



January 15th, 2016

A few years back, Lee and Anthony golfed with a guy who used a rather unique system to keep score. He referred to it as the “Samurai scoring system”. Based on his most likely limited understanding of the Samurai’s historical code, he scored every hole based on whether or not he brought honour to the hole. There was no counting up of strokes and no bogeys, birdies or pars. It was simply honour or no honour. In his mind, that is how the ancient Japanese warriors would have played golf. Given neither of us were particularly well-versed in the intricacies of Japanese history, we had no reason to disagree with him.

Over time, we have come to appreciate this system. There is a certain elegance to it – it is both arbitrary, as there is no defined measure of honour, and absolute at the same time. Honour or no honour, yes or no, black or white. Furthermore, such a system promotes honest reflection forcing the individual to evaluate themselves rather than having external forces determine success. While “par” may be an achievement for some, it may be completely unachievable for others. The achievement of *honour* is flexible based on time, situation and participant.

For 2015, we choose to adopt this system. The seventh year for the Broadview Dark Horse LP was most assuredly an honourable one. While our absolute return was slightly less than what we achieved in 2014 (+5.41% for the year, up 84bps in December), it was realized under far more difficult circumstances. Difficult is, to be fair, a vast understatement.

Inspired by binge-watching HBO’s Game of Thrones, last year’s letter was sub-titled, “Winter is Coming”. Well, as even the most passive market observer can attest to, it certainly came and boy did it mess some things up. The 11% decline in the S&P/TSX Composite Index hardly does justice to the pain and sorrow suffered by Canadian investors in 2015. The brutal end to 2015 appears to have only been an opening act for a frighteningly bad start to 2016. It’s like Pitbull opening for Nickelback.

Thankfully for our investors, we heeded our own warnings and stayed cautious throughout the year. Despite the temptation of ever plummeting stock prices, we maintained our minimal net exposure and stayed away from the wreckage wrought by the imploding commodity complex. As the selling became even more indiscriminate in the back half of the year, the temptation only got stronger. Weighed down by a sense that the worst was yet to come we held off on increasing exposure.

A year ago we talked about the unknowable damage that \$50 oil would unleash on the Canadian economy and capital markets. Twelve months later, we are staring at \$30 oil. To put it succinctly, this is not over. The full effect of the commodity carnage is likely still to come. Pain and suffering that started in the oil patch is spreading east and west. To go back to the Game of Thrones analogy, there is no wall or Night’s Watch to protect the rest of the country. Like the undead army of the White Walkers, the misery is flowing towards Canada’s other regions, including the country’s Westeros, Southern Ontario. At some point, the crushing weakness in Alberta (and other commodity-driven regions of Canada) will impact the service industries of Ontario. How then does the previously unassailable housing market continue to avoid contagion? Logically, there is an unsustainable incongruence between foreclosures in Calgary and bidding wars in Toronto.

We are already operating in a state of chaos in the Canadian equity markets, particularly so in small-cap land. The “winter is coming” motto warned of cold and snow. We’re well past just having to deal with some inclement weather now and things could get significantly uglier if housing cracks.

The current investing environment seems a lot like the penultimate episode of last season’s Game of Thrones with wave after wave of skeletal soldiers cascading towards Bay Street. They are unthinking, unemotional and know but one thing – destruction. To put it mildly, they cannot be reasoned with. This is what trying to pick stocks in this environment is like. Should the portfolio manager stand up as a lone Night’s Watch and try to hold their ground against an unrelenting, ravenous zombie army? How would that go over?

The CEO is a great guyyyyggghhhhhh

It’s trading below book value....agggghhhhhh

But what about the ROEeeeeagggghhh...

There is a time for bravery and a time to step aside, letting the marauding hordes pass by. To date, we remain hidden under a pile of coats waiting for the storm to clear. We keep peering out looking for some daylight, but have yet to see enough to completely come out from hiding.

We will get to our current positioning and strategy, but first let’s do our usual run through of what worked and what didn’t over the past twelve months.

