BROADVIEW DARK HORSE L/S FUND

Q3 2018

Fellow Limited Partners,

This being the first letter I have written since Anthony and I founded the Dark Horse nearly 10 years ago, I felt it would make sense for me to set some expectations early in the process. First off, I will not attempt to recreate Anthony's tone, for I will never be able to do it justice. I would rather leave his letter-writing legacy intact and forge my own path. Secondly, my aim will be to inform without boring entirely, as opposed to Anthony's tendency to mainly amuse and marginally inform.

With that said, a few additional items to bear in mind:

1) I have no particular affinity for the Buffalo Bills, except for a genuine desire that they do well for the sake of Anthony's psychological well-being.

2) My passion for the Toronto Blue Jays lapsed at a time when "The Shaker" Lloyd Moseby was patrolling center field at Exhibition Stadium.

3) I have never been a hockey fan. Sorry.

The Dark Horse returned 1.15% in the third quarter of the year leaving the Fund up 0.20% for 2018. The fund continues to be relatively defensively positioned (as we have been for the past 5 or so years), with gross long exposure of roughly 94% and gross short exposure of roughly 46%, resulting in net long exposure of 48%. Our sizeable portfolio of credit instruments and preferred shares within our long book results in the Dark Horse carrying a beta-adjusted exposure of roughly 7%.

Since the end of the third quarter, North American equity markets have fallen considerably. The TSX Composite has dropped roughly 7%, the TSX Small Cap Index has fallen by almost 9%, and the Russell 2000 Index has declined by nearly 11%. I am pleased to report that in the first 30 days of October, the Dark Horse has registered positive performance to the tune of over 2% (net). It is during challenging market times like these, however rare they have become, that we expect the Dark Horse to show its true form. So far, at least, the Fund has delivered on that promise.

The cause of this outperformance can be chalked up to two things (in addition to the certain randomness that any non-market correlated portfolio will exhibit in any given timeframe): a pronounced down-tick in Canadian small cap "growth" names which constitute a large portion of our short portfolio, and an outsized contribution from our holdings in the common shares and convertible debentures of WesternOne Inc. (WEQ:TSX and WEQ-DB:TSX).

On October 22nd WesternOne announced that it had reached an agreement to sell all its operations to United Rentals Canada Inc., a subsidiary of United Rentals Inc. (NYSE: URI), the largest equipment lessor in North America.

The transaction, which is expected to close in November, should provide equity holders with total proceeds of $2.20 to $2.43 per share. The mid-point of this range represents a roughly 44% premium to where the stock was trading just prior to the announcement and over the preceding 20 days. Additionally, the transaction will result in the payment to convertible debenture holders of 101% of par.

We view the transaction as a successful outcome of our engagement with the company. This has been especially successful given that WesternOne was burdened by a considerable amount of debt and the looming convertible debenture maturity in June 2020.

Our involvement in WesternOne goes back roughly three years when we acquired two tranches of the company's convertible debentures at roughly $0.50 on the dollar. The company chose to "equitize" the nearer maturity debenture, which resulted in Broadview becoming a significant equity holder. Upon the equitization of the debentures in August of 2016, I joined the WesternOne board.

In spite of the elimination of $75m of debt via the equitization, the company was still significantly over-leveraged. The board engaged a financial advisor and ran a process to solicit offers for some, or all, parts of all the business. The result of this process was the divestiture, in three separate transactions, of the businesses that made up the Britco segment for roughly $50m. These proceeds were used to repay senior indebtedness, bringing the balance sheet towards a more "normal" capital structure.

As the business performance rebounded through late 2017 and into 2018, we knew that the risk of insolvency or equity impairment was behind us. The company, however, was still faced with the fact that it was a micro-cap public company with a capital structure that inhibited its ability to grow. The prospects of realizing fair value for the business in the public markets were slim. As such, I, along with the board, put in motion the process that culminated in last week's announced transaction. We estimate that our investment in the near maturity convertible debentures (which became common shares) will result in an IRR of roughly 10% while our IRR on the back-dated debentures will approach mid-30%.

But enough with the past and on to the future! We are particularly intrigued by the prospects for further gain from one of the Dark Horse's largest investments, TeraGo Inc. (TGO:TSX) common shares. Most importantly, in the context of some very bumpy equity markets, our enthusiasm towards TeraGo is not at all based on expectations of a rising tide lifting all boats. TeraGo should be able to see material gains from here, even in the event of continued market weakness.

A Shameless Example of "Talking our Book" (Or, a Not-So-Brief Primer on TeraGo Inc.)

TeraGo operates a fixed wireless broadband business targeting small and medium business customers across Canada. This business has been in steady decline over the past 5 years as broadband pricing has continued to shrink and as competing telecom providers have laid fiber closer to TeraGo customer premises.

Several recent developments have materially altered the landscape in which TeraGo operates. First of all, improvements in radio/antennae hardware have vastly increased the competitiveness of broadband delivered wirelessly, with brand new hardware allowing fiber-like 1 gig download speeds to be attained.

