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SECOND QUARTER 2017 - NEWSLETTER

Dear Partner,

I am pleased to send you this portfolio review and commentary for the second quarter of 2017.

PERFOMANCE REVIEW

During the second quarter of 2017, the TONUS PARTNERS FUND decreased -**1.66%**. Over the same period, the performance of our benchmark (defined as 50% S&P/TSX Total Return and 50% S&P 500 Total Return in Canadian dollars) was **-0.64%**.

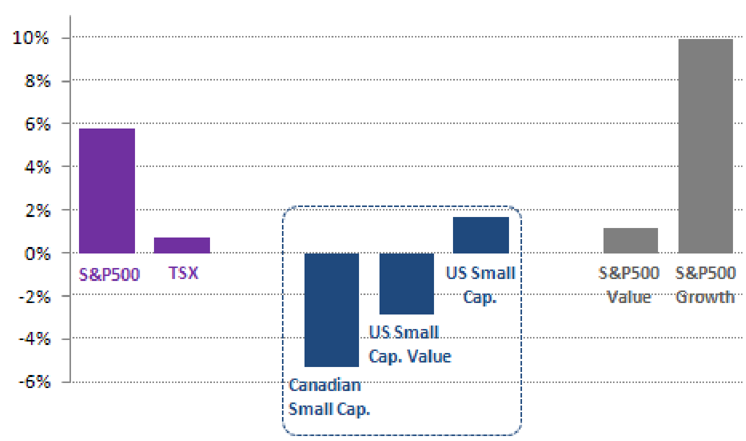
Year to date, the TONUS PARTNERS FUND is down **-0.14%** against **3.27%** for the benchmark.

Since the inception of the Tonus Composite[1] in October 2007, it has achieved a compounded annual rate of return of **11.78%**, compared with **6.97%** for the benchmark.

First half performance

After turning in very strong performances in 2016, both our fund and the Canadian market got off to a slower start this year. Of the 30 indices representing the world's biggest stock markets by value, only four are down year to date, and the TSX is one of these (before dividends). The Toronto Stock Exchange is clearly lagging. We are up 13% over that past 12-months, but our first-half performance in Canadian dollars of -0.1% is far from spectacular. Though most of our stocks have fared well, we were hit by a series of macro headwinds that adversely impacted our returns: 1) the USD lost 6% of its value against the loonie; 2) energy stocks declined 15%; 3) small caps under-performed large caps in relative terms; and 4) growth stocks outperformed their value counterparts by 10%! . Our small cap and value biases were definitely not in vogue so far this year, as illustrated by the following histogram of major segments of the market:

Performance breakdown of major North American indices



Ex-currency, we returned 2.73% in local dollars; more than 50% of our assets being invested south of the border

[1] Please see page 4 for a description of the Composite

Patience of value investors

Value investing is not about buying trendy companies. Nor is it about being popular. Value investing consists in building a concentrated portfolio focused on solid companies whose stock is undervalued, usually for non-fundamental reasons, and then waiting for the market to come around to reality and right-price them. As mentioned in our last letter, volatility—the value investor's best friend—is nowhere to be found this year and investors seem to be piling in on the same trades. American indices are up year to date, but this is being driven mainly by a few mega caps with a considerable impact on benchmark returns. Growth stocks are very much in fashion right now, as low interest rates have pushed investors towards riskier investments. Trend followers are essentially buying more of what has been working, namely, large-cap tech companies.

Rest assured that we will not be changing our investment style merely to follow suit. In fact, we will continue to look in the opposite direction at what has not been working, at what has fallen out of the market's favour. The more money flows out of small caps and value stocks, the higher the chances of finding bargains that, independent of a reversal in current trends, satisfy our criteria for great long-term investment. Accordingly, we took advantage of the weakness in the energy sector to initiate a position in Q2. Based on our own proprietary research, we believe the market has misunderstood this company's business model and value.

The Source of Sand

Source Energy Services (SHLE - $8.01) is a producer, supplier, and distributor of frac sand in Western Canada. It fits the bill of the beaten-down, market-shunned company perfectly. Still relatively unknown to most investors, Source went public earlier this year in a thorny stock offering. Usually, private owners take advantage of periods of lofty valuations to launch their IPOs. These rarely constitute good deals for new investors. In Source's case, however, the reason for going public was to finance the acquisition of a sandpit that would roughly double the company's supply of frac sand. It was purchased last year for $45 million dollars when prices were lower. The initial filing had the company seeking to raise $17 to $20 per share. The target price was subsequently lowered to $13–$15 and, because the energy sector fell out of the market's good graces, shares finally went for a lowly (and very appealing) $10.50. Private equity owners, who were selling stock at the original price, ended up increasing their ownership at the cheaper price, which confirmed the deal's attractiveness.

