February 2021

Dear Partners,

SRK Fund I, LP appreciated +10.90% during Q4 of 2020. In contrast, the S&P 500 and the Russell 2000 gained +12.15% and 31.40%, respectively. For the year, the Fund appreciated 127.72% compared to 18.40% for the S&P 500 and 20.00% for the Russell 2000.

SRK Fund I, LP Returns (%) as of December 31, 2020

	Q4 2020	2020	2019	2018*	Since Inception*
SRK Fund I, LP	10.90%	127.72%	77.99%	2.90%	314.16%
S&P 500 TR	12.15%	18.40%	31.48%	-4.03%	49.42%
Russell 2000	31.40%	20.00%	25.52%	-11.72%	32.85%

**Inception date of 05/01/18*

2020 was another robust year for the Fund, generating a return of 127.27% and bringing our return since inception to 314.16%. Our results are certainly impressive since inception, but I am not oblivious to the fact that this level of outperformance will certainly shrink over the coming years and partners should be prepared too, which will most likely include down years and underperformance. That being said, I do believe that our strategy is conducive to a certain level of outperformance and is repeatable for many years to come. The cornerstone of my investment strategy is to confidently understand the downside of an investment in a worst-case scenario and then think about the upside potential. I am most interested in opportunities with minimal downside risk and potential for the upside to return multiples on our capital (sounds simple). These opportunities are typically few and far between especially when taking into consideration the limitations of my mental capacity to turn over as many rocks as I can and the ability to confidently understand a business well enough. The way to benefit from these asymmetrical bets is to load up when the risk/reward is skewed heavily in our favor, since inception we have done just that. Our strategy has been and will continue to favor a concentrated portfolio of asymmetrical bets. These skewed risk/reward opportunities come in many different forms ranging from turnaround situations priced for bankruptcy to companies undervalued relative to their growing cash flows. This strategy typically means there is a high barrier for new positions entering into the portfolio. New positions primarily take the place of old positions as we recycle capital into better risk/reward opportunities. The most important question is when to sell? The problem is there is not an exact answer/formula for selling; investing is an art and a science. Sticking to a strict portfolio selling rule will only cut our winners short and require us to recycle that capital into opportunities that may not be as good a risk/reward. This is not to say that we should own cyclical businesses through an entire cycle, the key is to remember why you bought the stock to begin with. Every situation is different and requires constant reevaluation of the facts at hand. The human mind struggles with the ability to change our mind, because we are taught to stick to our guns and stand up for what we believe in. That type of mindset in investing can lead to poor outcomes as the facts change and you are unable to change your opinion due to your own stubbornness.

<u>The Market</u>

We have entered the Wild West segment of the market cycle where anything goes. Anyone with a name seems to be raising a SPAC, retail traders think they are great investors for riding speculative stocks to the moon, and it appears as if everyone is super optimistic about stocks. Do not take that as me being pessimistic because I am not, I am optimistic about a world slowly returning to normal this year. The market is obviously optimistic about a return to normalcy as well and has priced many stocks for explosive earnings growth, we will find out if this comes to fruition. Several small positions that we have owned/been researching have gone up more than 50% in the past few months over seemingly no news and has caused frustration to see a stock run away from us before filling a position. Pump and dumps are alive and thriving again, and I anticipate this to become much wilder with the number of new "investors" that have been given a hit of fast money. There are many companies with valuations over a billion dollars that I see that are most likely worth zero, be careful out there the market will humble you. These are the negatives in this market; the positives are that we do not have to play in this game, and I see many people seeming to forget that. A portfolio concentrated on undervalued securities with a large margin of safety should do simply fine over the market cycle. The benefit of our Fund is that we do not have a specific mandate and can search for undervalued opportunities across multiple geographies and market sizes.

Portfolio Updates

Tile Shop Holdings, Inc. (TTSH)

The Tile Shop was a huge winner for us during 2020. Our average cost per share is $0.81 and the stock closed out the year at $4.30 per share, a gain of 430%. This was the combination of buying a business that was severely mispriced and being in the right place at the right time with a strong housing market. My initial reasoning for owning shares was that the company had enough liquidity to make it through the year; they were able to crush even my best-case expectations. At the end of 2019, the company had $56.00 Million of net debt on its balance sheet and finished Q3 with $1.96 Million of net cash. Same store sales were down 6.5% during Q3 compared to the previous year; on the surface this number is concerning, but when factoring in the reduced store hours compared to last year the stores had higher sales per day in Q3 2020. The strong housing market and consumers flush with cash should continue to benefit The Tile Shop. A catalyst for the share price in the short term has been the recent emergence of several activist that are urging the company to relist its shares on the Nasdaq, the company has formed a committee to evaluate the potential uplisting. An uplisting could help close the valuation gap between The Tile Shop and its closest competitors, which is significant (TTSH does not deserve a Floor & Decor valuation but potentially half of FNDs valuation is fair).