2015 in Review:

As our letters throughout the year spelled out, much of what allowed us to skate through 2015 relatively unscathed was our ability to avoid disaster – November’s “Don’t step on rakes” letter lays this out pretty clearly (and only mildly profanely). Much of our relative success was driven by what we didn’t get involved in as opposed to what we were invested in. We did, however, also manage to register a handful of winners. The following were our top contributors:

Top 5 Contributors to Performance:

<u>Position</u>	<u>Absolute return contribution</u>
Unhedged portion of USD exposure (USD)	2.1%
Westshore Terminals SHORT.(WTE:TSX)	1.5%
RDM Corp. (RC:TSX)	1.3%
Enercare Inc. (ECI:TSX)	1.2%
TIE: Medworxx Solutions Inc. (MWX-TSXV)	0.9%
TIE: Alaris Royalty Corp SHORT (AD:TSX)	0.9%

The collapse of the loonie is no secret. We will leave a more in-depth conversation about why that happened and what may happen in the future to literally every other newspaper, website and newsletter. From day one we have made a point to not talk about what everyone else is talking about.

In short, our view on the loonie has been that being long the Canadian dollar and long Canadian equities, particularly anything with resource exposure –which is most everything, is a Texas hedge. As such, we have always maintained some exposure to the U.S. dollar. In theory, we should have taken the hedges off altogether but in practice we’re content with what our approach has been.

RDM Corp and Enercare switched spots this year. Last year it was Enercare that was our third largest contributor while RDM was fourth. Not much new to report on either company¹. Both continue to perform well and remain meaningful long positions in the fund.

Medworxx was taken private earlier this year. We already patted ourselves on the back for that one, as we did with Alaris in our October letter. Now that Medworxx has been sold it will obviously not reappear on any of our annual lists. Alaris, however, could likely make a repeat appearance next year. We remain convinced that the true value of its lending book lies far below the company's currently market capitalization.

Westshore Terminals is a company we have been short for a couple years. The company owns and operates Canada's busiest coal export terminal. Much of the coal exported from Western Canada and the Powder River Basin of the U.S. flows through its facility in B.C. on the way to Asia. It has an inherent cost advantage over competitive operations and has the vast majority of its volume under long-term contracts. The consistency of results brought about by these "take or pay" contracts allowed the company to pay a consistent dividend that Bay Street viewed as absolutely bulletproof. We had a divergent opinion. Turns out, we were right. Westshore cut its formerly bulletproof dividend twice in the last few months of 2015 and is trading at a yield that's hinting another cut could be forthcoming. The stock fell 61% this year even after adding back dividends.

"Take or pay" contracts, where the customer pays for the capacity whether they take it or not, are great when they're with someone like Wal-Mart or a government entity. Less so, when the customers are struggling coal miners exporting to China. If the customers can neither take the capacity or pay for it, the contract isn't so valuable. When we would bring our concerns about Westshore's customers' end markets to the sell-side analysts they would keep coming back to the contracts, as if "take or pay" was synonymous with AAA credit. "Take or pay" was literally the answer to every single question we had. Isn't the valuation a bit rich given the price of coal? Take or pay. Have you looked at the credit spreads of Teck Resources, Westshore's largest customer? Take or pay. What's for lunch? Take or pay.

As coal prices fell to the point where it was uneconomic to ship the rocks across the Pacific, the teeth of these contracts fell out. In theory, Westshore could have tried to enforce all the contracts which would have put many of its customers into bankruptcy. Bankrupting your customers so you can maintain your dividend is not necessarily the ideal way to run a business. Westshore, to the management team's credit, compromised with two of its large customers on the quantum and volume of the contracts. This was the right long-term decision for the business, but was terrible news for people who owned the stock. They owned the stock for nothing other than a dividend yield. Once that was cut, they fled.

Westshore is an example that sometimes a "good asset" can be a terrible stock. The asset itself has many great attributes and at the right price we could one day envisage owning Westshore's stock. That day is not today. We maintain a small short position in the stock as we wait to see what will happen with its largest customer, Teck Resources, which, like Westshore's smaller customers, also appears to be in some financial distress.

Now this is where we go from patting ourselves on the back to flogging ourselves. Our list of top 5 detractors to performance will follow. What is missing from that list is the numerous mistakes we made that resulted in us missing out on huge gains. Basically we should not have covered a single of our shorts and, on top of that, should have been short most every single idea that was pitched to us in the past 18 months. The promotes that started the TSX moving higher at the beginning of the year were, in retrospect, the ripest collection of short candidates in the Dark Horse's seven-year existence.

