Smedley Special Opportunities Newsletter

July 2017

MORGAN MEIGHEN & ASSOCIATES *Investment Management*

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Smedley Special Opportunities Fund

(As at June 30, 2017)

Returns

YTD	1 YR	3 YR*	5 YR*
+2.7%	+9.8%	+1.9%	+11.8%

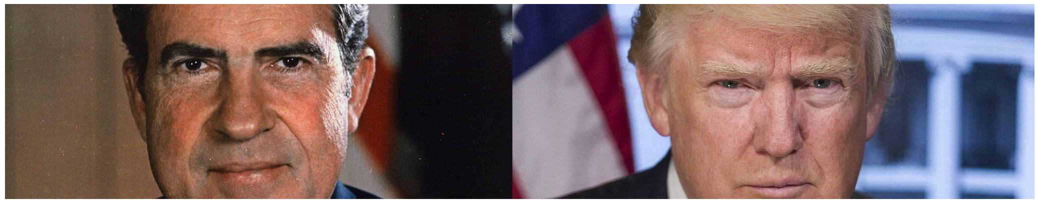
***Annualized**

Top 5 Holdings

Company	% of Portfolio
Premium Brands Holdings Corporation	7.6
The Middleby Corporation	6.4
Kinaxis Inc.	6.4
Morguard Corporation	6.0
OTC Markets Group Inc.	4.9

Recent BNN Top Picks

Company	Sym	Change	BNN Pick Date
Blackberry Ltd.	BB-T	-14.3%	May 25/17
BTL Group Ltd.	BTL-V	-2.4%	May 25/17
CCL Industries Inc.	CCL.B-T	+6.0%	May 25/17
Spin Master	TOY-T	+12.7%	Dec 14/16
Knight Therapeutics	GUD-T	+3.7%	Dec 14/16
Northern Dynasty	NDM-T	-17.0%	Dec 14/16



From Watergate to Trumpgate

Watergate was in full bloom. I was a global veteran preoccupied elsewhere with other adventures and stayed quite apolitical until gripped by the campaigning and the bullying as the gate started opening for Trump. Watergate came to me by way of a TV documentary this July and it was BREAKING NEWS! No one warned me that Trumpgate has the same old buzz words and scenes – leaks, Russia, tapes, lies, impeachment with variations thereof. In Trumpgate they have dressed it up – or down – and I must say it suffers by losing a quite civilised or at least a gentler banter of Watergate time. However, it was no surprise when the word "impeachment" first slipped into the political vocabulary.

A big difference between then and now is that the economy and unemployment are in better shape today so we might do without another president for a while.

On the market, it looks like a mid-year standstill with some exceptional moves in individual stocks though not to be found generally in financials and resources. But do not rule out big surprises. Perhaps the Canadian dollar will continue to do surprisingly well even without its customary supportive performance from oil and gas. Perhaps being the nice country with the nice prime minister in these times is all it takes for Canada to rule the world! ◆

Hydrogen Cell Power is Closer than you Think

... In fact it has arrived while mass perception of hydrogen cell power is numbed by the bigger picture of lithium ion batteries.

Just three small companies in my view dominate in hydrogen. They are **Ballard Power Systems (BLDP-TSX & NASDAQ)**, **Hydrogenics Corp. (HYG-TSX, HYGS-NASDAQ)** and **ITM Power Plc (ITM-LSE)**. They updated investors at a Roth Capital Cleantech and Industrials Conference in London in June.

Believers in hydrogen fuelling have been scarce since Ballard, which was once a two hundred dollar stock, burned investors like no other – except for Nortel, Blackberry and more recently, Home Capital in the Canadian market.

The three hydrogen players are already linked with thousands of end points in transportation or stationary storage equipment – cars, buses, forklifts, trucks, as well as other substitutions for internal combustion engines and as alternatives to electric batteries. They have recognition and support from many key professional bodies and major corporations. All three appear to be closing in on breakeven.

