LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

LIONGUARD CANADIAN SMALL CAP FUND
QUARTERLY REPORT – SEPTEMBER 2021

Since inception Returns:

During the quarter ended September 30, 2021, LionGuard Canadian Small Cap Fund ("Small Cap Fund") gross returns were at -2.36% comparing favorably to the S&P/TSX Small Cap Total Return Index ("Benchmark") that ended the quarter with a return of -2.54%. Our 5-year annualized return also compares favorably to the benchmark with a return of 13.50% for our Fund whereas Benchmark had a return of 5.76%. **Since inception the Fund delivered 13.74% annualized returns which also compares well with the Benchmark at 6.45%.**

Less Speculation = More Rationality:

Our recent internal analysis on Canadian-listed equities, excluding the Materials and Energy sectors, with market capitalizations between \$100M and \$3.0B, for a total list of 335 securities, yields interesting results. The average pullbacks from 52-week highs, for respective market capitalizations, are the following:

- For market capitalizations between \$2B and \$3B -16%
- For market capitalizations between \$1B and \$2B -19%
- For market capitalizations between \$500M and \$1B -25%
- For market capitalizations between \$250M and \$500M -30%
- For market capitalizations between \$100M and \$250M -39%

Further analysis of securities portrays that the companies that pulled back the most are mainly those that largely benefitted from the recent speculative craze we warned about several quarters ago. Fueled by large inflows from inexperienced traders, and in numerous cases from trigger happy fund managers who chose to try to make quick returns while assuming high risks, numerous companies' valuations defied common sense.

With a lot of speculative bubbles deflating, we view the current environment as much more rational. At the same time, with so many companies' stock prices retreating from recent highs, even some high-quality businesses are now selling at attractive prices.

Our Take on Inflation:

With high inflation likely here to stay (careful with buying into Fed's transitory inflation), many investors are wondering what to do in an environment when the purchasing power of their currency is eroded year after year. Historically, the stock market has proven to be a good place to invest to counter the harmful effects of inflation. Numerous businesses can, after all, over time, pass on price increases to their customers.

The best businesses to consider during times of high inflation are those with strong pricing power and low requirements for additional capital investments. Pricing power is often linked to the perceived brand

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete, and is qualified in its entirety by the Offering Document. LionGuard Capital Managment Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. LionGuard Canadian Small Cap Fund LP was launched in November 2019. Prior performance is that of LionGuard's main representative sub-advisory mandate following the same strategy. The indicated rates of returns do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

value, as well as the structure of the industry in which said business operates. Real estate tends to perform well because of the higher replacement cost unless sizeable additional capital is required to maintain the property. Software-centric technology companies, that can scale up easily, are certainly very well-positioned relative to unscalable and capex-heavy alternatives. This is the case during most environments but is especially so when inflation is in high gear. Capital-light businesses can accelerate the growth of their revenues and potentially further expand their margins despite higher labor costs.

The worst businesses to invest in during a high inflationary environment are those that operate in commoditized industries and thus command no pricing power. One should certainly stay away companies that have long duration commitments at fixed prices. Most long-term commercial contracts do include inflation adjustments, yet it is often the case that their realized margins often end up lower during the fulfillment cycle.

We strongly discourage investors from holding high cash levels and from allocating capital to long duration fixed income securities. Handpicked high-quality businesses, acquired at sensible prices, should materially outperform such alternatives, especially during the environment of high inflation. Overall, high inflation should not be of too much concern to investors who can identify businesses that are able to not only protect their current businesses but can further deepen their moats vis-à-vis weaker rivals.

Q3-2021 Investment Performance:

LionGuard Canadian Small Cap Fund (“Fund”) outperformed the S&P/TSX Small Cap Total Return Index (“Benchmark”) during the third quarter of 2021, returning -2.36% against the Benchmark’s -2.54%.

The sectors where the Fund performed best in comparison to the Benchmark were Financials with 40 bps of relative outperformance and Real Estate with 33 bps of relative outperformance. Sectors where the Fund underperformed vs the Benchmark included Industrials with -206 bps of relative underperformance and Technology with -60 bps of relative underperformance.

Our largest relative contributors came from being overweight in **Sangoma Technologies (STC).** At the same time, being overweight in **DIRTT Environmental (DRT)** has cost us relative to the Benchmark.

Sangoma Technologies (STC CN) – For a detailed discussion of the company, please refer to our past quarterly and annual reports as our view on the company and the industry remains intact.

