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Michael Smedley

In This Issue

- Vladimir Putin, ISIS and the West
- Drone Delivery Systems Plans to Take Canada Droning
- Nintendo and the Pocket Monsters (Pokémon)
- Edgewater Wireless Systems – A WiFi Solution

Nothing Wrong In My Back Yard

But what a mess outside. Angela and Europe are stuck with their principles. Theresa might prove to be a genius steering the U.K. back out of Brexit. Erdogan has become the cleverest plot man on the planet. Russia's cyber power is now understood. Officially at least, Canada



still lurches along the yellow debt road and into a "pot-fed" paradise and trying to gum up free enterprise housing markets. Fear of overpriced stocks beset the scene, unnecessarily I think; companies will always be rewarded with big stock prices if they have big growth expectations. The market is flooded with winners like those and lots of entrepreneurial upstarts, turnarounds with or without the world's problems and the hum drum prospect of small interest rate changes. In Canada it is truly turning out to be a good year for some active money managers and we have firmly returned to a funded and active mining sector and a restructured oil and gas industry. Traditionally, resources are half of the Canadian market and are what makes Canada great again. **The Smedley Special Opportunities Fund is showing a performance of 11.4% over 52 weeks and 10.1% year to date.** Not too shabby, and the ideas continue to come thick and fast. In the next issue I shall present a recovery idea that might outperform lithium battery power. There is not too much wrong in my back yard. ♦

HOLDINGS DISCLAIMER: The Smedley Special Opportunities Fund owns all stocks mentioned in this newsletter to date. Michael Smedley personally owns all stocks mentioned in this newsletter except for Drone Delivery Systems and Nintendo

Vladimir Putin, ISIS and the West

The visions are not connected; the targets are the same – the United States and the West. This is the portrayal by Robert Dannenberg, former counter-terrorism chief at the CIA, cleared to speak – probably paid a lot of money – as keynote speaker at the Goldman Sachs/ Berenberg Fifth Corporate Conference at Munich in September 2016.

It was an hour's long colourful thriller. Dannenberg ran the U.S. counter-terrorism team in Russia and in the former Soviet Union in a Le Carre-like post-war world. He said at the onset he was a man who was more used to conversations under bridges and in dark alleys than before an audience of six hundred – clearly a mistruth.

He went on to deliver his interpretation of the current scene, the Russian game in particular. He appeared highly qualified to do this. He might be an advisor still to his former employer and still appears to connect with KGB counterparts who like to meet for talks for which his Russian "pals" have a tradition of naming a subject for the occasion. Most of the Putin inner circle is ex-KGB and, once KGB always KGB. It seems natural that long time ex-CIA operatives like Dannenberg in a sense always will be CIA.

Now, the first major point he makes is that because Putin is Caucasian, blond and has light blue eyes the West believes he is like them. He is not. He does not in any way think like them. He might as well be an alien. He is a calculating KGB operator who

Michael's BNN Top Picks

As at Oct 31, 2016

Company	Sym	Change	BNN Pick Date
Spin Master	TOY-T	+19.4%	19-Aug-16
Intertain	IT-T	-25.2%	19-Aug-16
Nintendo	NTDOY-US	+8.1%	19-Aug-16
Napac	NPC-T	-13.8%	09-Jun-16
LinkedIn	LNKD-US	+38.9%	09-Jun-16
OTC Markets Group	OTCM-US	+13.8%	09-Jun-16
Airboss of America	BOS-T	-17.8%	28-Apr-16
First National Financial	FN-T	-9.9%	28-Apr-16
Pretium Resources	PVG-T	+33.4%	28-Apr-16
Colliers International Group	CIG-T	+2.6%	22-Feb-16
Enghouse Systems	ESL-T	-5.5%	22-Feb-16
Barkerville Gold Mines	BGM-US	+22.4%	22-Feb-16
Cargojet	CJT-T	+84.9%	19-Jan-16
Concordia Healthcare	CXR-T	-89.0%	19-Jan-16
Pollard Banknote	PBL-T	+32.6%	19-Jan-16
McDonald's	MCD-US	+0.3%	30-Oct-15
Mountain Province Diamonds	MPV-T	+93.4%	30-Oct-15
Seabridge Gold	SEA-T	+37.0%	30-Oct-15

Vladimir Putin, ISIS and the West

Cont from page 1...



is now in charge of Russia and plays a high stakes “Russia takes all” game to win. Unlike us he believes the end justifies the means – any means to get there. It also means that neither truth nor lies are consciously in his toolkit.