Here is a very brief look at the three companies.

Least known to Canadian investors, ITM Power Plc has about 70 employees and is based in Sheffield, England. It is at the forefront in the building of hydrogen bus fuelling stations in the U.K. where 65 across London and beyond are planned under one of many projects in Europe. ITM is also in California, France, Germany and other European countries. Several cities are replacing diesel buses. London, which is introducing "toxicity charges" this year for cars in a "most polluting" category has committed to phasing out the ordering of pure diesel buses.

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Hydrogen Cell Power is Closer than you Think

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London's Mayor launched the first hydrogen-powered double-decker in the world in November last year. Fleets of hydrogen buses are being ordered elsewhere in Europe.

For ITM, the past two years have brought on numerous grants forming a revenue backlog of about £27.5 million and the company looks for profitability within 18 months. The company has about 250 million issued shares and the largest shareholder is **Allianz SE (ALV-GR)** with 22.15% followed by about 50 other institutional holders and just below 10% held by insiders. It has been AIM listed since 2006 and is down 6.6% YTD after correcting from a June high of 25p.

The Canadian Pioneers

Ballard, the only name in the Smedley Special Opportunities Fund was priced at $3.74 at the end of June, up 68.5% YTD and down from a high of $4.47 in May. The stock once traded above $200! Also awaiting profitability, it has been operating for 38 years, 20 as a listed company. It has 3,600 employees today and revenue is at the $85.5 million level, forecasted over $100 million. After its initial unimpressive rush into hydrogen cell batteries for cars so long ago it is in multi-year bus testing programs across Europe, with London Transport and in Orange County, California. Its choice activity is in China with Broad Ocean, its 8.5% strategic shareholder, a big industrial enterprise.

Ballard's Chinese partner is manufacturing buses for the domestic market and currently has a 16,000 vehicle program, the propulsion part licensed out by Ballard which will also take royalties. The capital cost of a fuel cell bus appears to be US$9m and volume is needed to drive costs down toward the $600,000 level of electric battery vehicles or $250,000 for a diesel bus.

The third company, Hydrogenics started up in Canada in 1995. It has achieved a revenue level of $33.5 million and rising and has a backlog of more than $110 million. There are only 13.5 million shares fully diluted which in part accounts for the stock price rising this year 127% to $13.05 at the end of June. Differing from Ballard, this company is at the front end of the processes – in electrolysis, that separates water into hydrogen and oxygen. It is also bringing on power modules of the scale needed for zero-emission passenger trains now under advanced testing in the Czech Republic and in sales engagement through market leader Alstom Transport. ◆

TMX Group – Beloved of the Banks

"Loving us till death do us part" the TMX, in my view, might say about the major Canadian banks, its key shareholders. A more than 40% growth in its stock price in the past year, good dividends and future promise makes it unlikely – also in my view – that they will do much selling down as permitted in September. It will be recalled that they battled and won against a plan to slide the exchange across the Atlantic and into the arms of the London Stock Exchange. The banks are not likely to go through that kind of trial again.

I know a thing or two about investing in stock trading platforms. The Smedley Special Opportunities Fund is doing rather well in the **OTC Markets Group (OTCM-US)**, which trades in about 10,000 securities. It has replaced the old pink sheets and has taken over the junior electronic platforms. Wall Street and American entrepreneurship benefit from it because of its own performance and the nurturing of new public companies that aspire to be on the main board. It was established quite recently, the brainchild of Cromwell Coulson, formerly a broker specializing in distressed and value-added companies. Weirdly, the company seems unknown to most stock exchange analysts but that could be because there are only 11.4 million issued shares and close to 40% are owned by the founder. As well as growth it has established a reputation for regular and special dividends. I expect to like it till death do us part.