Nocopi Technologies Inc. (NNUP)

Nocopi reported an 18% increase in revenues year over year for Q3. The quarter was impacted by an increase in the cost of goods, which I believe to be a temporary issue. Since last year, the company has doubled the amount of cash on its balance sheet and it now sits at more than 10%

of its market cap. Nocopi's only use of cash is for inventory purposes; by this time next year the cash balance could make up more than 20% of the company's market cap at today's share price, trading less than 10x earnings, and growing double digits with operating margins greater than 28% and expanding. They have several options with what they can do with their cash: 1.) Do nothing and let the cash continue to accumulate on the balance sheet; this is most likely the least efficient use. 2.) Initiate a special dividend to shareholders (potentially considered a return of capital). 3.) Repurchase shares at opportune times to reduce the share count and benefit all existing shareholders that continue to own their shares. My recommendation would be for the board of directors to seriously consider committing to share buybacks. To potentially increase liquidity and visibility of the company's stock for effectuating share buybacks I suggest the company up-lists to the OTCQB market.

Bragg Gaming Group Inc. (BRAG)

Bragg is a B2B iGaming software provider. Casinos hire Bragg to run their online gambling platforms in exchange for a percentage of the gross gaming revenue. Several observations initially piqued my interest in Bragg, and it appears that others had caught onto Bragg just as I was too. 1.) The business was experiencing explosive revenue growth; revenue grew greater than 74% in the first half of 2020. 2.) Huge amounts of operating leverage in the business as it begins to scale. Operating margins were improving drastically year over year as was evident in the greater than 20x increase in EBITDA in the first half of 2020 compared to the same period in 2019. 3.) The similarity of business model compared to GAN which had recently uplisted to the Nasdaq and went from trading at 2x revenue to greater than 10x. At the time of my research Bragg was trading for what I believed to be less than 2x revenue and around 10x EBITDA, compared to GAN which traded higher than 10x revenue and is not yet profitable. There were risks that prevented me from buying the stock earlier. The main risk was the €32.5 Million liability on the balance sheet in the form of an earn-out that was due to be paid to the founder and managing director of Oryx Gaming (Braggs main subsidiary). This was cleared up at the end of September when the company announced that the first payment would be made on January 31, 2021 and the final earn-out would be converted into shares of the company at a conversion price of \$0.68-\$0.71, when the stock was trading around \$0.50 which was intriguing that the founder would accept a conversion price that much higher than the current trading price of the stock. On the same day, the company announced that the former SB Tech CEO Richard Carter had been appointed to the board of directors (DraftKings acquired SB Tech at a $700 Million valuation). Both these pieces of news eased my mind to immediately go out and buy the stock aggressively. Since then, Richard Carter invested in a private placement with the company at $1.20 that raised $3 Million, they exercised warrants to raise an additional $15.67 Million, added new clients, added another experienced board member, and uplisted to the Toronto Stock Exchange with a Nasdaq uplisting expected to come soon. This has caused the stock to increase close 4x from our cost basis. The stock is certainly not a bargain anymore and I have trimmed our position, but I am still confident in the direction the business is heading especially with the strong tailwind of the gambling industry.

Salona Global Medical Device Corp. (SGMD.V)

We have owned this stock for about a year now and purchased it when the company was called Inspira Financial and trading for less than the cash on its balance sheet. The company then changed its name to Brattle Street Investment Corp. and wound down its previous operations in the healthcare billing industry with the goal to acquire/merge with a business. Towards the end of the year the company announced a transaction to acquire South Dakota Partners in an all-stock deal and change its name to Salona Global Medical Device Corp. with the goal to continue to acquire medical device companies. Recently, the company raised additional capital in a private placement which included insiders and the CEO of SDP (the acquired company) at a price of $0.4749 to be used for acquisitions. Information on SDP is limited, but we do know that in 2019 the company did $11,971,662 of revenue and has been growing at 150% year over year since 2016. Salona is 30% owned by Michael Dalsin and Roger Greene who have previously led a successful healthcare company roll-up at Protech Home Medical and the spinout of Viemed Healthcare Inc. SGMD is currently halted until the shareholder vote approves the merger. Once the shares are trading again, I expect the market to value to the business as a going concern rather than the expected cash on the balance sheet. We should learn more about South Dakota Partners soon

Closing Thoughts

These are the only portfolio positions I chose to write about, and others I chose not to for selfish reasons. If you have any questions regarding other holdings, please feel free to reach out to me. I have been contemplating writing to partners only twice per year from now on. My reasoning is that my time is better spent on research than writing a letter that takes me a handful of days to compile and complete. I have not made up my mind yet, but I felt it was appropriate to tell you what I am thinking and possibly hear some feedback.

If you or someone you know is an Accredited Investor and would like to learn more about the Fund, please reach out to me at info@srk-capital.com and we can set a time for a more detailed discussion to determine if we are a good fit.

Sincerely,

Sean Kirkwood
SRK Capital, LLC

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