At the same time, it is hardly unreasonable that Putin does not trust anyone in the west. Russians in general are in alignment with his thinking. Consider just one situation. He is well supported about the Crimea and in the face of the political battering he has received from the distant West over Russian actions in the Ukraine. Everyone knows the Crimea was under Soviet Union rule not so long ago. Khrushchev, born six miles from the Ukrainian border had a fondness for the Ukraine and in 1954 was happy to sign the Crimea across to the other country, an adjustment that remained controversial for many Russians.

Back to the truth: Putin’s denial of Russia’s early involvement in the Ukraine according to Dannenberg was completely straight-faced, completely acceptable in his mind. Truth and lying have no place in his actions. Cease-fire agreements in Syria can be endlessly set up and broken – for as long as it pleases him. He believes after all that the West is in a conspiracy against

him and Russia. He believes the world’s economies are rigged against him by the U.S., SWIFT, and the dollar etc. He spreads that message everywhere and unfortunately he is gaining traction. By the way, the Russians like to say with a bit of humour, “Wuh, Trump make America great again.” They are curious about whether they might sit down with him like Yalta and “make a deal”. They know they can’t get any other American leader to just sit down and make a deal.

A strength with Putin is that at this time of Russia’s relatively weaker military state he and his team understand covert operations through the new weaponry of the internet better than all of the leaders in the west. In that sphere the Russians think they have weaponry against which there is no deterrent. There is no doubt that in cyber space they are very powerful players. They are seriously hacking and supreme at the game. Opinion is quite generally voiced that when the Russians see the time is right they will release more information on Hillary Clinton, through WikiLeaks or wherever. They have perused her emails. They believe they can hit soft spots in the West with “anything they want to deliver”, Dannenberg said. He also said he was told by a former KGB counterpart their weaponry was enhanced when “the American gave us

quite a gift in Edward Snowden”.

Dannenberg pointed out that the Russians say that the cyber weapon cannot be put to work so well against themselves because, as they say, their economy is still driven by cash register-handles whirring all over Russia. They say to the Americans “there may be ways you can hurt us but we can cripple you”.

Finally, Putin is only 63 and he means to stay on.

As a short-term achievement the ISIS end game for the Islamic extremists could prove be more realistic than a repeat of Yalta or Potsdam for the Russians, whatever big deal Putin would like in order to start making Russia truly great again. In my view the American boots-on-the-ground finale is a prospective triumph for ISIS unless the Russian government and Syria take on the task, which might be a probability, if they have wiped out the Syrian rebels. Vanquished, exterminated as a Caliphate centred in the Middle East, ISIS would have attained victory. That would not go away. That is what Dannenberg seems to believe.

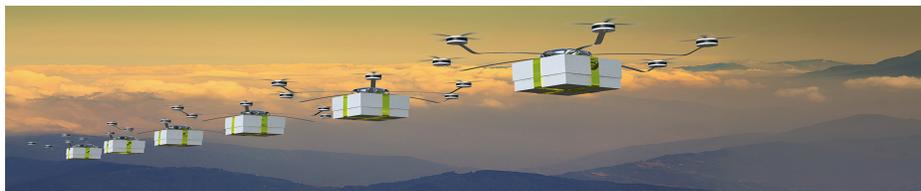
Actually, Dabiq has now fallen to the “Allies”. So, where now – Raqqa, Mosul? ♦

Drone Delivery Systems Plans to Take Canada Droning

(FLT-CNSX)

In clear leadership taking Canada into a commercially droning future are Tony Di Benedetto, CEO, his brother Paul, Chief Technology Co-Founder and Chief Technology Officer Greg Colacitti and others. As everyone should have an Armenian capital markets expert with wide-ranging experience, Richard Buzbuzian is Director and President. It is still early days but they have advanced a long way since I visited them six months ago in the City of Vaughan in Greater Toronto.

Answers to the first questions that come to mind: they have improved their freight-carrying drones to achieve autonomous flight, established relationships at appropriate government levels and major companies that want these services. They recently received Department of Transport permitting to test run in certain parts of Ontario at a designated level of 250 to 300 feet, mostly in remote locations though the use of drones ultimately is expected to be above selected urban roadways – above Yonge Street, for example, the longest street in the world. Best of all, Canada's protective aviation rules might save them from competition from big name foreign



aspirants.

Drone Delivery has signed letters of understanding with potential clients and is well advanced in the protection of patents. And they have research and advisory relationships with academics in airspace and software at institutions including the University of Waterloo and the University of Toronto.

