● TONUS CAPITAL INC.

Tonus Capital Inc.
999 de Maisonneuve Ouest
Suite 799
Montréal, Québec H3A 3L4
Tel: (514) 844-4443
www.tonuscapital.com

SECOND QUARTER 2015 - NEWSLETTER

Dear Partner,

I am pleased to send you this portfolio review and commentary for the second quarter of 2015.

PERFOMANCE REVIEW

During the second quarter of 2015, the Tonus Composite increased **2.56%**. Over the same period, the performance of the S&P/TSX Total Return was **-1.63%** and that of the S&P 500 Total Return in Canadian dollars was **-1.15%**.

Year to date, the Tonus Composite is up **6.52%** against **0.91%** and **9.11%** for the S&P/TSX TR and the S&P 500 TR $CAD, respectively.

Since the inception of the Tonus Composite in October 2007, it has achieved a compound rate of return of **11.64%**, compared with **2.92%** for the S&P/TSX TR and **9.95%** for the S&P 500 TR $CAD.

PORTFOLIO REVIEW

In a year where markets seem to be going nowhere, our portfolio is up almost 7% at the halfway mark. Most of the constituent shares have fared nicely in the second quarter, especially our largest positions. As a result, our showing over the period was positive while markets were down instead. Uncharacteristically, our benchmark, which is representative of the North American market (in Canadian dollars), registered several negative monthly returns this year, more specifically, in March, April and June. It is on these occasions that we most outshone the markets, which declined on average 1% while we held rather level. Moreover, we managed to reduce our cash position below the 20% mark during the quarter for the first time since last August. It needs to be said that a flat or down market provides the most propitious environment for us to deploy capital.

One of our new additions is **Mediagrif Interactive Technologies (MDF – $17.02)**. The company, based near Montreal, provides e-commerce solutions to consumers as well as private and public organizations. We had been intrigued by the business ever since the current CEO, Claude Roy, took over in 2009 with his sight set on growing profits rather than sales. Roy right-sized expenses and refocused the company on key verticals. He then set out to grow the business through the purchase of Intertrade in 2010, LesPac in 2011, and Jobboom in 2013. Each time, the stock reacted positively with an average jump of 10%. We are not big fans of growth by acquisition, but when the man calling the shots owns 22% of the common stock, is buying more of it on the open market, and has a track record of making value-generating deals, we might expect him to deploy capital prudently. In fact, it might be this prudence and discipline that afforded us the opportunity to buy shares in the second quarter at below $17. The price was down almost 20% from its two-year high as the market grew tired of waiting for Mediagrif's next move. For us, patience is a virtue and we will always prefer no deal as opposed to a bad one. In the meantime, the company repaid half of its debt, bought back shares, and is paying out a dividend. We believe that if Roy does not find an attractive acquisition this year, the cash piling up on the balance sheet could be used to repurchase a meaningful portion of the company. (Note: Shortly after I wrote these lines, the company reported in a regulatory filing that it repurchased 417,000 shares in June, that is, 2.7% of the shares outstanding.)

The stock will be driven also by a return to organic growth. Although some segments of the business have been growing, this fact has been masked by two factors in recent years. First, in 2013, the federal government did not renew its contract with Mediagrif and the company lost 10% of its revenues over the span of fiscal 2013 and fiscal 2014. Second, Mediagrif owns a group of businesses that generate healthy cash flows but in decline mode. By our estimate, the group used to account for 40% of revenues, but this figure is now down to less than 25%. Mediagrif has been able to replace the federal government work and the overall impact of the mature businesses is diminishing. With these headwinds largely behind it, we believe the company will be able to post organic growth this year and further expand EBITDA margins, which has been a primary objective for management. In these five years of little organic growth, the company has been able to grow free cash flow per share more than 2.5 times, from $0.47 to $1.19. This growth should continue and, given the fact that the stock is flirting with all-time low multiples, we believe we will be looking at sizeable gains down the road.

Just a quick word on **Blue Bird Corporation (BLBD - $12.99)**, the school bus manufacturer, which we discussed in last quarter's letter. The stock was our best performer in the second quarter, up 27%, and it recently gained more momentum by being included in the Russell 2000 small-cap index. We are more enthused than ever by the company's ability to gain market share with its dominant position in propane buses. The industry is shifting towards this technology, which is greener, cheaper, and more reliable. We expect the stock will generate even more gains for us in future.