Notwithstanding how the IPO unfolded, the company's operations are sound but, in our opinion, they are ill understood by most investors. Sand mining is not a fantastic business—true—and companies in the sector tend to be viewed as lower quality cyclical businesses for good reason. However, what investors have yet to notice is that Source Energy is much more than a mere sand producer. It also offers sand logistics services for the critical and complex operation of moving, storing, and delivering massive quantities of product in a given place at the right time. It is not uncommon today for an operator to need 10,000 tons of sand delivered from a sandpit in Wisconsin to a drilling pad 2,800 km away in northern Alberta! This integrated model has enabled Source to generate gross margins twice those of its competitors. Finally, the company is by far the dominant player in Canada with a market share that could soon exceed 50%.

We recently visited the company's facilities and were able to see firsthand the prime location of its massive terminal in Grande Prairie, Alberta, right on the CN line. This confers the company a competitive advantage to serve busy operators in the Montney formation. Some of their clients

have also told us they want to rent some of their Sahara sand storage units (see our picture of it), which are fully booked at this point. Wisely managing capital, Source is building more of them.

Moreover, demand for sand in Canada should be extremely strong over the next few years for two main reasons. First, the rig count in Canada is doubling. Second, proppant intensity, that is, the amount of sand pumped in each well, is increasing significantly as Canadian operators emulate the ways of their American counterparts, who have been extremely successful. To this end, Source is significantly increasing its storage capacity to be able to meet this demand. Major contracts signed in a weak commodity environment are presently being repriced. As a result, we estimate that Source will be able to generate EBITDA far in excess of 100M next year, making its current valuation of 400M very attractive.

Wishlist

We researched other stocks in the second quarter but none met all of our buying criteria. Some made it to our wish list of currently overvalued prospects. Others were discarded owing to an unfavourable risk/reward profile or an unquantifiable downside. Generally speaking, the markets are fully valued at present. However, there are pockets offering interesting opportunities. We will evaluate these thoroughly before deploying our capital.

Frequency of unitholder reporting

In closing, starting in the third quarter, you will receive your investment account value and performance quarterly instead of monthly. Our independent administrator will continue to strike the monthly value of the units and it will still be possible for you to make incremental purchases or withdrawals on a monthly basis. The idea is to align our reporting with our long-term approach to investing. If you have any comments or questions regarding these changes, feel free to contact us.

Have a great summer.

Philippe Hynes, CFA
July 15, 2017

Tonus Composite Performance – As of 06/30/2017

	Tonus Composite (Gross Returns)	*Index*
3 months	-1.26%	-0.64%
6 months	-0.14%	3.27%
YTD	-0.14%	3.27%
1 year	13.05%	14.33%
2 years	11.24%	9.03%
3 years	8.13%	9.89%
5 years	16.10%	14.36%
Since Inception	**11.78%**	**6.97%**

Source: FactSet Research Systems, Inc.
Returns are gross of fees and are calculated using a time-weighted rate of return.
Past performance is not indicative of future results.
Returns greater than 1 year are annualized.
Benchmark consists of 50% S&P/TSX TR Performance ($CAD) + 50% S&P500 TR Performance ($CAD)
S&P500 TR ($CAD) is adjusted for US dividend withholding taxes

Please note that Tonus Capital serves as the investment manager for the Tonus Partners Fund. Historical returns shown are for the Tonus Partners Fund. Prior to January 2016, the returns are from the Tonus Select Fund from October 2007 to October 2011 and from the weighted average of all managed accounts (including those accounts no longer with the firm), using the same strategy implemented in the actual Tonus Partners Fund, from November 2011 to December 2015. Although the structure and the name of the investment product changed, it had for the entire period the same investment mandate, objectives, strategy and benchmark. Past returns are not necessarily indicative of future performance. At any moment, the portfolio composition may vary widely from a 50/50 CAD/USD split as it is for the benchmark. Returns are gross of fees and in Canadian dollars. Any investment in the Fund is speculative and involves substantial risk, including the risk of losing all or substantially all of such investment. This document is not to be construed as a public offering of securities in any jurisdiction in Canada and is for informational purposes only. While the information and material in this document are believed to be accurate at the time they are prepared, Tonus Capital Inc. cannot give any assurance that they are accurate, complete or current at all times. The Tonus Composite was created October 31st, 2007 and the Tonus Partners' Funds was created January 4th 2016. The firm maintains a complete list and description of composites, which is available upon request. For more information on the investment strategy and complete terms and conditions relating to an investment in the Fund, please consult the Offering Memorandum available on request.