Back to Canada. If a selling down of the TSX does take place in September, a limited benefit would be some improvement in share liquidity. That has already happened; the banks' co-investors, four major pension funds who joined the banks in what was called the Maple project, took out some profit in a share issue in August 2016. The funds now own about 25% of the TSX and the banks – TD, Scotia, CIBC and National –

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Patriot One – Deter, Detect, Defend

So goes the motto of **Patriot One Technologies (PAT-TSXV)**, a Canadian company engaged in what looks increasingly important – weapons detection that is deeper, more covert and in much broader settings than in scanning processes as at airports, building entrances and at other checkpoints. Sadly, there appears to be no retreat. Patriot One believes it is in the front line of attack.

The purpose and the future business of Patriot One is to provide enhanced metal recognition capabilities for clients through new skills to detect suspicious objects. Perhaps passing by, perhaps knives, or assault rifles. The service might be programmed to be smart about what it detects so that the user might decide whether to take action or not. Consider selectivity in an extreme situation: the system might show an observer with a normal percentage of small handguns, lawfully held, passing through an area, as might be common in the United States. The equipment differs from fixed visual scanning in that it is intended for covert non-visual use, perhaps concealed behind a dry wall in an office or a hotel, for example. Its use could be synchronised with cameras and other types of surveillance.

The only comparable capability known to Patriot One is offered by a U.K. company but in that case apparently the equipment is too bulky for covert operation. The firm is **Qinetiq Group Plc. (QQ-LN)**, which has a number of defense related services.

Patriot One was established about a year ago as a public company. It is the commercial outcome of many years of research at McMaster University in Hamilton, led by Dr. Natalia K. Nikolova who continues on at McMaster and now acts as Chief Science Advisor to Patriot One. She did not know initially that her academic work could lead to this. The company also has an expert board, links with one of the biggest security consultancies in the world and big corporations like Tyco and Honeywell. It has been busy building distributor representation and has started to take deposits in a healthy order pipeline. The company sees its initial target markets as Canada, the U.K. and the U.S.

Patriot One's technology centre is in Burlington, Ontario. It assembles antennae there and orders other components from elsewhere. Patenting processes and worldwide licensing have been taking place and management is building various international collaborations. For example, the project work at McMaster has NATO funding. Patriot One sees itself as the first cost-effective solution for "active shooter" prevention.

Running the firm is Martin Cronin, CEO, who

Dr. Natalia K. Nikolova, source: www.patriot1tech.com

had a long career in security-related work with the British government in the Middle East and Asia. He was approached by founders for advisory contribution and joined the company full time. The total staff is about 25. There are 59 million issued shares of which 25% are with the founders and around 20% are with management members and a few in the hands of McMaster connections. The present cash burn rate is about $40,000 per month, the latest reported cash figure is approximately $350,000 and Mr. Cronin is confident of the support that will come from clients when first installations of equipment are in place in a few months. Investment analysts are just starting to become aware of the company and its work. ◆

TMX Group – Beloved of the Banks

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could, under rules, sell down but would still hold a minimum of 30% in total. An increase in the free float would be healthy. Since the pension funds trimmed positions, the trading in the shares has increased by two to three times.

A current phase of progress is generally seen as starting with the arrival of Lou Ecclestone as CEO after a prolonged search in 2014. Not being familiar in Bay Street he naturally gave the market cause for thought. Mr. Eccleston is a data-driven individual who was S&P Capital IQ President and then Chairman of S&P Dow Jones Indices. The TMX set about building up in-house technology solutions. The heavy data hand of Lou Ecclestone was brought to bear but it seems that other leadership requirements came through. Benefits of the efforts have started but a building of the top-line will now be expected. Though revenues were up only 3.5% after much transformation, EBITDA last year expanded 13% and operating EPS by 21%. It seems likely there will be big free cash flow ongoing, potentially raising the dividend.

Lou Eccleston is a globally thinking man. He told a small group of fund managers and analysts invited by CIBC to an updating session that the TMX sees itself as a global business, but not necessarily into buying foreign exchanges. The global touch shows through in achieving very high ranking in the world in attracting international listings as well as being top dog in a combination of mining, oil and gas, energy services, clean technology and renewables. The TSX Venture Exchange has become quite a strong feeder of companies onto the main board. It is of course owned by the TSX. I see the Venture as similar in roles to the independent **OTC Group Inc. (OCMB-US)** in the U.S., mentioned earlier.

