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THIRD QUARTER 2018 - NEWSLETTER

Dear Partner,

We are pleased to send you this portfolio review and commentary for the third quarter of 2018.

Performance

During the third quarter of 2018, the TONUS PARTNERS FUND decreased -**0.06%** (gross of fees). 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 **2.57%**.

Year to date, the TONUS PARTNERS FUND is down **-0.94%** against **7.50%** for benchmark.

Since the inception of the Tonus Composite[1] in October 2007, it has achieved a compound rate of return of **10.57%**, compared with **7.60%** for the benchmark.

Quarterly review

The third quarter is over and we were flat for the period; our numbers are not where we would like them to be for the year so far. On an absolute basis, it's been frustrating to see our performance hover around nil. As usual, there have been strong performers whose share prices have risen significantly. However, contrary to what we have been accustomed to, there have been far more laggards this year offsetting the return generated by our stars. Typically, in any given year, one or two of the 15 to 20 stocks in our concentrated portfolio will underperform. This year, there are six, all small caps, a category inherently more volatile. Truth be told, this volatility can work both ways. So while our patience is being tested by their persistently low share prices, we believe a reversal could be quick and fierce. This is why we have not crystallized our losses. Instead, in many cases, we have been purchasing more shares at lower levels and should reap the benefits in the future.

It is a matter of time before the market re-rates these stocks. We must remain patient and wait for either an earnings improvement or a company-specific catalyst. The latter can originate internally. Indeed, we have witnessed the Boards of three of our laggards take steps to enhance shareholder value. Recognizing that their companies were undervalued, the directors initiated a process to find buyers for parts or all of their companies at much higher levels.

Uni-select (UNS - $21.99)

By mid-September, the company's share price was down 26%. After enjoying above-normal market conditions in its paint distribution business to the middle of 2016, competitive pressures and supplier rationalization led to declining profitability in its most lucrative segment. Though the

[1] Please see page 3 for a description of the Composite

initial pull-back in share price was justified, it was exacerbated by poor communication and execution on the part of management. Consequently, the Board decided to let its CEO go and to shop some or all of the company. We believe suitable candidates will answer the call. The paint distribution business still enjoys double-digit margins, EBITDA levels north of $80 million annually, and a market share close to 30%. Their recently acquired European business should also be attractive for players wishing to expand across the pond. Finally, their Canadian business is finishing a systems upgrade that should drive margins higher. We believe the business could fetch between $26 and $31 per share in a transaction. This would constitute a 25% bump from today's price.

Mediagrif (MDF - $10.88)

Claude Roy, the CEO and principal shareholder of this e-commerce solutions provider, grew fed up with the public value of the company and announced he was ready to work with his Board to sell the business. After pulling the share price down more than 25% over the past year, investors gave up on management's strategy to reinvest part of their profits in growth initiatives. To be sure, investors have placed too much emphasis on consolidated organic growth and have overlooked strong individual performers inside the group. This is understandable since the company offers a hodgepodge of e-commerce solutions. While each is different, ALL are profitable. With the announcement of the strategic review, we believe some of the growth investments will be curtailed and profitability will improve further. With the company generating more than $1 of free cash flow per share, we believe a buyer could pay $17 to $19 per share, lever up the balance sheet, and generate a great return on investment. The downside is very limited and is protected by the value of their best business, Intertrade, which we believe could fetch a $100M valuation on its own, or $7 per share.

PHI Inc (PHIIK - $9.34)

This provider of medical helicopter services and transportation to the offshore oil and gas industry, too, is looking at strategic alternatives with its stock down 20% since the beginning of the year. Investors were first focused on the tough conditions of its energy-related operations. Then, with oil prices perking up, offshore drilling slowly resumed and decent profitability was once again on the horizon. Yet, despite these improvements, the stock is still under pressure as the company's deadline for refinancing its $500M in senior notes fast approaches. The company expected to resolve this in short order, but lenders are demanding rates that are forcing the CEO and majority owner to consider other options. Because it operates in two very different segments, PHI has never enjoyed a valuation that fully reflects the sum of its parts. Were PHI to sell either branch of its business, we believe investors would realize the value of its parts. Our internal valuation sets the value of the air medical business at $450M (based on profitability) and the value of the offshore operations at $500M (based on a discount to a third-party valuation of the current value of its owned helicopters). According to our valuation, the sale of either one of the two businesses would bring in enough money to cover the maturing debt and shareholders would still enjoy value north of $17 per share, which constitutes a hefty 60% premium over the stock's current price.

To be clear, we are not hanging on to these three investments on the sole premise of a take out. We like their business models and we believe current share prices are undervaluing them. If the companies are acquired, the payout will be quick. If they are not, we think we will still generate strong returns from them down the road. Where our other laggards are concerned though, there is no M&A activity in the offing, a valuation rebound is more than warranted.

We will keep you informed of the strategic reviews that should have a positive effect on our portfolio. Meanwhile, many stocks that we are monitoring fit the above profile. We have a long list to evaluate, so we could see some fresh additions to the portfolio in the near future.

Sincerely,

Philippe Hynes, CFA
October 11, 2018

For reference, find below the historical gross returns of our North American equity strategy:

Tonus Composite Performance – As of 09/30/2018

	Tonus Composite (Gross Returns)	*Index*
3 months	-0.06%	2.57%
6 months	4.43%	8.85%
YTD	-0.94%	7.50%
1 year	2.57%	13.56%
3 years	9.85%	12.72%
5 years	9.43%	13.39%
10 years	10.81%	10.20%
Since Inception	**10.57%**	**7.60%**

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.