LionGuard Capital Management Inc.
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LIONGUARD OPPORTUNITIES FUND
INVESTMENT REPORT FOR YEAR 2017

FUNDSERV codes: LGC101 (Class A) & LGC103 (Class F)

Dear Investors,

Investment Performance – LionGuard Opportunities Fund:

For the year 2017, LionGuard Opportunities Fund ("Fund") had a positive net (after all fees and expenses) return of 16.44%. **Since Fund inception, in October 2014, its annualized net (after all fees and expenses) return amounts to 16.26% and cumulative net return to 63.18%.**

Fund's since inception results, as compared to S&P/TSX Total Return Index, are the following:

Time period	LionGuard Opportunities Fund (net returns)	S&P/TSX Total Return Index	Outperformance (underperformance)
1 month	1.66%	1.20%	0.46%
3 months	3.26%	4.45%	-1.19%
6 months	5.68%	8.30%	-2.62%
1 year	16.44%	9.10%	7.34%
3 years (annualized)	16.21%	6.59%	9.62%
ANNUALIZED RETURNS	**16.26%**	**5.59%**	**10.67%**
CUMULATIVE RETURNS	**63.18%**	**19.33%**	**43.85%**

As many of you know, we present Index returns for illustration purposes only, while the objective of the Fund is to generate positive absolute returns irrespective of the overall market direction.

In fact, we do not think of ourselves as investors "in the market", but instead as buyers of individual businesses that "happen to trade in public markets". Such businesses have performance drivers (such as earnings per share and free cash flow per share) that are very different from the overall drivers for the market.

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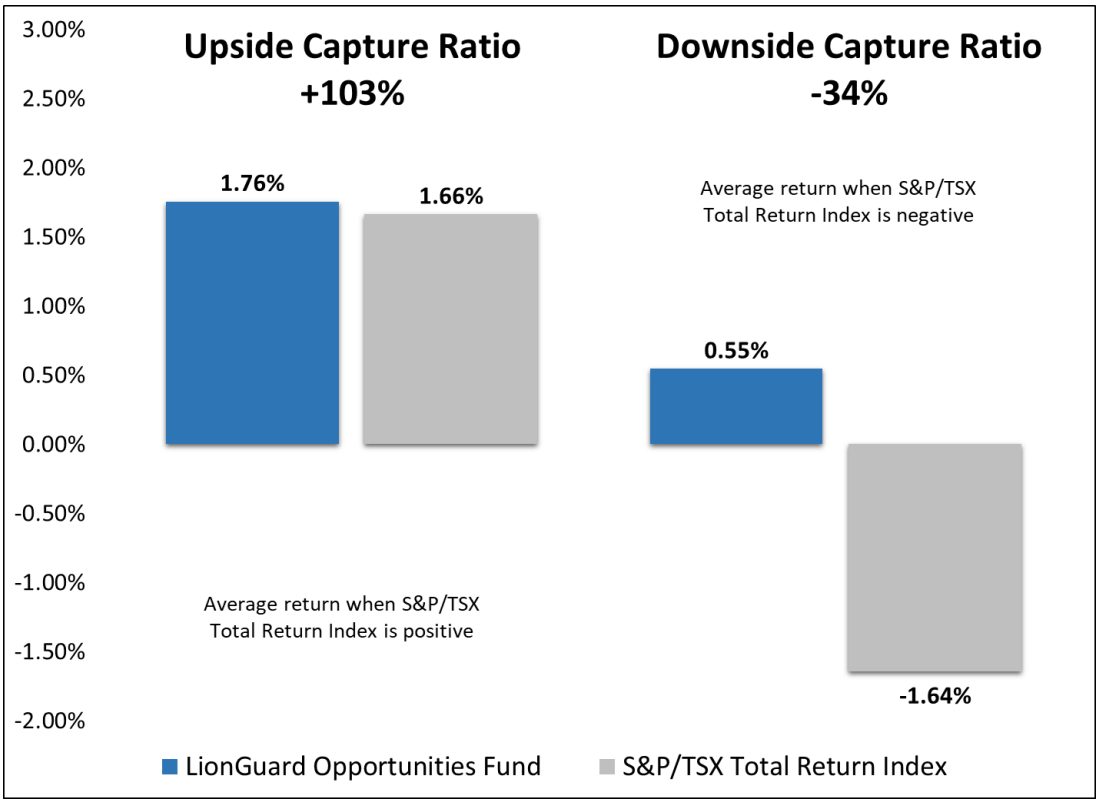
Our upside and downside capture, versus S&P/TSX Total Return Index, can be summarized as follows:



Q4-2017 and Full Year 2017 Contributors:

During the fourth quarter, some of our largest contributors were ***Home Capital Group (HCG), Linamar (LNR)*** and ***BMTC Group (GBT)***. On the opposite side, our detractors were **Element Fleet Management (EFN)** and **Chesswood Group (CHW)**.

