4m financing. In the words of Adrian Day, this “is not only a foothold but also an endorsement from some of the smartest people in the world”. Post-financing, Altius appears to own roughly 2.5% of Lara on a fully diluted basis. It will be interesting to see how this relationship evolves with time.

Salazar Resources (TSXV: SRL)

Featured In: **July 2019**

Average Cost Per Share: **C\$0.26**

Current Market Price (July 20, 2022): **C\$0.14**

Salazar Resources was highlighted in the July 2019 partnership letter. The position was first initiated in May 2019 at C\$0.16 per share. Subsequent purchases have increased our cost basis to roughly C\$0.26. The MJG partnership modestly decreased the size of its SRL position over the reporting period.

This investment has faltered on a couple of fronts. The first of the issues, political instability within Ecuador, is entirely out of the company's hands but has understandably impacted the SRL share price adversely. Led by indigenous organization CONAIE, mass demonstrations erupted last month against President Guillermo Lasso's government over long-simmering resentments. These include a lack of employment opportunities, soaring fuel prices, rising costs of living, as well as disagreements over socioeconomic policies and the role of extractive industries within the Ecuador economy.

While the mass demonstrations ended on June 30th after an agreement between the government and indigenous leaders, the damage was done to investor perception – with the SRL share price down over 30% since the protests commenced in mid-June. The Lasso government remains pro-mining, but there are legitimate concerns about its effectiveness going forward. It's therefore not surprising that the market largely overlooked the June 13th announcement from Salazar and its partner Adventus Mining that a “preliminary commitment... with regard to an Investment Protection Agreement for Curipamba” had been made by the Government of Ecuador.

The second issue faced by Salazar is that the company has failed to yield a market-moving discovery after self-funding drilling at three of its 100%-owned properties (Los Osos, Rumiñahui, and Los Santos). While acknowledging that the overwhelming expectation in grassroots exploration is failure, the company did have some agency in this circumstance and ultimately did not deliver. Given current market conditions and working capital constraints, Salazar would be well-served in holding off on additional self-funded drill programs and instead seeking out partners for its 100%-owned exploration portfolio.

Provided below are the two significant Curipamba permitting milestones expected later this year by Salazar and its partner Adventus Mining. (Curipamba is owned 75% by Adventus and 25% by Salazar.)

- Investment Agreement signed at Curipamba **by end Q3 2022**
- ESIA formal approval at Curipamba **by end 2022**

The fortunes of the two companies are intertwined for the foreseeable future, with both dependent on permitting success at Curipamba. This is reflected in the Salazar market cap, which at C\$22m is almost exactly one-third that of Adventus's. Salazar's 100%-owned project portfolio comes for free, which has been the status quo in the three years since the MJG partnership first initiated its position.

Adriatic Metals (ASX: ADT)

Featured In: **January 2019**

Average Cost Per Share: **A\$1.07**

Current Market Price (July 20, 2022): **A\$1.755**

Adriatic Metals was featured in the January 2019 investor letter. The position was first initiated in September 2018 at A\$0.39 in the weeks after the Rupice discovery hole. Subsequent purchases, as recently as late June, have increased the partnership's cost basis to A\$1.07 per share.

The Adriatic story has morphed from a discovery hole speculation to a mine development scenario over this nearly four-year ownership period. This has been to the detriment of the company's share price in recent months, as excitement surrounding the Vares Project's superb projected economics and exploration upside has given way to concerns about execution risk and more recently capex cost inflation. Late-stage mine developers are simply not in favor in the current market environment, and Adriatic Metals has not been immune from this sentiment. Even the stunning Rupice Northwest drill results announced in late June were unsuccessful in shaking the market from this stance.

This must chafe the ADT management team, which has executed brilliantly to date across all aspects of the business. This ranges from gaining community support for the Vares Project through a series of impactful local initiatives, navigating the intricacies of the mine permitting process in Bosnia, effectively promoting the story to a global audience of investors, and executing on an ambitious development timeline that has seen the project go from a new discovery to a fully financed mine build in under four years. With 15.6% of Adriatic owned by founders, management, and board members, the company's brain trust remains well-incentivized to add to this string of achievements.

The past however is not necessarily prologue, and it is also true that the task of building and commissioning a mine is entirely different from discovering and developing one. An investment in Adriatic Metals at this juncture is not without its risks, which include construction delays, capex overruns, a slower than expected ramp-up, metallurgical underperformance, and transportation complications to name a few. The question becomes whether these risks are more than compensated by the potential upside should the company execute to plan.