¹ As a reminder, we are restricted as to what we can say regarding RDM given that Lee remains on the company's Board of Directors.

The “leadership” stocks of early 2015 were the capital markets equivalent of Johnny Manziel – the Cleveland Browns high-profile disaster of a quarterback. “Johnny Football” was a much hyped first round pick despite huge question marks about his on-field abilities and off-field problems. Similarly, the healthcare roll-ups, orphan drug mashups, medical marijuana “plays” and online gaming *whatevers* had huge red flags around the quality of the underlying businesses, as well as the people behind them. Predictably, and just like Manziel who may be out of football just two years into his career, most of these stocks were spectacular flameouts. Sure we took our pot shots, which hopefully saved some of our readers from investing, but we should have been more aggressive in betting against them.

We assure you that we will continue to be vigilant in looking out for the next wave of garbage barges that get foisted upon the Canadian investing public. Avoiding them is one thing, but profiting from their demise is something we should have also been able to do.

Top 5 Detractors from Performance:

<u>Position</u>	<u>Absolute return contribution</u>
Jemi Fibre (JFI:TSXV)	-2.0%
Forestar Group (FOR:NYSE)	-1.7%
Genesis Land Development (GDC:TSX)	-1.2%
Kinaxis Inc. SHORT(KXS:TSX)	-1.0%
Zaio Corporation (ZAO:TSXV)	-0.9%

That was as painful to write as it probably was for you to read. Let’s start from the top (or bottom depending on your viewpoint). Jemi Fibre is a forestry and specialty lumber company. It has some good assets and some okay assets. Despite this, it has been an absolute disaster of a public company.

Part of the problem was simply timing as it came public just before the Canadian small and micro-cap market went essentially “no bid”. Part of the explanation was that the forestry market has had its own challenges given lumber price weakness, albeit nothing like what has affected the energy or mining industries. In addition, Jemi needs to shoulder some of the blame as it has been unable to refinance a costly piece of debt that should have been dealt with months ago. The stock has fallen 75% since the company raised money last March. We maintain a small position in Jemi and ultimately believe the value of its timberlands alone is more than sufficient to justify the company’s current miniscule valuation. That being said, there’s no sugarcoating this investment. We completely stepped in it with Jemi.

Forestar makes a repeat appearance on the loser’s list. This time it was more of a market issue rather than a governance issue. The activists who appeared at the end of last year have now replaced senior management, shaken up the board and announced plans to divest all non-core businesses. This will return Forestar to what it always should have been, a land company. Unfortunately, this was lost in the chaos over plunging oil prices and the corresponding concerns over Texas land prices. While we applaud the efforts of the Board and activist shareholders, we boo ourselves for being far too patient with this one. Genesis is a Calgary-based version of Forestar (which is Texas-based). The only difference is we don’t give any credit to the Board and activists at Genesis given that they haven’t done anything to surface value at the company. Similarly, we skewer ourselves for not punting this one at much higher prices.

Kinaxis was an ill-advised short on an over-valued tech darling. The mistake there was underestimating how extreme the over-valuation of the few remaining Canadian darlings (i.e. the select handful of stocks that were working) would get even as the market moved lower. These “Northern Unicorns”²

² We include names like Alimentation Couche-Tard, Dollarama, Stella-Jones (which we are short), New Flyer Industries, Constellation Software, Onex, Descartes Systems Group and others in this group.

continue to defy gravity, although select names (Dollarama and Constellation Software are two notable examples) have shown some cracks of late. It is from this group that we are likely to find other short candidates but will endeavor to be more careful with timing than we were, in retrospect, with Kinaxis.

Positioning and New Ideas for 2016:

It is not for lack of trying that we have not materially increased our net exposure of late. We have growing stacks of new files on both our desks. Most definitely there will be wonderful opportunities to make money from recovering stock prices from amongst these piles.

In a previous letter we mentioned **Dundee Corp (DC-A)**, as an example of the sort of things we were looking at as a way to wade into the stock market wreckage and pull out some treasure. So far we have not bought any stock in Dundee as we have been unable to gain confidence that the value of its book is meaningfully higher than the stock price. Admittedly, we are running it through the wringer using brutally conservative assumptions.