This means that fixed wireless broadband delivery, which has always been materially less expensive to deploy to a customer premises than fiber, can now also compete on speed and reliability. This is likely to change the trajectory of the fixed wireless broadband business at TeraGo from a steady decliner to a steady grower.

Secondly, the increased download speeds and improvements in hardware have created a potentially huge market in residential broadband. In the U.S., Verizon has recently begun offering residential fixed wireless broadband services in select markets, as has VC-backed Starry. For reference, Starry is claiming that they have built the infrastructure to serve 1m households in Boston, Massachusetts for $20m of capex. Compare Starry's claim of $20 of capex per home passed to the typical telco fiber roll-out, which costs ~$2,000 per home passed.

With such a huge advantage in capital intensity fixed, wireless providers are offering lower prices for broadband service. Starry offers a no-contract, all-you-can-eat offering with 300 mbps download speeds (and the promise of 1gbps speeds within a year) for $50 per month. Verizon offers a similar plan for $50/month to Verizon Wireless customers, and they'll throw in an Apple TV 4K or Google Chromecast Ultra for free.

In order to accommodate the data intensity of the "last mile" of mobile 5G wireless service, network operators will need to "densify" their networks to include multitudes of smaller antennae in order to blast giant amounts of data to mobile devices. This requires vast amounts of spectrum known as "millimeter wave." These spectrum bands have historically been used for point-to-point radio communication over relatively short distances and had been considered near useless as a tool for mobile applications due to their relatively short range.

In the United States, the FCC has granted mobile licenses to holders of spectrum in the 38 Ghz band, 28 Ghz band and 24 Ghz band. To get a sense of the perceived value in these licenses, I'd like to draw your attention to the bidding war between AT&T and Verizon over Straight Path Communications, an entity that was in serious risk of being stripped of its spectrum licenses just prior to it being acquired. In April

2017, Straight Path, trading at roughly $35 per share, announced that they had reached an agreement to be acquired by AT&T for roughly $95 per share. At this point, the fun was only just beginning as Verizon entered the fray. By the end of May, Verizon won the bidding war and penned a deal to acquire Straight Path at $185 per share, nearly 6 times where it has traded just a couple months earlier.

In Canada, ISED has determined that the 38 Ghz band will be included in the mobile 5g plan and continues to have consultation regarding additional millimeter wave bands. As far as we know, ISED has never not followed the FCC in mobile spectrum band determination, so odds are that ISED will include the 24 Ghz band in its mobile 5g plan as well, although timing is ambiguous. And in what spectrum bands does TeraGo hold licenses, you ask? TeraGo holds licenses in the 38 Ghz band spectrum at depths of 100 MHz to 600 Mhz in 10 markets across the country covering 1.7 billion MHz/Pop. More importantly, TeraGo holds 24 Ghz band licenses at 400 MHZ depth across all major Canadian cities covering roughly 7.0 billion Mhz/Pop.

So TeraGo has a few ways to win. In one instance they could be granted Flexible Use licenses for their 38 Ghz and 24Ghz band spectrum licenses. Alternatively, the company could use its existing licenses to launch a residential fixed wireless broadband platform using its existing wireless infrastructure which could be a massive IRR business. Finally, the company could see a combination of both options (flexible use for the 38 Ghz licenses and residential fixed wireless platform on the 24 Ghz band). When we sum up the value of TeraGo's existing fixed wireless operations, data centre, and cloud services businesses and the spectrum licenses using $0.015 to $0.02 per Mhz/Pop we project a price per share of roughly $15.00. The stock currently sits around $9.50 per share.

Using the $0.02 Mhz/Pop may prove conservative as TeraGo may command a scarcity premium for the fact that it is the only private holder of mmWave spectrum in Canada (i.e. other than ISED itself). As ISED has indicated that mmWave spectrum auctions are unlikely to occur prior to 2021, any enterprising telco that wants to get the jump on its competitors would be well served to acquire TeraGo while its peers are forced to sit and wait.

On the topic of scarcity premiums, one cannot discount the degree to which the incumbent Canadian telcos shudder at the thought of a foreign competitor entering the Canadian market. Since the CRTC foreign ownership rules do not apply, TeraGo offers a foreign player the ability to swoop in and build a very lucrative broadband access business, striking right at the heart of the incumbent telco franchises.

In an effort to avoid letting a foreign player into our protected oligopoly, Canadian players could easily set off a bidding war with even more spectacular results for shareholders of the target company than we saw south of the border with Straight Path. With a current market capitalization of just $160 million, TeraGo would be a rounding error for the Canadian telco behemoths even at a substantial premium to the current stock price.

Given the confluence of factors discussed above, we are increasingly confident that TeraGo shareholders will be well rewarded for their years of patience. As our largest individual holding, we expect TeraGo to be a material driver of future performance that should help the Dark Horse hit a touchdown in coming quarters. See, I told you I wasn't really into sports.

Thank you for your continued interest in the Fund. For further information, please contact your regional Arrow Capital Management representative.

Lee Matheson, CFA
Portfolio Manager