COMMENTARY

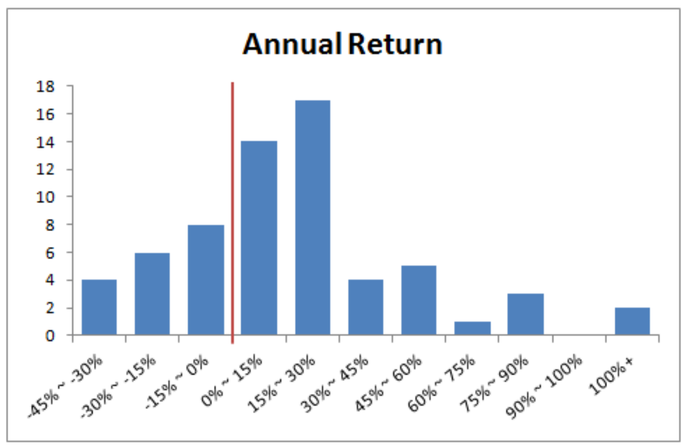
With markets staying put so far this year, what has driven our returns is clearly our stock-selection strategy. Every quarter, we try to lay out the motivation underlying some of our picks. We now thought the time was ripe to look back and examine how we have been able to outperform the market since the portfolio's inception in October 2007 and evaluate how good (or bad) our stock picking has been. As you know, our strategy allows us to seek out value investments in both Canada and the United States. However, if our wish-list stocks exceed our desired purchase price, we will prefer to exercise patience and prudence, and keep cash for a later, more attractive date. Since inception, our portfolio has generated an excess return (over the 50%/50% benchmark we use) of 4.49% per annum. It can be broken down into three components. First, our decision to invest a greater proportion of assets in the U.S. market, motivated by more attractive valuations, has added 2.9 percentage points to our returns annually. Second, as we have not always been fully invested - following profit taking in the portfolio and when compelling investment opportunities were simply not available - low-yielding liquidities have detracted 1.6 percentage points from our annual returns. Finally, stock selection has been the most important component, boosting annual returns by 3.1 percentage points per year. As our job is to find good investments for you, let us take a closer look at how we have managed this.

Factors	Annual Excess Return
Geography	2.91%
Cash	-1.55%
Stock Picking	3.13%
Total Excess Return	**4.49%**

Since inception, we have purchased a total of 63 stocks in the portfolio, about 7 per year. The average return from initial purchase to final sale (or to the end of June for the stocks we still owned) has been 32%. On an annualized basis, taking into consideration the effect of stocks held for more than one year, the average annual return registered per investment has been 16%. However, stocks have also benefitted from the impetus of the bull market of the past few years. So we need to factor out the market's impact in order to determine what our true merits are as investors. As mentioned, from purchase-to-sale, our 63 stocks have returned 16% annually on average. Over the same period, the market, average-weighted for the length of time we owned each investment, has returned 8%, only half as much. Clearly, our picks have been good.

Finally, let us take a look at our batting average. We spend a lot of time researching and modelling all of our holdings to minimize downside risk and prevent permanent value destruction. Accordingly, we prefer to pass on opportunities if they hold the promise of high returns**,** but also carry the potential for heavy losses. Discipline is the key to our strategy: Buy only when the price is right. To this end, we must exercise patience and be willing keep cash when few bargains are to be had. This is the only way to achieve a high success rate far above the 50% bar that many set for themselves.

So how have we fared? Of the 63 purchases made to date, 46 (73%) have been winners. Of the 17 in the red, 7 are still in the portfolio and should ultimately end up in the black. The following histogram shows the distribution of returns. As we can see, losses have been small, most investments have posted annual returns from 15% to 30%, and a few stocks have been extraordinary for us. This is congruent with our philosophy of minimizing losses and seeking good returns, which does not preclude us from getting huge winners now and again.



In sum, we have proved skillful at picking stocks. Markets have been directionless so far this year. Corporate profit growth is slow and valuations are, generally speaking, above historical levels. Our assessment of the market has been the same for a few quarters now. Nevertheless, as we have demonstrated, we have managed to spot attractive investments on occasion and we will continue to be on the hunt for more such opportunities, while maintaining our rigid focus on protecting invested capital.

Sincerely,

Philippe Hynes, CFA
July 10, 2015

Tonus Composite Performance Report
As of June 30, 2015

Date	Tonus Composite Gross Return	S&P/TSX Total Return	S&P 500 Total Return ($CAD)
3 Month	2.56%	-1.63%	-1.15%
6 Month	6.52%	0.91%	9.11%
Year-to-Date	6.52%	0.91%	9.11%
1 Year	2.17%	-1.16%	25.91%
2 Years	14.20%	12.73%	25.78%
3 Years	19.47%	11.11%	25.48%
5 Years	16.79%	8.27%	21.22%
Since Inception (Oct. 31, 2007)	11.64%	2.92%	9.95%

Source: FactSet Research Systems, Inc.

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.