Our work on the company led us to its balance sheet. The majority of the company's capital structure, apart from the equity, is preferred shares (or "prefs" as they're commonly known). This is an asset class of which we have never fully understood the appeal. At the issue price, prefs are inferior to senior debt given the lack of covenants or defined maturity and inferior to equity as you get no real upside. For your trouble you get around 5% or 6% annual return. No thank you.

Now with Dundee's preferred shares being cut in half, we completely understand the appeal. These things are great! We are now owners of all three series of Dundee preferred shares (**DC.PR.B**, **DC.PR.C** and **DC.PR.D**) with yields in the double-digits³. While our draconian assumptions have left us undecided as to whether or not the equity of Dundee is a bargain, there is no objective scenario under which the prefs are impaired. The management of Dundee (or more accurately the previous management) has destroyed a great deal of value through poor investments. We are confident that under its new CEO this era has come to an end and the company will cease pouring capital into far-flung resource ventures. In order for the value of the prefs to be called into question, Dundee would have to re-double its previous efforts at chasing a failed dream across the globe. It is our firm belief that this will not happen.

We mention this investment(s) to illustrate that a) we are actually doing something even while hidden under a pile of coats and b) investing can follow an unusual path. We started with Dundee's equity and ended up with the preferred shares as that is where our research took us. Being objective, open-minded and free of investment constraints led us to what we believe will generate a very solid return for our investors. This is not dissimilar to our investments in the distressed convertible debenture space which continues to yield some very compelling opportunities. We think the flexibility we have, both by mandate and by mentality, is a major advantage particularly in more challenging markets.

Now, we end our letter with the essay portion.

Short Sellers: The Straw Men of 2015

Little Jimmy sat at his desk fidgeting nervously as he awaited his turn to speak. He had been dreading this day for weeks, knowing he would be forced to bare his family's shame in front of his entire elementary school classroom.

³ The Series 4 Prefs (DC.PR.C) have a high-single digit yield but will likely have warrant kickers attached and guaranteed partial redemption at par as part of the proposed exchange into new Series 5 Prefs. If the exchange isn't approved the Prefs will be retired at par in June. We are happy with either outcome.

Jimmy's teacher, Ms. Jones said, "Okay Jimmy, it's your turn to talk to the class about what your Dad does for a living."

So, up stood Jimmy...

"My Dad is an exotic dancer. He gets paid to take his clothes off in front of groups of screaming ladies. It's not at one of those classy, downtown joints either. It's out by the airport where all the toothless ladies go after the bingo parlour closes. Sometimes when the dancing isn't enough for the ladies, he goes back into the alley behind the bar..."

The teacher quickly ran up to Jimmy and told him that would be quite enough for today. When the bell rang she asked Jimmy to stay behind.

"Jimmy," she asked, "is everything alright at home? It really doesn't sound like a proper environment for a kid to grow up in. Maybe we can find you somewhere else to live."

"Ms. Jones," Jimmy replied, "I lied about my Dad being a stripper. He's actually a short seller. I was just too embarrassed to tell anyone the truth."

As the Canadian market suffered through its brutal second half, much blame was directed at the short selling community. We take umbrage with this and look to present a defence for an important class of market participants.

Short sellers do not impair the value of the companies they bet against any more than sell-side analysts create value by saying all sorts of nice things about the companies they cover⁴. They are simply representing two sides of a debate, sharing ideas and opinions. Someone makes a case that a company is worth \$100 per share. Someone else presents a thesis that it's worth \$10. One buys the stock the other goes short. Neither is inherently good or evil.

Ultimately, the truth will emerge and whoever has done the best research will "win" out. Conversely, if a short seller comes out with a half-baked thesis that company A is worthless based on nothing more than a hunch, they won't make any money on the trade. Short sellers actually have much more on the line than long investors as their potential for loss is, in theory, infinite. With this risk on the table, it is incumbent upon the short seller to not act flippantly.

The market is biased towards stocks going higher and weighted against those who believe they will not. As such, the burden of proof on the short thesis is far higher than that on the stock promoter. We have read a lot of short reports and a lot of brokerage reports. There are good and bad amongst both categories but, on average, the depth of research from published short sellers greatly exceeds that of the long-only community. We saw that in our own experience with Alaris. Investors who were long the stock have since reached out to us and let us know that they didn't fully understand what they owned. Anyone who is objective would agree that our thesis turned out to be more accurate and robust than the rosy picture painted by those who owned the stock or covered the company.