Among attractions the TMX might have for investors, as Lou Eccleston puts it, the exchange has a 66-67% share of "best market" pricing and therefore it is not being overwhelmed by trading competition. ◆

Edgewater – Averting the Final Breaking Point in WiFi

After years of perfecting high-density multi-channel WiFi, **Edgewater Wireless Systems (YFI-TSXV)** appears close to solving a bottleneck threatening communications. All traffic up to now surges along a single channel that is a grave problem for the big carriers and yet largely the public awareness. It is going to get mightily worse as traffic density soars as the age of the internet-of-things brings on a score or more of WiFi active points in just one household and the average three portable devices already on a single person.

As I have written before in connection with Edgewater – I know the problem. I was trapped in New York without communications during 9/11 and more recently stuck with hundreds of others all night in Dallas/Fort Worth airport. In scenes of more pleasant drama, like stadiums and other entertainment venues, devices can collide, go inoperative, or into serious delay mode.

While identifiable competitors are said to be relying on a single channel, Edgewater has perfected its WiFi3™ and after much labour has reached the point at which a six-figure fee is being paid for a trial at a major New York venue and might lead to connected installations around the world. A second trial should start at a major retail operation for which Edgewater will customize instant communications services for staff, departments and customers. Most importantly there are discussions under way with cable industry leaders who are moving toward massive disruption by traffic overload.

I gather that scientists have been slow in engineering multi-channel capacity. Various capacity upgrades were generated in the past few years that the industry said would take care of us in the future. Not so.

Edgewater believes its WiFi3™ multi-channel system is the answer. The company has secured customers and is shipping product on a small scale but believes it is weeks away from a major

business breakthrough. A multi-task test program is under way within a large retail outlet in New York.

The company was originally a divisional activity of Edgewater Computer Systems, Inc. which is a private company serving mainly aviation and defence industry needs in the U.S. That company still owns 7.6% of Edgewater Wireless, which was until recently on the same premises.

YFI has defended its technology with patents, more than 20 so far, and has established regulatory approvals to date in Canada, the U.S., the EU and Brazil – approvals not easily obtained.

I have been into the stock without success but management has expertise, is convincing and seeking more awareness. The stock should lift if a big contract win occurs. ◆

About Michael Smedley

Mr. Smedley has been with Morgan Meighen & Associates since 1987. As CIO, Michael heads its investment team and is Director of the two closed-end funds and manages the Smedley Special Opportunities Fund exclusively. With over 30 years of investment industry experience, working in Canada, Hong Kong and London, he has an extensive background in portfolio management, stock selection and institutional and private client services. Michael was previously a journalist and public relations professional in the U.K., South Africa, Zambia, Tanzania, Kenya, Malaysia and Singapore.

Smedley Special Opportunities Fund

Founded in 2010, the Smedley Special Opportunities Fund is a long-only equity fund, which concentrates on special situations and opportunistic investing in small public companies under $250 million market cap. The Fund is Canadian focussed with some direct international exposure and holds a targeted number of 30-40 stocks.

How To Invest With Michael

Please contact Morgan Meighen & Associates at (416) 366-2931 or email funds@mmainvestments.com. Information can also be found at www.mmainvestments.com

About Morgan Meighen & Associates

Nearly a century ago, former Prime Minister of Canada, the Right Honourable Arthur Meighen, helped create what is today North America's second oldest closed-end fund. Through the decades, Morgan Meighen & Associates has expanded its product offerings, and has grown to amass an enviable team of experienced investment professionals uniquely qualified to grow its clients' wealth. Today Morgan Meighen & Associates has more than $1.6 billion in assets under management for, institutional clients, high net worth individuals and closed-end fund investors.

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