CEDAR CREEK PARTNERS, LLC

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October 23, 2024

Subject: Cedar Creek Partners 2024 Third Quarter Results

Dear Partners and Friends:

For the first time in a while, the NASDAQ was not the best performing of the major indices. The DJIA rose 9.0% in the quarter, the Russell MicroCap rose 8.3%, and the S&P 500 5.4%. Year to date the S&P500 edged past the NASDAQ with gains of 21.9% and 21.1%, respectively. Other indices while positive lagged well behind. Cedar Creek decreased by 0.1% in the third quarter, and was up 4.8% year-to-date, net of fees and expenses.[1]

While Cedar Creek Partners focuses primarily on microcap stocks, and over-the-counter stocks in particular, we compare our returns against larger indices as well since we believe we need to outperform the most prominent passive benchmarks over time in order to justify our existence.

Cedar Creek's average annual return over our 18+ year history is 14.1%, net of fees and expenses, which compares favorably to all the indices we compare against. Cumulative returns since inception for Cedar Creek were 1,097.6%, net of fees and expenses.

	Q3 '24	'24 YTD	Inception	Ave. Annual
Cedar Creek	**-0.1%**	**4.8%**	**1,094.9%**	**14.1%**
NASDAQ	2.5%	21.1%	684.3%	11.6%
S&P 500 (SPY)	5.4%	21.9%	536.7%	10.4%
DJIA (DIA)	9.0%	14.1%	492.2%	10.0%
Russell 2000	0.7%	11.2%	306.0%	7.8%
Russell Microcap	8.3%	7.4%	200.2%	6.1%

* fund inception January 15, 2006. Index Returns as reported on Yahoo! Finance, Morningstar, Dow Jones and Russell.

$100,000 invested in the fund at inception in January 2006 would have grown to $1,194,869 as of September 30, 2024, net of fees and expenses, whereas $100,000 invested in the indices we compare against would have only grown to between $300,205 in the Russell MicroCap and $784,320 in the NASDAQ.

[1] While, no single index is directly comparable to Cedar Creek Partners, we believe that it is important to compare our performance to a passively managed approach. At the core of our investment philosophy is the belief that we can generate superior risk-adjusted returns by holding a more concentrated portfolio of under-valued securities, than an index holding a far greater number of securities. Index returns are calculated from information reported on Yahoo! Finance, Dow Jones, and Russell (see DISCLAIMER for more information).

Fund Holdings are at Incredibly Attractive Prices

On the whole, as of the end of September 2024, the fund's holdings were trading at 8 times our estimate of earnings for the coming year, and 6.5 times expected earnings net of cash at the respective businesses.[2] Trailing earnings multiple was 10.5 times. Weighted price-to-book was 1.3. Dividend yield was 3.6%. Weighted expected return on equity as of September 30, 2024, was 16.0%.

Cash Levels and Fund Repositioning

We started the quarter with cash levels at 4% and ended the quarter at 3%. Ther were no major sales in the quarter. We continued to purchase units in **Pacific Coast Oil Trust** (ROYTL), which we discuss further below.

Expert Market Exposure

Our exposure to stocks trading in the expert market held steady at 28% of the fund. Expert market stocks are companies impacted by SEC Rule 15c2-11. For those unfamiliar, the rule prevents brokers from not only displaying quotes for non-reporting companies but also restricts transactions to selling only. Institutional accounts, depending on the broker, are not subject to the buying restriction.

There are a wide range of differences among "non-reporting" companies. Some are completely dark – meaning they do not communicate any financial results to shareholders. Others update quarterly or annually on their website, sometimes behind a password login. Others mail annual results out to shareholders but do not post them publicly.

Four positions make up about 80% of the fund's expert market exposure – **Propel Media** (PROM) is about 8% of the fund, **PD-Rx Pharmaceuticals** (PDRX) and **First IC** (FIEB) are each about 5%, and **Pacific Coast Oil Trust** (ROYTL) is roughly 4% of the fund.

All of the fund's underperformance this year is due to the decline in the valuation of our expert market holdings. At the beginning of the year, Propel was valued at last sale of $0.89 per share. As of September 30, 2024, it was valued based on a dividend discount model at $0.525 per share. PD-Rx was valued at $7 at the beginning of the year and $3.56 per share at the end of the third quarter. Pacific Coast Oil Trust started the year at $0.415 per unit and was valued at $0.28 per unit as of September 30, 2024.