Sensitivity Summary Post-Tax NPV ₈ (US\$ million) & IRR (%)						
		-\$10/oz Ag or -\$400/t Zn	-\$5/oz Ag or -\$200/t Zn	--	+\$5/oz Ag or +\$200/t Zn	+\$10/oz Ag or +\$400/t Zn
Silver Metal Price Change (US\$/oz)	NPV ₈	\$823	\$937	\$1,062	\$1,188	\$1,301
	IRR	109%	121%	134%	147%	159%
Zinc Metal Price Change (US\$/t)	NPV ₈	\$991	\$1,026	\$1,062	\$1,097	\$1,132
	IRR	128%	131%	134%	138%	141%

Source: Adriatic Metals News Release. August 14, 2021.

The answer appears to be yes, even considering the recent silver price weakness. Given the exceptional grades exhibited at Rupice, the project still kicks out an after-tax NPV₈ of US\$823 million at US\$15 silver

and US\$3,000/tonne zinc. (Not to mention a 109% after-tax IRR.) These remain gaudy numbers by any standard.

This compares to an ADT enterprise value of roughly US\$420m, which assumes a full drawdown of the US\$143m Orion debt facility out of conservatism. The stakes become clear. Even at \$15 silver, Adriatic has roughly 110% upside to A\$3.69 per share before reaching 1.0x NAV. Should Adriatic management execute to plan on construction and ramp up, Adriatic shareholders are in line to double their money from current levels over the next 12-18 months – largely irrespective of silver price fluctuations. This affords sufficient upside to take on the risks outlined above.

Provided below are the Adriatic Metals milestones expected between now and first production at the Vares Project. Milestones for the company's Serbian assets are also included, though their importance is dwarfed by the activities in Bosnia.

- First drawdown of Orion debt package **by end Q3 2022**
- Finalized offtake agreements at Vares **by end Q3 2022**
- Annex to concession agreement granted **by end 2022**
- Drill results (22,000m) at Rupice and Rupice NW **by end 2022**
- Updated Resource and Reserve at Vares **by end 2022**
- Maiden JORC Resource Estimate at Raska **by end 2022**
- Scoping Study announced at Raska **by end 2022**
- First production announced at Vares **by end Q2 2023**

Sama Resources (TSXV: SME)

Featured In: **January 2018**

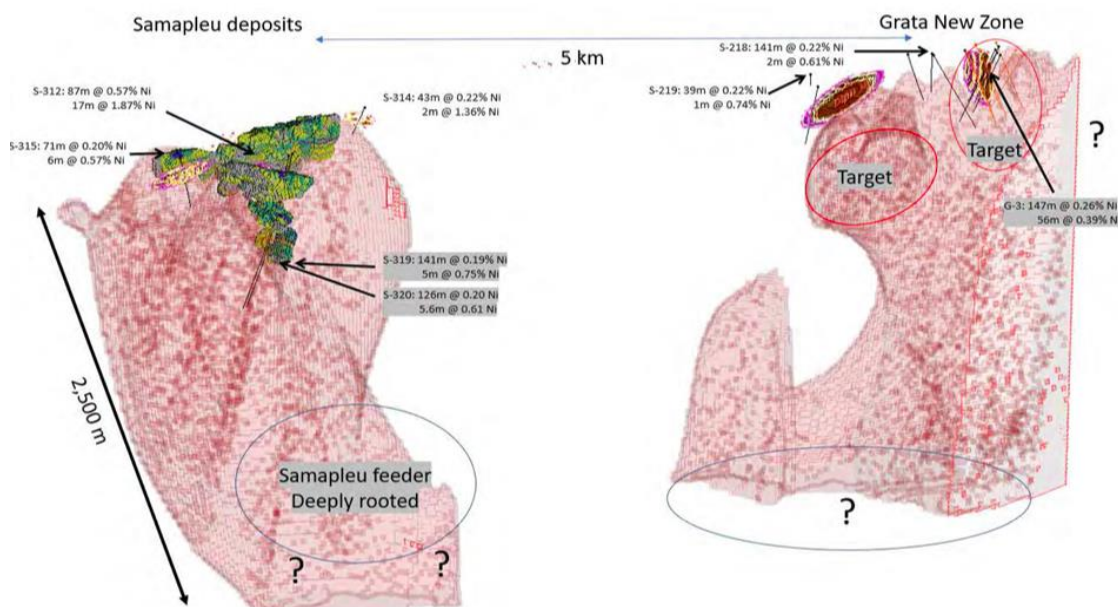
Average Cost Per Share: **C\$0.14**

Current Price (July 20, 2022): **C\$0.125**

The MJG partnership first initiated its position in Sama Resources via private placement in late 2016. We've continued to add to our position on the open market, most recently in January and February of this year. The opportunity cost associated with this investment has been significant, as the SME share price has underperformed the overall MJG portfolio by a substantial margin over this five-plus year ownership period.

