TONUS CAPITAL INC.

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FIRST QUARTER 2016 - NEWSLETTER

Dear Partner,

I am pleased to send you this portfolio review and commentary for the first quarter of 2016.

Performance Review

Since the inception of the Tonus Composite in October 2007, it has achieved a compound rate of return of **10.23%**, compared with **2.03%** for the S&P/TSX TR and **9.67%** for the S&P 500 TR $CAD.

Launch of the Tonus Partners Fund, our new pooled fund investment vehicle

The first quarter marked an important milestone in the operational structure of Tonus Capital. In January, we successfully launched the Tonus Partners Fund, an efficient investment vehicle with a simple operational and fee structure. We are off to a good start, building on the same investment philosophy and discipline underlying Tonus's investment results over the past eight years. Despite wild market swings and major currency fluctuations, the fund generated positive returns in each of the first three months of the year.

During the first quarter of 2016, the Tonus Partners Fund was up **4.77%**. Over the same period, the performance of the S&P/TSX Total Return was **4.54%** and that of the S&P 500 Total Return in Canadian dollars was **-5.63%**.

Volatility leads to big moves in our liquidity position

The first quarter of 2016 was a wild one for the financial markets. While we normally execute only a few transactions per quarter, we were much more active in the first quarter. Throughout January, headlines centred on recession risk, China's slowdown, falling oil prices, and the impact of a stronger dollar on U.S. exports. On February 11, the market entered a correction phase, falling 10% from the beginning of the year. Small capitalisation stocks in particular were hit hard, dropping 25% on average from their highs. As you know, our mandate grants us flexibility on the amount of cash we are allowed to hold. As such, a significant portion (more than 20%) of the portfolio was in cash at the start of the year, and we took advantage of the decline in the market to purchase three new stocks: **Canadian National Railway Company (CNR - $81.16), Sleep Country Canada (ZZZ - $19.51)**, and **Primerica (PRI - $$44.53)**. We also bought more shares of some of our existing holdings. We had been waiting for just such a degree of volatility to deploy our dollars. As a result, our cash position sank below 10% in February.

We were still on the hunt when markets snapped back quickly, reversing earlier losses. While there had been talk of recession a few weeks earlier, by the end of March the focus was back on government stimulus and low interest rates. Luckily our analysis is not prone to such

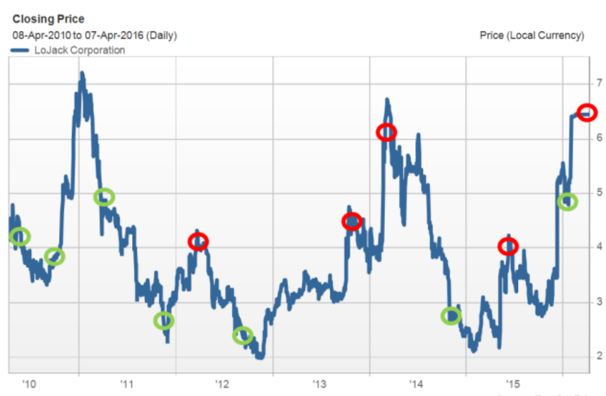
‘’bipolarity’’. Indeed, our long-term outlook allows us not to get unduly caught up in the short-term macro noise. Consequently, we remained rational and took advantage of the rising tide in March to sell some holdings that had reached our fair value assessment. Accordingly, **American Homes 4 Rent (AMH - $15.90)** and **Generac Holdings (GNRC - $37.24)** were liquidated. This, combined with the proceeds from the acquisition of LoJack (more on this later), contributed to raise our cash level above 30% again by quarter’s end.

Our market commentary for the first quarter would not be complete without spending a few words on the subject of foreign exchange. After taking a plunge in 2015 (which obviously weighed on our performance last year), the Canadian dollar bounced back from 68 to 77 cents this year. For the first quarter, we estimate the currency impact on our returns at -4.9%, which somewhat veiled the strong performance of our stocks over this period.

LoJack acquired by a competitor, generates a 78% return

In the first quarter, the biggest news to impact our portfolio was the acquisition of **LoJack Corporation (LOJN - $6.45)** by CalAmp Corp for $6.45 a share. We first purchased LoJack back in May 2010 and have since been active buying and selling the stock when opportune.

Over the investment period, our return has been 18.8% per year. Our active management has allowed our invested dollars to double despite the fact that the share price did not. As long-term investors, we typically hold stocks for many years, but also grow holdings or sell portions of them under the right circumstances. Based on our own fundamental research, financial models and risk analysis, we establish a target price for each stock in the portfolio. As was the case with LoJack, when the stock price offered a large discount to our target, we added securities, and when the discount to our intrinsic value shrank, we sold. Let us look back, then, at the highlights of our investment in LoJack.



After meeting company management in Boston in 2010, we centred our initial thesis on the fact that LoJack stood to benefit from the post-recession growth in new car sales and from cutting costs and discontinuing unprofitable business segments. This scenario played out as the company doubled the number of device installations in the United States. However, three company-specific events provided the opportunity to buy more shares: a) a lawsuit from a financially distressed Brazilian licensee; b) a quality problem related to malfunctioning batteries from a Chinese supplier; and c) import restrictions preventing their Argentinean licensee from buying products. In all three cases, we deemed the likelihood of a long-term impairment on the company’s earnings potential to be limited. Moreover, as with the majority of our holdings, we took great comfort in the fact that the company had a strong balance sheet with more than $20 million in cash, which significantly lowered our downside risk.

The above situations all resolved positively. The licensee lost the lawsuit, insurance covered the liability of the malfunctioning battery, and a change in government in Argentina should lead to the borders being opened. Realizing this, CalAmp made various offers to acquire the company, publicly disclosing their latest in December. As LoJack’s management reviewed the bid, we did our own due diligence and discussed the deal with the buyer's CEO. This prompted us to buy more shares in January below $5. The deal was struck in February when the offer was sweetened to $6.45 a share. We tendered ours and received the proceeds in March.

Philippe Hynes named Quebec financial personality of the year under the age of 40

Finally, on a personal note, I was honoured in February to be named Quebec financial personality of the year under the age of 40. This was in recognition of my efforts at providing you with the best service possible and good long-term returns on your investment. I would like to seize this occasion to thank every one of you for supporting me over the years as it would have been impossible to build Tonus without you, our investment partners. If you have not done so yet, I invite you to read the article published in Finance & Investissement (in French) as well as a news story in this regard posted on the Concordia University website (in English).

Sincerely,

Philippe Hynes, CFA
April 12, 2016

Tonus Composite Performance Report
As of March 31, 2016

Date	Tonus Composite Gross Return	S&P/TSX Total Return	S&P 500 Total Return ($CAD)
6 Month	2.43%	3.08%	4.66%
1 Year	0.11%	-6.57%	3.95%
2 Years	1.20%	-0.05%	15.93%
3 Years	9.90%	5.02%	21.17%
5 Years	13.91%	2.10%	18.14%
Since Inception (Oct. 31, 2007)	10.23%	2.03%	9.67%

Source: Bloomberg Finance L.P.
All returns are gross of fees.
Please note that all returns greater than one year are annualized.

The Tonus Composite was created October 31, 2007. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 25% of portfolio assets.
Investors should carefully consider the firm's investment objectives, risks, and expenses before investing.
Portfolio composition is subject to change at any time and reference in this letter to specific securities, industries, and sectors should not be construed as a recommendation to purchase or sell any particular security. Current and future portfolio holdings are subject to risk. The Composite return is not guaranteed; its value changes frequently and past performance may not be repeated.