Update on a Few of Our Top Holdings

PharmChem (PCHM) – the fund is the largest owner, at 33% of outstanding shares, and I serve as Chairman of the Board. The bid price for shares rose from $3.32 per share to $3.36 in the third quarter. PharmChem makes sweat patches used to detect drugs of abuse. It is an alternative to urine testing. Second quarter earnings were $0.123 per share. Results in the quarter benefitted from a reversal in stock option expense. Excluding that benefit the company would have earned $0.079 per share versus $0.036 per share in the prior year quarter. More importantly, patch sales, excluding our former top customer, increased 7.1% in the first six months of the year, while screens, which lag patch sales, increased 2.2%. On

[2] Ratio excludes cash held by the fund. We add back non-economic amortization in our earnings estimate. Due to the uncertainty of the situation, we did not attribute any earnings or book value for Pacific Coast Oil Trust (ROYTL). We did not include excess capital of our bank holdings as excess cash.

October 1, 2024, PharmChem announced payment of a special dividend of $0.25 per share, which was paid out last week.

Citizens Bancshares (CZBS) - is an Atlanta, Georgia based bank that received $95.7 million of additional capital via the US Treasury's Emergency Capital Investment Program (ECIP) at the end of June 2022. The bid price increased from $45.45 per share at the end of the second quarter to $51.25 per share at the end of the third quarter. Citizens issued a press release for second quarter results. Earnings for the second quarter of 2024 were $2.11 per share, an increase of 17% versus the prior year quarter. They have reduced their share count by 10% over the last year, from 2.0 million shares to 1.8 million shares. Earnings for the first six months of 2024 were $4.06 per share versus $3.49 per share in the first six months of 2023. Starting in the third quarter they will be paying a 2% annual rate on their ECIP preferred, which will reduce quarterly earnings by $0.27 per share. Annualized earnings run rate after preferred stock expense is roughly $7.50 per share. The stock is an incredible bargain at seven times earnings for a massively overcapitalized bank that is shareholder friendly.

Solitron Devices (SODI) - the bid price for shares decreased slightly in the third quarter of 2024 from $18.00 per share to $17.61 per share. As a reminder, I am CEO and CFO of Solitron. During the quarter Solitron released fiscal first quarter results. Earnings were $589,000 or $0.28 per share. Subsequent to quarter end, Solitron announced fiscal second quarter results. Earnings were Solitron $17,000 or $0.01 per share due to a supplier issue that resulted in both a loss of revenue and increased costs from scrapping of over 2,000 parts.

ENDI Corp (ENDI) – we profiled in our 2024 first quarter letter. The share price was under $6.50 when we profiled it. During the third quarter the bid price declined from $7.96 to $7.81 per share despite continued improvement in the business. They continue to execute on their plans. They announced the sale of Willow Oak Asset Management which will reduce expenses. Assets under management (AUM) for CrossingBridge grew an impressive 10% in the third quarter from $3 billion to $3.3 billion. That is sequential growth , not year over year. In October they started a new fund – Nordic High Income fund. Assuming 40% cash operating margins, quarterly cash earnings should be approximately $0.28 per share, or $1.12 per share annualized.[3] Net cash and investments at the end of September should be approximately $1.90 per share, meaning the stock is trading at just over six times earnings, net of cash.

We wrote in our first quarter letter that we thought shares of ENDI were worth eight to ten times current earnings plus net cash, or $9.75 to $11.50 per share by year end. That valuation estimate was based on <u>no</u> growth – yet they grew 10% in the third quarter alone! If we used the same no growth valuation it would equate to $11.00 to $13.00 per share today with that value increasing $0.25 to $0.30 per share every quarter due to earnings. Thus, by the end of the year, fair value would be $11.25 to $13.50 per share assuming the same $1.12 per share annual earnings run rate and year-end cash balance of ~$2.30 per share. Obviously if revenue and earnings continue to grow the valuation estimate will increase.

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[3] Accounting Note: We ignore the impact of warrant liability change on reported earnings. While we understand the intent, it is one of our least favorite accounting rules. If the stock price goes up during the quarter the company is hit with a non-cash expense since the "cost" of the previously issued warrants is now higher. Conversely, if the stock declines in the quarter the company reports a credit to expense. The actual pricing of the warrants remains unchanged under both scenarios. The end result is the better the business does the worse reported results are and vice versa. That makes no sense to us. We prefer the impact be captured in diluted earnings per share.

Pacific Coast Oil Trust (ROYTL) units decreased from $0.31 to $0.28 per unit in the quarter. As we mentioned each of the last two quarters, the trustee received court approval to delay a sale of the interests and liquidation until completion of the audits for 2019-2023. Nearly a year has since passed, and no progress has been announced on any of the audits for those years, although language in their monthly press releases imply they are working on quarterly information for the audit which should only happen once the year end numbers were finished. Thus, it may be close, which could result in the properties going up for auction, or additional lawsuits.