While it's been a test in patience, Sama remains a partnership holding because it continues to check the key boxes that we look for in an investment. As mentioned in the January 2022 letter, these include (a) the caliber of the key players involved, (b) the immense scale of the opportunity being pursued in the Ivory Coast, (c) the minimal risk of share dilution given the Ivanhoe Electric earn-in, and (d) the quantifiable downside protection afforded by the company's large cash and marketable securities position relative to market capitalization. Nothing has changed on these fronts.

Additionally, there are couple more recent developments not reflected in SME's paltry C\$9m enterprise value. The first is that the Samapleu Property is currently undergoing its largest-ever drill campaign – with five drill rigs turning as of early June. (Until now, the project hadn't seen more than three drills active at any given time.) This suggests a 2022 meterage budget of at least 15,000 meters, assuming each of these five drill rigs remain active through year end. It appears that two of these rigs are deployed at the newly discovered Grata deposit, two at the nearby Samapleu deposit for infill drilling, and one at Yepleu to continue to test the 20,000 CT target.



Source: Sama Corporate Presentation. June 1, 2022.

Sama and earn-in partner Ivanhoe Electric are pushing to release a combined resource estimate for Grata and Samapleu by year end. A Prefeasibility Study is expected to follow in early 2023, outlining an open-pit mining scenario encompassing both deposits. (A PEA released in May 2020, which focused on the Samapleu deposit alone, outlined a US\$391m NPV₈ after-tax.) It bears repeating that this work will be entirely funded by the newly-listed Ivanhoe Electric, which is earning a 60% interest in the project for C\$25m in expenditures.

Secondly, there is the near-term potential for corporate activity at the company's 100%-owned Lac Brule Project in Quebec. Sama CEO Marc-Antoine Audet has quietly generated several promising drill targets at Lac Brule, which would target the scandium-enriched copper-nickel mineralization characteristic of the past producing Renzy Mine located 48 kilometers to the east.

The company is hell-bent on an initial drill program this coming winter and – aided by the quality of the geological thesis and Marc-Antoine's standing within the industry – Sama likely has a number of options on the table to fund this work. These include self-funding the program, bringing in a partner on the project level, spinning out Lac Brule into a standalone vehicle, or vending Lac Brule into an existing nickel-focused exploration vehicle in exchange for shares and perhaps a royalty.

Sama will decide on Lac Brule's ultimate direction in the coming few months, with any of the above outcomes having the potential to serve as a share price catalyst. Self-funding the program could be justified, given SME's healthy C\$9m cash position after two recent sales of SRG Mining shares. However, a deal at the right price with the right counterparty or an SRG-like spin out would both be preferable outcomes from a MJG perspective.

Included below are the potential share price catalysts that Sama shareholders can expect into early next year. Given the company's outsized ownership position in SRG Mining, major milestones expected for SRG have been included as well.

- Next batch of drill results from Grata and Samapleu **by end Q3 2022**
- Drill results from 1-2 wedge holes at Yepieu **by end Q3 2022**
- Maiden Resource at Grata + Updated Resource at Samapleu **by end 2022**
- Corporate activity or self-funded drill program at Lac Brulé **by end 2022**
- Updated Feasibility Study at SRG Mining's Lola Project **by end 2022**
- Mining Convention signed w/ Guinea govt at SRG Mining's Lola Project **by end 2022**
- PEA from SRG Mining for spherical graphite conversion facility in Europe **by end Q1 2023**
- Prefeasibility Study for combined Grata and Samapleu operation **by end Q2 2023**

Featured Investments (Since Sold)

<u>Company</u>	<u>Featured In</u>	<u>Average Cost Basis</u>	<u>Average Exit Price</u>
Golden Valley Mines (TSXV: GZZ)	July 2018	C\$6.22	C\$12.56
Ardea Resources (ASX: ARL)	July 2017	A\$0.58	A\$0.30
Viscount Mining (TSXV: VML)	January 2017	C\$0.33	C\$0.29
Excelsior Mining (TSXV: MIN)	July 2016	C\$0.24	C\$0.66
Golden Arrow Resources (TSXV: GRG)	July 2016	C\$0.24	C\$0.76
Almadex Minerals (TSXV: DEX)	January 2016	C\$0.16	C\$1.62
Quintis Limited (ASX: QIN)	July 2015	A\$1.16	A\$0.00
Nevsun Resources (NYSE: NSU)	January 2015	US\$2.45	US\$4.42
Tsodilo Resources (TSXV: TSD)	July 2014	C\$0.86	C\$0.71
Lithium Americas (TSX: LAC)	January 2014	C\$1.20	C\$12.70
Phoscan Chemical Corp (TSX: FOS)	July 2013	C\$0.29	C\$0.32
Soltoro Ltd (TSX: SOL)	July 2013	C\$0.48	C\$0.20
South Boulder Mines (ASX: STB)	July 2012	A\$0.48	A\$0.28
Northern Graphite (TSXV: NGC)	January 2012	C\$0.97	C\$0.80

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