Too often, the short seller's claims are dismissed as "yelling fire in a crowded theatre" regardless of the merit. In reality, a well-researched short seller's claim is more akin to someone smelling smoke, seeing actual flames and warning people they should get the Hell out of there. Often, targets of short reports are targets because of unethical business practices, aggressive accounting or because whatever product or service they sell is detrimental to society. In these cases, short sellers are acting as the market's

⁴ This is apart from situations of blatant market manipulation which can occur in either direction – long or short.

vigilantes. Exposing fraud, regardless of whether it is motivated by profit or community service, is an extremely critical service and one that should be lauded not vilified and definitely not sued.

Regardless of one’s opinion on whether or not short sellers should go public with their claims (we are fully supportive of this approach and have done so ourselves) we see a complete unwillingness to short stocks as essentially tying one’s hands behind their backs. Why wouldn’t an investor take advantage of all the tools available to generate returns for his or her clients?

Go back to the earlier image of the poor Night’s Watch facing down the attacking White Walkers. A dogmatic long-only manager stands their ground. They get hacked to pieces and eaten by zombies but hey, at least they stuck to their guns. Conversely, the money manager that is willing and able to go both long and short can turn to their adversaries and say “Rarrrr, lets go eat some dudes”. In a roundabout way we’re using an analogy about cannibalism as another way of saying “if you can’t beat ‘em, join ‘em”. Maybe we should have just said that at the onset.

One day we hope to live in a world where the little Jimmies of the world can hold their heads high and proudly proclaim to their classmates, “My Mom or Dad is a hedge fund manager and they short stocks!” Until then we will continue to stand up for our right to take advantage of all inefficiencies in the market whether they be overvaluations or undervaluations.

Year-end Matters:

All but one of our series will be consolidated into the Master Series as of year-end. The June 2015 series, though up on the year, fell just short of the 3% annualized hurdle. The details of the consolidation will be arriving in the first week of February and we will be available to any limited partners who need help understanding this process.

2015 was an extremely challenging year to be managing money. 2016 appears even more so. We take pride in the fact that we have been able to persevere through these turbulent times and do the job that you, our investors, have entrusted us with – protecting and growing your capital. While this may sound a bit odd coming from two hedge fund managers, perhaps there is even some “honour” in that.

Thank you for your continued commitment and welcome to all of our new investors. All the best to everyone for 2016,

Anthony Hammill

Lee Matheson

Series	Nov 30, 2015	Dec 31, 2015	Monthly Return	YTD Return	Annualized Return Since Inception (April 3, 2009)
1 – 2014 Consolidated	\$238.5519	\$240.5490	0.84%	5.41%	13.9%
2 – Apr 2014	\$238.5068	\$240.5018	0.84%	5.65%	
2 – Mar 2015	\$238.5542	\$240.5526	0.84%	4.38%	
3 – Apr 2015	\$238.5206	\$240.5355	0.84%	2.38%	
4 – May 2015	\$238.5515	\$240.5513	0.84%	3.32%	
5 – Jun 2015	\$237.8926	\$240.2997	1.01%	1.30%	
6 – Jul 2015	\$238.9602	\$241.0173	0.86%	2.02%	
7 – Sept 2015	\$238.0162	\$240.0104	0.84%	4.16%	
8 – Nov 2015	\$238.5562	\$240.5576	0.84%	2.02%	
9 – Dec 2015	\$238.5519	\$240.5549	0.84%	0.84%	

**From inception return used for series launched during the year*

All numbers reported after fees and expenses. See subscription confirmations for your Series.

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About Broadview Capital Management Inc. and the Broadview Dark Horse LP:

Broadview is the manager of the Broadview Dark Horse LP (“The Dark Horse”), a fundamental-based long/short investment partnership. Broadview utilizes its relatively small size, contrarian nature and willingness to perform extensive due diligence to deliver strong risk-adjusted returns for its investors. The managers concentrate on going where others can’t or won’t to find investment opportunities.

The firm is run with the philosophy that it will manage “as much money as it deserves to manage” and that a dedication to working hard for existing clients is the best way to grow the business in a sustainable fashion. It is not Broadview’s intention to take on additional investment mandates for the foreseeable future beyond the Dark Horse LP. Broadview was founded in October of 2008 and the Dark Horse was launched in April of 2009.

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