The reason we say additional lawsuits is that to date it appears to us that the operator, PCEC, and the Trustee, Bank of New York Mellon, have made a number of errors that have harmed unitholders:[4]

1. The initial Offering Prospectus presented the asset retirement obligation (ARO) as fully remaining with the operator (e.g., page PCEC F-30 shown below). The operator, PCEC, followed this practice for seven years until a new ownership group purchased PCEC in 2019.

Pacific Coast Energy Company LP and Subsidiaries

Unaudited Pro Forma Balance Sheet

In thousands	December 31, 2011 Historical	Adjustments	Pro Forma
ASSETS			
Current assets:			
Cash	$ 1,380	$ 1,620[a]	$ 3,000
Accounts receivable, net	13,428	—	13,428
Derivative instruments	1,482	—	1,482
Prepaid expenses	115	—	115
Total current assets	16,405	1,620	18,025
Equity investment	35,067	—	35,067
Property, plant and equipment			
Oil and gas properties	421,207	(153,016)[b]	268,191
Non-oil and gas assets	9,149	—	9,149
	430,356	(153,016)	277,340
Accumulated depletion and depreciation	(94,241)	35,998[b]	(58,243)
Net property, plant and equipment	336,115	(117,018)	219,097
Other long-term assets			
Derivative instruments	409	—	409
Other long-term assets	4,682	—	4,682
Total assets	$392,678	$ (115,398)	$277,280
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	$ 7,628	$ —	$ 7,628
Derivative instruments	866	—	866
Short-term debt	74,000	(74,000)[a]	—
Related party payables	3,159	—	3,159
Revenue and royalties payable	3,970	—	3,970
Other current liabilities	744	—	744
Total current liabilities	90,367	(74,000)	16,367
Long-term debt	30,000	(30,000)[a]	–
Asset retirement obligation	22,300	—	22,300
Derivative instruments	3,059	—	3,059
Other long-term liabilities	899	—	899
Total liabilities	146,625	(104,000)	42,625
Equity:			
Partners' equity	246,053	223,107[c]	234,655
		(234,505)[a]	
Total equity	246,053	(11,398)	234,655
Total liabilities and equity	$392,678	$ (115,398)	$277,280

The accompanying notes are an integral part of these unaudited pro forma financial statements.

PCEC F-30

The operator argues, and the Trustee has apparently agreed, that the Conveyance Agreement language allows for assessment of the ARO to the Trust and that

[4] We are not lawyers but these are issues that seem to us should be addressed. There may well be additional items we are unaware of.

apparently what was presented in the Offering Prospectus doesn't matter.[5] Basically, as we understand it, they are arguing that the Conveyance Agreement superseded the Offering Prospectus. This seems a weak argument to us. Regardless of what document supersedes, we think the Trustee had a fiduciary duty to file suit over misrepresentations in the Prospectus showing the ARO fully remaining with the operator.

2. PCEC declined to assess ARO from 2012 up through the ownership change in 2019. Are they allowed to change their position and assess ARO retroactively such that it causes distributions to stop and triggers an auction of the assets? The Trustee has allowed them to, and the courts have apparently agreed so far.

3. Most of the ARO assessment relates to accretion - the change in the present value of future liabilities (in this case, plugging wells) due to the passage of time. The Conveyance Agreement only allows the operator to charge the Trust for costs incurred or accrued from and after the Effective Time (the time the Trust purchased the net profits interest) that relates to production occurring after the Effective Time. On the developed properties the ARO was already accrued prior to the Effective Time thus it cannot be accrued to the Trust. Only actual costs incurred for plugging can be, which it is our understanding is negligible. This results in a couple of issues.

First, it is not spelled out whether accretion can be assessed to the Trust. Accretion is not really a new accrual. If it cannot be assessed to the Trust then no ARO accrual on the developed properties can be, since, by definition, all the developed properties were already developed and had ARO accrued for, as required under GAAP. Further the $22.3 million the operator accrued for as of December 31, 2021, would have accreted to roughly $54 million today – more than the $49.8 million the operator, PCEC, is claiming for ARO. The Trustee has allowed this to take place.