Our notable contributors in 2017 included ***Sandvine Corp (SVC), Home Capital Group (HCG), Pacific Insight Electronics (PIH), Linamar (LNR)*** and others. For detailed discussions about the first three companies, please refer to our Q2-2017 and Q3-2017 reports, which can be found on our website. On the opposite side, our detractors included **Equitable Group (EQB), Exco Technologies (XTC), AutoCanada (ACQ)**. We wrote extensively in the past about Exco Technologies and AutoCanada and encourage our readers to refer to our prior reports for our largely unchanged views on these businesses.

Year 2017 Market Comments:

Year 2017 was certainly full of positive surprises, especially relative to expectations just a year ago. In many ways, 2017 can be characterized as a year when global investors, and increasingly so global central banks, put aside memories of the financial crisis and decided to confidently step ahead. Undoubtedly, some of the biggest surprises of the year, were the performance of the U.S. and European stock market indices.

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Large part of the reasons for outsized U.S. market performance were positive economic growth across all major global economies, U.S. unemployment rate of just over 4%, and passage of the sweeping overhaul of the U.S. tax code. In addition to well-publicized corporate tax rate reductions (from top rate of 35% down to 21%), there are major changes to repatriation of overseas profits, tax deductibility for interest expenses, tax deductibility for depreciable assets etc. With the passage of the tax code, implementation of other objectives communicated by the Trump's administration, in our opinion, become increasingly likely.

On the Canadian side, S&P/TSX Total Return Index was up 9.1% during the year, lagging U.S. and most of its European counterparts. On the economic front, we have witnessed reduction in unemployment rate, down to 5.7% as of the end of December.

On a side note, contrary to U.S. counterparts, Canadian Liberal government has been increasingly welcoming of foreign immigrants into country. Relative differential in immigration policies, we believe to have started to contribute to material inflow of new foreign capital into the country. As a Montréal-based Company, we want to specifically highlight excellent job creating throughout the province and renewed feeling of business confidence by professionals and corporations.

Comments on the year would not be complete without highlighting reminiscent of .COM behavior currently prevalent in the Canadian market. It looks like these days corporate name changes to anything marijuana and/or cryptocurrency related is all it takes to achieve a material stock price appreciation. Although we acknowledge emergence of a new industry, poised to take advantage of legalization of marijuana in Canada, we caution market participants to evaluate companies first and foremost by their prospects for generating earnings per share and free cash flow per share. We take this opportunity to reassure our investors that we stuck to our knitting and did not participate in any speculative activities.

Conservative Stance:

Whether positive for market dynamics have become fully priced in, have yet to demonstrate their full strength or have become exacerbated to the upside, remains to be seen. What we do know is that overall market multiples (in Europe, U.S. & Canada) are trading at the high end of historical levels. This is also true for the U.S. market, after accounting for the benefits of lower corporate tax rates. We also know that there is an increasing pressure for Federal Reserve (and other global central banks) to speed up the pace of increases in interest rates. Lastly, we want to highlight that market has become largely immune to geopolitical developments and if we have learned anything from history it is that those tend to escalate (and eventually recognized by market participants) when least expected.

From our perspective, despite the influx of positive economic data, we have maintained our largely conservative stance in the light of elevated market multiples. We have nevertheless been beneficiaries of good number of take-outs across our Funds, as higher acquirer's trading multiples make "our kind of companies" (for discussion of what constitutes "our kind of companies" refer to Q3-2016 report) more accretive M&A targets. We have subsequently reallocated capital into other materially mispriced securities, including those prone to M&A activity. In our opinion, such as approach to capital allocation, in a current market environment, provides for both risk management and returns objectives.