STC’s recent quarterly results were strong and complemented with FY 2022 guidance significantly above expectations. Based on our internal estimates, the FY 2022 guidance implies 12% - 15% organic growth for its service revenue. While the service revenue may not necessarily compare favorably to other UCaaS providers, we highlight Sangoma’s best-in-class margin profile vs peers. Compared to peers that have taken a “growth-at-all-cost” approach, often operating at a significant loss, Sangoma has decided to adopt a prudent approach by balancing growth with profitability. The management guidance for the next fiscal year implied an adjusted EBITDA margin of 20%, which is significantly above expectations. A higher margin is expected because of a better revenue mix, operating leverage, cost synergies, etc.

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete, and is qualified in its entirety by the Offering Document. LionGuard Capital Managment Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. LionGuard Canadian Small Cap Fund LP was launched in November 2019. Prior performance is that of LionGuard's main representative sub-advisory mandate following the same strategy. The indicated rates of returns do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

We are also very pleased with the management commentary on Star2Star integration. As of the end of September 2021, the integration is substantially complete. STC identified various cost savings, which are well above initial expectations, which will be put to work to generate a higher organic growth rate. They are also very confident in cross-sell opportunities, for what is now the broadest portfolio of products in the industry, between S2S and legacy Sangoma. It certainly looks like the management is conservative on its organic growth rate guidance for the next fiscal year.

We are fully supportive of management's decision to ensure the long-term financial stability of the business including by having no reliance on capital markets to "subsidize" its growth. Under the current operating scenario, Sangoma is expected to grow its recurring revenue in the mid-teens while commanding a free cash flow yield of 6.0% - 6.5% (based on next fiscal year), which is unheard of within the UCaaS space.

Rather than relying on the frequently quoted price to sales multiples, used by most to value STC's industry peers, we prefer to remain grounded and compute a DCF valuation for the company. Such an analysis leads us to believe that the current risk-reward for Sangoma is beyond compelling.

DIRTT Environmental (DRT CN) – The company was a key detractor this quarter as its stock price pulled back from its July peak. We believe the main reason for the pull back is related to the construction projects delays. The company's products are installed in the last phase of a project and delays in projects completions negatively impact the timing of delivery and recognition of related sales.

At the same time, over the last several months, we continued gaining increased confidence that the world is moving towards the "hybrid work model". All our channel checks are pointing to senior management teams and heads of HR working to determine the inner workings of new office environments, which certainly require, in almost all cases, complete reconfigurations of the current offices. Senior decision makers are also increasingly mindful of their companies' environmental footprint and are thus likely to choose a modular construction option via-a-vis alternatives.

Temporary project delays will certainly abate over time and DIRTT will then likely face new challenges of delivering on all the work urgently requested by its clients. Their quoting activity remains very robust, and we believe that DRT has been gaining more and more national accounts, which increases the visibility and predictability of its business.

Rising labor costs make DRT's product offering more compelling versus conventional construction alternatives. Schedule delays also further highlight the benefits of a prefabricated approach to interior construction.

We remain supportive shareholders of DIRTT, buoyed by the massive opportunity for modular construction and excellent management execution to date. There is clear evidence of a forthcoming massive demand for DIRTT's services for years to come.

We view the pullback as a great buying opportunity and are undeterred by the short-term stock price volatility. **Other investors clearly share our view with 22NW (~18.2% holder of DRT) filing a 13D on Oct**

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete, and is qualified in its entirety by the Offering Document. LionGuard Capital Managment Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. LionGuard Canadian Small Cap Fund LP was launched in November 2019. Prior performance is that of LionGuard's main representative sub-advisory mandate following the same strategy. The indicated rates of returns do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

7th stating its intent to "communicate with the issuer's management and Board about a broad range of operational and strategic matters".

We believe 22NW's involvement adds more oversight to help potentially unlock shareholder value and bridge the market-to-intrinsic value gap considering the massive opportunity on the company's hands. As a matter of fact, 22NW has a successful track record of constructive involvement: in 2017, 22NW made an offer to acquire all outstanding shares of INFU for $2.00 per share, or a 29% premium to the close at the time. INFU's share price is $13.50 today. **We view its involvement in DRTT as validating the opportunity at hand today and we would not be surprised to see additional activist shareholder(s) involvement. We see these dynamics as setting a tangible floor for the stock, further de-risking the valuation aspect of the story.**

May you have any questions, please contact us at any time.

Yours sincerely,

Andrey Omelchak, CFA
President, CEO & Chief Investment Officer
(on behalf of LionGuard Capital team)

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete, and is qualified in its entirety by the Offering Document. LionGuard Capital Managment Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. LionGuard Canadian Small Cap Fund LP was launched in November 2019. Prior performance is that of LionGuard's main representative sub-advisory mandate following the same strategy. The indicated rates of returns do not take into account sales, redemption, distribution, or optional charges or income taxes payable.