Second, even if accretion can be assessed to the Trust, the original $22.3 million accrual cannot be. The Conveyance Agreement expressly says only costs incurred or accrued by the Grantor "from and after the Effective Time" can be. The $22.3 million ARO was accrued by the Grantor prior to the Effective Time, and as far as we know, no actual plugging costs have been incurred. This means that the assessment by PCEC has to be reduced. The question is - By how much? Is it the December 31, 2011, $22.3 million figure? Or that figure plus accretion to the Effective Time resulting in $22.7 million? Or should it accrete until the time of PCEC's decision to assess ARO as of December 31, 2019? Best we can tell, the Trustee has allowed all the ARO and all the accretion to be assessed to the Trust. We believe this is clearly wrong and had even the more "conservative" amount of $22.3 or $22.7 million used,

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[5] From our reading it appears PCEC and the Trustee used the language of Article II, Section 2.2 (a) and (n) which read:

"Developed Properties Gross Deductions" shall mean the following costs and expenses (and, where applicable, losses, liabilities and damages), to the extent that the same (x) are properly allocable to the Developed Properties Subject Interests (and any related equipment or property used in connection therewith) and the production and marketing of Developed Properties Subject Hydrocarbons therefrom and (y) have been incurred or accrued by Grantor, from and after the Effective Time, but that are not attributable to a production month that occurs prior to the Effective Time (*excluding*, in all instances, the Developed Properties Excluded Deductions):

(a) all costs paid by Grantor (i) for drilling, development, production and abandonment operations (including activities necessary to gain access to and prepare well locations for drilling; operations and activities related to drilling and equipping Developed Properties Subject Wells and service and injector wells; operations constituting or associated with workovers; the plugging and abandoning of any well or facility on the Developed Properties Subject Interests; and secondary recovery, pressure maintenance,

(n) all costs accrued for future plugging and abandonment of any well or facility on the Developed Properties Subject Interests; *provided* that such amounts shall not be included as part of the Developed Properties Gross Deductions in subsequent Payment Periods.

The problem is that the main paragraph limits how Section 2.2 (a) and (n) can be applied. We believe PCEC and the Trustee ignored the limitations.

unitholders would be owed $16 to $18 million in distributions, or roughly $0.40 to $0.45 per unit. The Trustee has apparently allowed this to take place.

4. It is theoretically possible that the Courts could rule in favor of the operator, PCEC, on all the above points but there is still another major issue. The Trustee appears to be taking the position that the assessed ARO to date does not have to be returned to unitholders along with the auction proceeds, net of any remaining costs. They seem to be communicating in the monthly 8-K filings that only the auction proceeds less certain costs will be returned. We believe this is completely wrong. ARO is accrued on the books of the owner at the time a well is brought into production; however, it transfers to the buyer when a property is sold unless the seller chose to retain it, as we believe PCEC did. Nothing in the Conveyance Agreement fully transfers it to the Trust.

In fact, PCEC and the Trustee's approach violates the Conveyance Agreement. The Conveyance Agreement limits accrued or incurred costs to those incurred during production months while the Trust was in operation.[6] Assessing the full ARO would be assessing for costs that incurred during the whole historical life of the wells – past (prior to the Trust having a revenue interest), present (while it has/had a revenue interest), and indefinitely into the future (when it no longer has a revenue interest). If any assessment was ultimately allowed, and we don't think it should, under the worst case it must be calculated based on units of production while the Trust had a revenue interest versus the total historical plus expected production for the life of the wells.

What is clear is that this an extremely complex issue with a lot of moving parts, and we think that complexity, along with its small size and limited liquidity, is why ROYTL is so mispriced. Our view is that it is priced as if every decision will go against unitholders and that time is not our friend. We think time is our friend because the ARO "balance" is clearly decreasing. We would argue that if any errors or violations of the Conveyance Agreement by the operator or Trustee are proven then much if not all of the $7 million in legal fees cannot be charged to the Trust.

So what does this all mean? What are the possible outcomes and returns? We are not going to attach probabilities to each scenario. It would be imprecise, and we think PCEC lawyers would try and use anything we say against unitholders. As noted above, we do believe the ARO should be fully returned to unitholders with interest if the trust is auctioned.

	Possible Outcomes	**Refunded**	**Distributions**	**Other**
1	ARO not assessable; distributions resume	$ 1.05	~ $0.25 year	n/a
2	ARO assessable limited to Remaining Properties	$ 1.05	~ $0.25 year	n/a
3	ARO assessable limited by $22.3 million + accretion	$ 1.05	~ $0.25 year	n/a
4	ARO assessable limited by $22.3/$22.7 million	$ 0.45	delayed ~ year	n/a
5	ARO assessable; auction; ARO refunded	$ 1.05	eliminated	auction proceeds
6	ARO assessable; auction; ARO pro-rated[7]	*$ $0.75*	eliminated	auction proceeds
7	ARO assessable; auction; ARO not refunded	$ -	eliminated	auction proceeds

[6] Conveyance Agreement says cannot include costs that "attributable to a production month that occurs prior to the Effective Time." It doesn't specifically address future costs because there would be no reason to as they would obviously be excluded.