Canada already has a decent history in droning – to icebergs for example – to carry equipment to assess movement of ice formations in Canada's far north. The possibilities seem unlimited. A user might want to deliver medical supplies or even tag a moose or link up with an e-commerce market place. Farmers are already using drones for crop treatments and inspection. The City of Vaughan is a local pioneer with a pilot program to provide unmanned aerial vehicle logistics services to the municipality. A next stage for droning is a swarming function

whereby a group of drones will be cooperating to undertake scaled-up tasks.

Several successful businesses have come and gone on the career path of the founders of Drone Delivery including a 150,000 square foot data centre they built and operated in Vaughan and then sold for \$10 million.

Drone Delivery Canada went public modestly with a low cost listing on the CSE, the Canadian Securities Exchange after I first met them. It initially had 66 million shares issued in the hands of founders and associates and has since undertaken a \$2.5M subscription receipt financing, creating an additional 17.9 million shares at a price of \$0.14. I have finally woken up to the occasion and purchased for the Fund at the \$0.21 level after watching all of this early progress. The company's ambition is to be profitable in the 2018-2019 time frame. ♦

Nintendo and the Pocket Monsters (Pokémon)

(NTDOY-US)

In the madness of 2016, I have decided that if Trump can be American, then *Augmented Reality*, or simply *AR*, might be the future of Japan. If the country really is economically motionless through AR, why not export the virtual reality of Canada's Anne of Green Gables and all of her paraphernalia in PEI to the slopes of Mt. Fujiyama? Then we would all have to spend our dollars visiting Japan to see Anne of Green Gables. Just being silly.

Seriously, there are countless uses for AR, which is simply something superimposed on something real, a technique preceded by virtual reality by which everything is really a load of rubbish. As Nintendo is the public-listed games company at the forefront of AR world, I am betting a small

amount of portfolio capital on JP Morgan and its Japanese investment associates signalling the next big price surge influenced by Pokémon Go. For years, I have peeped over the shoulders of perfectly sane looking people engrossed in Candy Crush and I am willing to bet a small amount. I have seen a dad on television full of glee because Pokémon search has got his overweight kid outdoors walking, away from the computer. Poke around and meet people.



The origination of Pokémon search was a Japanese collector's pursuit of insects.

Pokémon Go, the first physical "get out and go" game was developed by Niantic, a private enterprise in San Francisco spun out of Google on the creation of Alphabet. There are 151 characters to find. Companies including McDonald's Japan have seized the opportunity to become a search destination so growth in monetization might be ahead. Pokémon Go did break the world record as the fastest app to reach 10 million downloads, achieved in seven days from start-up on July 6.

In the future of AR, there will be countless opportunities for application and many major Internet companies are believed to be pursuing the use of the technology. This is just the start. ♦

Edgewater Wireless Systems – A WiFi Solution

(YFI-TSXV)

This is a breakout year for many Canadian companies. Edgewater Wireless Systems is just one of many Canadian companies that has edged out of the swamp in 2016, after recently announcing a marketing partnership in the Netherlands. The stock is up about 150% since the start of the year – easily done by a less than one-

dollar stock. It has had smaller upswings on recognition of its rich patents portfolio and opening up other connections across the globe.

It claims to have developed advanced WiFi that will combat airways traffic density. If you had been with me – stuck all night in Dallas/Fort Worth airport with 300 others last month or trapped in New York at 9/11, you would know the feeling. What Edgewater does is to take WiFi beyond the paralysis of the single lane crawl and into airways in equivalency many times the capacity of the Don Valley and Gardiner commuter expressways into Toronto.

Roughly put, there are 11 frequencies. Their use is finessed with the right chip capability and other bits of hardware used by Edgewater's WiFi3 to reduce traffic density problems, a property which should appeal to organisations that want the

closest thing to perfection. Its multi-channel architecture packages communications for security and other features. Real "hush hush" usage by the military is in fact at the beginning of all this development, for example, somehow in radar coordination between military jets. Edgewater is a spin-off that is attempting commercialisation.

Edgewater has spent many years in development, unknown to most investors. It is still not quite profitable. As Bob Harper, CFO told me, the company is still working towards its goals. I talked also with tech analyst, Robert Young at Cannacord Genuity Corp. with whom I discussed it several years ago. He holds some shares, believes in the technology and sees the breakthrough as a contract with a big company. I increased my holding recently and that of the Smedley Special Opportunities Fund. ♦



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

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