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Risk Management – Intrinsic Value Outcomes:

We have long advocated that conservative investment philosophy, with the focus on downside protection and capital preservation, is the best way to provide for long-term value creation in an ethical and responsible manner.

To accomplish this objective, one of our key risk management principles is to limit our investment operations to companies which have narrow (or whenever possible skewed to the upside) distribution of potential intrinsic value outcomes. In other words, said companies "true" valuation is not prone to sizable downside fluctuations. To limit distributions of potential intrinsic value outcomes, key input variables in the financial model must be of high predictive ability.

Best way to illustrate this is by comparing two hypothetical companies:

- Company A is a certain exploration and production company, with rather thin margins, that trades at $10/share. Its intrinsic value, using forward commodity price curves and other base-case assumptions, is currently $13/share, thus providing for a healthy upside of 30%. At the same time, once we stress-test key input variables (including mere 10% +/- changes in commodity prices), this company's intrinsic value is worth between $7/share and $18/share.

- Company B is an industrial company, that also trades at $10/share. Its intrinsic value, using projected base-case values for input variables (such as growth rate, margins, valuation multiples etc.) is also worth $13/share, thus an equivalent 30% upside. Once we stress-test key input variables, to the same extend as for Company A, this company's intrinsic value is worth between $11/share and $15/share.

Although this looks like a simple exercise on the surface, there are numerous challenges with estimating key input variables that go into the model and especially with determining how to properly "stress-test" said assumptions. It is especially challenging to achieve a true "apples-to-apples" comparison between the two companies, as it pertains to relative changes in input variables.

The good news is that second part of the equation (applying discount rate and valuation multiples), in our opinion, is less prone to relative interpretation for base-case intrinsic value calculations.

Corporate Updates:

During 2017, we continued to make great progress as an organization. As always, I want to commemorate hard work and commitment to our vision, displayed by all our employees. In addition, we would like to acknowledge indispensable help of our service providers including, but not limited to, TD Securities, State Street, Borden Ladner Gervais, Raymond Chabot Grant Thornton, SGGG Fund Services, Custom House, PricewaterhouseCoopers, National Bank Correspondent Network, INNOCAP, FUNDSERV, BLOOMBERG, Factset and others.

During the year, our second Fund, LionGuard Canadian Small Cap Equities Fund, once again delivered industry-leading investment results with gross returns of 11.70%. As of the end of the year, this Fund's annualized gross 2-year returns amount to 16.06%.

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Also, in response to institutional investors demand for an alternative product with limited net long exposure to the market, we were pleased to launch our third Fund, LionGuard Conservative Fund, in May 2017. This Fund subsequently delivered solid positive absolute returns, until the end of the year. We want to acknowledge great support from Quebec Emerging Managers Program (QEMP), with making substantial institutional allocations in LionGuard Conservative Fund from day one.

In October, we were glad to welcome to our team Mr. François Dufour, MBA, MSc, for the role of Vice-President, Business Development. François has an extensive experience in the financial industry and is pleased to be working with our numerous consultants, family offices, fund of funds, institutional investors and investment advisors' communities. We also currently have an opening in the operations department and look forward to updating you once a new person joined our team.

We are also glad to report that we closed 2017 with more than 190 unique client relationships across all investor categories, from accredited high net worth individuals to some of Canada's largest institutional investors.

We take this opportunity to remind interested investment advisers that **LionGuard Opportunities Fund is registered on FUNDSERV and is available for purchases under the following Fund codes*: LGC101 (Class A) & LGC103 (Class F).***

Conclusion:

As we enter 2018, we remain both cautious and open to investment opportunities. With higher overall market multiples, prospects for increases in interest rates and elements of euphoria within certain market segments, we continue to highlight the need to focus on underlying business fundamentals as well as valuation levels.

Despite market run-up, our fundamental research process continues to identify good number of quality companies that currently trade at generous discounts to our calculation of their intrinsic values. In addition, we welcome any short-term market (and company-specific) volatility as a means of acquiring "our type of companies" at even larger discounts.

May you have any questions and/or want to obtain more details on how to invest in LionGuard Funds, feel free to contact us at any time.

Yours sincerely,

Andrey Omelchak, CFA, FRM, CIM, MSc
President, CEO & Chief Investment Officer

Erik Ross, DMS, FCSI
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Jay Tan, CFA
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