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2016 SECOND QUARTER LIVERMORE PARTNERS PARTNER REPORT

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***Icahn-ism** can continue to thrive creating strong investment returns and manifest better Governance*

(**Icahn-ism**): noun. Pronounced, I-Khan-ism (Definition: *Survival of a warrior species that looks to create value left by misguided management that lack vision and strong Board oversight*)

To: Partners:

Q2 began and ended with a whimper. Even in the face of an ever-changing world. Brexit and Central banks again took center stage and June finally reflected some true volatility. Major indices buckled in the face of a "leave" vote and global developed markets sold off-just to reverse themselves in the coming weeks. So here we are now at year highs. Amazing.

And again, the overriding forces of the Fed and global central banks win the day. New uncertainty has created further flight to bonds as well as into equities given the allure of risk-adjusted returns with yield. Of course, risk-adjusted is the key phrase here.

Most of the bear forces held the same dynamic of past years given low growth in many parts of the world. One day, something will give. Either we see increased demand where escape velocity and global GDP and inflation rises, or the alternative, which would lead to further quantitative forces to induce growth.

Our focus has been to find value in this discourse. So we are insistent on holding to our theme and discipline. With a concentration on companies where we can affect change; or locate overlooked value-driven opportunities especially when bouts of volatility take hold.

Additionally, and when it presents itself, we look to trade and hedge to minimize our exposure and take advantage of dislocation. My background first and foremost has always been as a trader, which helps Livermore capture alpha in times of extreme highs and lows.

In the Q we held steady with our core investments though we did have a few new announcements, including our activist position in **Mitra Energy (MTE.V) w**hich is a concentrated position for the fund and one which we are now fully engaged with Board representation.

At June 30st, **Livermore Strategic Opportunities LP** ended with a gain of **68% YTD**.

Much of the strength came from core holdings in both long and short positions. Notably, our **Mitra Energy**. Additionally, we made a very large and successful short bet on **Alibaba(BABA)** and increased our debt exposure in **Zargon Oil and Gas(ZAR.TO)**, a company where we first pushed for change back in 2015.

Link: (http://business.financialpost.com/news/energy/zargon?lsa=ea5c-072d).

Zargon's equity has come under great pressure given crude's cliff dive and the company's failure to listen to what we described as the best path for shareholders. Livermore pushed the company to cut its dividend and focus on asset rationalization just as crude turned down in late 2014. They didn't listen.

So we made a bad bet in 2014 and remained in the equity, causing us a large loss. We did so given their asset makeup and low production decline rate of 14%(one of the lowest of any energy company). What we missed was the *lower for longer* effect on the industry as well as Zargon's unwillingness to change course.

But instead of walking away with its deep value, we shifted to the debt of **Zargon**. And in Q1 and Q2 of 2016, began acquiring a large stake with an initial entry price of **30**, just as crude was hitting its lows of $28bbl. We now own substantial amounts of ZAR debt (much more than our equity size) and a positive exit from their Williston asset (*sale was press released July 25th*) should cause a re-rating as the company significantly de-levers its balance sheet.

The ZAR debt was extremely compelling given its asset coverage. We modeled Williston held big value and could be worth much of the excess debt. Plus, this was a solid risk-adjusted method to fully recover our lost equity value that management destroyed. **ZAR.DB** ended the Q at **54**. We now have a strong unrealized gain of 50%+, along with a distribution payment that is 20% annualized. Good stuff.

Zargon is a reflection of the opportunities we see in the market today. Though I take full responsibility for holding the equity as this management team and Board embarked on a value destructive path. This is another lesson and reminder that activism has a place, and we must be steadfast in our pursuit.

I plan to increase our message and capital to further our reach when it comes to horrid governance and management decisions. The small cap space is littered with companies like this. Where we must continue to focus on unlocking trapped value. We call this **Micro-activism**; and the place where activism thrives. This is not to be confused with our *Icahn-ism*, which is the survival of the fittest in terms of hedge funds focusing on activism.

To me, **Carl Icahn** is the greatest investor of our generation, given his strong will and determination to extract value for all shareholders. His track record and compounded wealth creation is second to none, especially when you take into account his long history and use of his own capital. He optimizes both short and long-term goals and gets it done. I have the upmost respect for him and feel his great history will continue to have an effect on both me and the future of activist investing.

Now back to **Mitra**. We took our stake as the equity traded at a blowdown to its NAV when many shunned exploration-focused energy companies. Here Livermore, along with other event-driven hedge funds (Tyrus Capital and West Face Capital) pushed to change management and its flawed vision. We did so with the addition of the former head of **Talisman Energy's** Asia Pacific division in Paul Blakeley, who was its President. Paul and his team created a strong division within Talisman growing revenues from $1B to $5B with huge production and efficiency gains. This was Talisman's "crown jewel". Now at Mitra, and with the tremendous opportunities in front of us today along with no debt, we feel recreating Talisman APAC is very possible.

Regarding other positions, we continue to hold London-listed, **Glencore PLC**. Though with its massive run to 170 pence (from our initial entry of just 70 pence back in October of 2015), we have lightened the position. We remain supporters of the company and would potentially look to re-enter if the market allowed the opportunity. The forward looking dynamics for the trader should continue to slowly improve, causing the company to re-install its dividend in coming years. Strong management helps.

We are also searching thru the rubble in the London market for value opportunities given Brexit. We will report more as we push forward and see some very specific opportunities. Similar to our media investment **Entertainment One** (ETO.L). Which was up nicely in the Q and where Livermore now has a strong gain of over 20%. The company seems to be listening to our ideas so we will continue to monitor the situation.

See link: (http://www.cityam.com/241811/entertainment-one-plans-to-ease-off-on-acquisitions-and-let-peppa-pig-bring-home-the-bacon)

Regarding our **Valeant Pharmaceuticals** short position, we covered it fully in the second quarter. VRX(short) was a strong contributor to our gains this year but with its dramatic fall in value, we decided it's time to cover and re-calibrate our capital into other short positions to hedge our book.

I continue to see much pressure on Valeant's business model on a go-forward basis, though I am not certain of the outcome of this troubled company. Livermore had a strong call and stayed the course, but it's time to move on…

We are focusing on other short ideas where we can hedge and where we see the potential for a company to become challenged. In the Q, we took short positions in Intrexon (**XON**) and retailer Urban Outfitters**(URBN).** I won't comment on the positions at this time. Though at some point we plan to further disclose our thesis. I did discuss **URBN** at a recent hedge fund conference in NYC in June sponsored by *Bloomberg* and where we gave an interview thereafter.

Here is the attached television video link for review:

Bloomberg Interview with Livermore's David Neuhauser-
How Hedge Funds Are Weathering Brexit Risks

Overall, it has been extremely difficult for hedge funds to make money. Volatility has been low with the exception of small bursts. So fast that one has to be ultra-quick to profit. Given our size, we have been nimble and will continue to be so until true economic fundamentals take hold in a more normalized environment. Where central banks are removed from the marketplace. This may not happen for years to come, or it may happen sooner, we just don't know. So until then we will stick to our thesis and not chase performance. Even if that means losing out on a few extra ticks…

In closing, I'm hopeful the year will continue to be strong for Livermore with many compelling opportunities. In what otherwise is a fully valued market with little growth. At some point which no one can predict, I do expect stock market volatility to jump and valuations to compress, and small cap stock bifurcation to take hold. This is where we thrive as value investors and hope to capture strong returns.

Thank you for your trust and support.

Truly yours,

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