[7] We have no idea the historical production for the properties. PCEC purchased the properties between 1993 and 2004. We guessed the Trust received 30% of total historical production, but it may well be a fraction of that.

Compared to the current price of $0.23 per unit all the scenarios should result in proceeds exceeding the current market price. Even the "worst case" of an auction where unitholders only receive proceeds should result in bids of in excess of the current $9 million market cap. The properties cash flow more than that in one year. All this to say, we were happy to add to our position at $0.30 per unit in the past few months.

Propel Media (PROM) **–** in January of this year the acquisition of Propel by **IQVIA** (IQV) was blocked by the FTC and both Propel and IQVIA decided to walk away rather than fight. As you may recall the deal was reportedly for between $700 and $800 million, or $2.75 to $3.15 per Propel share. In June 2023, we were able to purchase shares for $0.23 per share after becoming aware of the deal in published reports. Propel has paid a quarterly dividend since August 2023. In total we have received over $0.045 per share in dividends, or nearly 20% of our purchase price. We expect another dividend in November.

We purchased the stock in hopes of the deal going through. We had the possibility of 10-12x return. We knew that if it didn't happen, we were still likely getting a bargain. We doubted that the next best liquidity event would value the company at 1/10 of the potential merger price with IQVIA. We still believe that and are willing to wait. The dividends are a nice bonus to receive while we wait (see our 2023 Q2, Q3 and yearend letters for more details on our thoughts).

Expected Change in Fund Administrator

The fund has used Unkar Systems for a number of years as administrator. We were recently notified by Unkar that they plan to close operations as of year end. We are working on finding a replacement administrator.

Room for New Members and/or Additional Funds

We continue to have more attractive ideas than capital. Thus, there is plenty of room for existing partners to increase their investment and for others to join. Please consider referring friends of yours who may be potential new investors. The basic requirements are 1) that each invests a minimum of $100,000 and 2) that new members are accredited (high net worth) individuals. Subsequent investments must be for a minimum of $10,000.

If this letter was passed on to you and you would like to be added to our monthly distribution list, please email me at the email address below. You can find more letters at eriksencapitalmgmt.com/investor-letters. Should you have any questions regarding the fund, please don't hesitate to call or email.

Sincerely,

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DISCLAIMERS

<u>Fund Performance</u>
The financial performance figures for 2024 presented in this report are un-audited estimates based on the best information available at the time of the letter and are subject to subsequent revision by the Fund's auditors. Past performance may not be indicative of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

Net Return reflects the experience of an investor who came into the Fund on inception and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figures will therefore include the impact of high water marks in the cumulative return. Individual investor returns will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark figure, if any.

<u>Index Returns</u>
The S&P500 Index returns are reported using the S&P500 Depository Receipt Trust (SPDR) which trades under the ticker symbol SPY. Reinvested dividends are included in these figures. A spreadsheet showing the SPY performance versus the fund since inception is available upon request.

Nasdaq performance excludes dividends, which historically have been immaterial to the total return of that index. In recent years more technology stocks have begun paying dividends thus the inclusion of dividends would increase the reported figures.

Russell 2000 performance is from data reported on Russell's website and includes reinvested dividends.

DJIA returns are reported using the SPDR Dow Jones Industrial Average which trades under the ticker symbol DIA. Reinvested dividends are included in these figures. A spreadsheet showing the DIA performance versus the fund since inception is available upon request.

While reported returns for SPY and DIA will likely be a few tenths of a percentage lower than the representative index annually, we believe they are a better reflection of what a non-institutional investor would earn following a passive investment approach.

Index returns are provided as a convenience to the reader only. The Fund's returns are likely to differ substantially from that of any index, and there can be no assurance that the Fund will achieve results that are superior to such indices.

<u>Share Prices</u>
Share price figures for listed stocks are from Yahoo! Finance and unless specified otherwise are the closing price as of the previous month end. Share price figures for unlisted stocks are closing bid prices as reported on otcmarkets.com, except for unlisted stocks classified as expert market, which do not have public availability of quotes, and are marked to last sale.

<u>Forward Looking Statements</u>
This letter and the accompanying discussion include forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.