LIONGUARD
CAPITAL MANAGEMENT INC.

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LIONGUARD CAPITAL MANAGEMENT INC.

LIONGUARD CANADIAN SMALL CAP EQUITIES FUND

QUARTERLY REPORT – MARCH 2019

Since Inception Returns:

LionGuard Canadian Small Cap Equities Fund ("Small Cap Fund") gross returns, as of March 31, 2019, can be summarized as follows:

Time period	LionGuard Canadian Small Cap Equities Fund (gross returns)	S&P/TSX Small Cap Index	Outperformance (underperformance)
1 year	1.46%	-4.23%	**5.69%**
2 year	1.71%	-6.52%	**8.23%**
3 year	7.06%	3.40%	**3.66%**
Jan 2019 – Mar 2019	13.21%	10.01%	**3.20%**
Since Inception	**3.17%**	**-0.82%**	**3.99%**

We are pleased that the Small Cap Fund is delivering on its promises and much appreciate strong interest for this product from consultants, institutional investors and family offices. As a reminder, Small Cap Fund's objective is to outperform its Benchmark by at least 200 bps per annum over a rolling time frame of four years.

Q1-2019 Investment Performance:

LionGuard Canadian Small Cap Equities Fund more than delivered on its mandate and significantly outperformed its benchmark, S&P/TSX Small Cap Index ("Benchmark") during the Q1-2019. During this period, Fund returned 13.21% as compared to Benchmark at 10.01%.

The sectors where the Fund performed best in comparison to the Benchmark were the Energy sector with +233 bps of relative performance and Information Technology with +179 bps of relative performance. The sectors where the Fund underperformed vs the Benchmark included Real Estate with -89 bps of relative performance and Consumer Staples with -60 bps.

Following the sell-off in Q4-2018, we identified numerous high-quality investment opportunities that traded at levels well below their intrinsic values. Whenever possible, re-allocated some capital from

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companies with less upside to those with best upside potential. This strategy combined with our overall high-quality bias plus several takeouts during the quarter has paid off.

During the quarter, we benefited from three takeouts in the Fund. They are: ZCL Composites, Solium Capital and Gluskin Sheff. We have been patient long-time shareholders in ZCL Composites and Gluskin Sheff, while we just started building a new position in Solium (after following and researching the company for several years) earlier in the same quarter. We are now looking to deploy the proceeds into both existing and several new companies.

Our largest relative contributors in Q1 were ZCL Composites, Firan Technology and Tucows. At the same time, not owning Village Farms International, and being overweight in Total Energy Services and in Major Drilling has cost us relative to the Benchmark. Please see below some comments on our contributors.

ZCL Composites (ZCL) - ZCL Composites is the dominant manufacturer of fiberglass tanks used in retail fuel operations. Throughout the year 2018, the company has experienced productions issues which negatively impacted its margins. Those issues were mainly due to the implementation of productivity initiatives that did not turn out as planned.

At the beginning of 2019, the Company has been taken out by another holding of ours (Shawcor) at $10 per share, which is a 37% premium to the price prior to the announcement and a 46% premium to the 20-day volume weighted average trading price.

Firan Technology Group (FTG) - Please refer to our Q3-2017 and Q1-2018 Opportunities Fund reports for discussions on the business of Firan.

As per our prior write-up, we did not believe that the integration challenges (post acquisitions) were structural and thought that FTG's share price will recover as management delivers on its promises. Although the integration took longer than expected, challenges are now behind us as FTG has delivered solid execution over the last several quarters. As a result, the investment community is starting to give credit to the management team and is pushing the stock price higher.

Going forward, we are optimistic that future acquisitions will also be value-creating and that recent lessons will lead to smoother integration(s) (if required) of acquired operations. We remain bullish on this industry and believe that there is room for long-term shareholder value creation upon proper execution of a business plan.

Tucows Inc. **(TC**) - Please refer to our Q2-2015 Opportunities Fund reports for a discussion on Tucows. Since then, the company expanded and now has operation across three segments: Domain Name, Cellphone services (MVNO) and Fiber Internet.

We remain of the view that Tucows has an outstanding management team that truly understands the concept of the return on invested capital (ROIC) and runs the business accordingly. It is therefore not a surprise that this has been one of the best performing stocks on the Canadian exchanges over the last 10+ years.

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Going forward we see big growth opportunities for Tucows, especially as they relate to the Fiber Internet business. As they gain scale in that segment, we expect to see an acceleration of growth in revenues and gross profits. We therefore fully support management's plan to continue investing in building the fiber network, which is an excellent use of shareholders capital.

The company has also been able to make highly synergetic acquisitions in the Domain Name business, which added to their cash flow capabilities. They have also done a great job in the Cellphone services segment, which too continues to generate solid levels of free cash flow and high returns on invested capital.

Fund Positioning Going Into Q2-2019:

We are currently slightly more conservatively positioned than at the beginning of Q1, as many small capitalization companies have rallied to higher valuation levels. Having said so, we still see a lot of pockets of market irrationality and do not exclude the possibility of higher market valuation levels on the back of lower expectations for increases in interest rates.

We remain underweight in Energy and Materials sectors, as we still find little compelling risk-adjusted investment opportunities among those sectors. Having said so, we are cognizant of the recently higher oil prices and the impact that the higher forward curves can have on company's economics.

Active Merger & Acquisition Environment To Continue:

In the last quarterly commentary, we highlighted that we expect to see more takeouts in the Fund. Clearly, Q1-2019 has delivered on those expectations. Historically, this dynamic has played largely in our favour, as we often invest in companies that are good take-out potentials (high FCF yield, stable and predictable business models, solid management team and governance in place, under-levered and/or often positive net cash position etc.)

Although there are naturally mixed feelings when a solid company (which we define as the one with strong current free cash flow generation and/or highly recurring revenue stream with excellent visibility towards future free cash flow) is leaving our Fund(s), a takeout does validate our assessment of the quality of the business and its intrinsic value. Unless there is a specific reason why takeout is unlikely (such as controlling shareholder with no interest in selling, large "golden parachute(s)" in place, regulatory hurdles, etc.), all companies are potential acquisition targets.

Despite on average higher valuation levels, as compared to numerous "garage sale prices" we have witnessed at the end of 2018, we believe that merger and acquisition (M&A) activity in the Canadian small and medium capitalization space is very likely to continue. Some of the reasons for that include the following:

- Record amount of capital that needs to be deployed by the private equity ("PE") industry. According to McKinsey Global Private Markets Review (2018 edition), there is over $1 trillion of dry powder of capital committed (between the year 2000 and the first half of 2017) yet not deployed by the general partners of PE firms. At the same time, we continue seeing record

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amounts of new capital inflows in large PE funds. As a sign of times, just look at the recently raised US$22 billion buyout fund, the largest ever, by Blackstone Group. With so much capital "flowing around" it is only natural to see more acquisitions, more competing bidding situations and under normal market conditions, higher valuation multiples paid for acquisitions. It is also important to highlight that given the timing of the initial capital commitments by limited partners, the pressure on general partners to deploy the capital from earlier vintages is mounting rapidly.

- Exceptionally low interest rates environment. Whether it is for private equity players, strategic buyers from the same industry, management buy-outs or any other purchases, the prevailing interest rate is in most cases the most important determinant of the attractiveness of a deal. On one hand, if there was a rising interest rates environment, there would be a pressure to close some of the deals sooner rather than later and to lock in the long-term rate. On another hand, "lower for longer" environment makes acquisitions much more attractive to all kinds of purchases including those who are not in a rush to "close the deal". While the Federal Reserve and the Bank of Canada regularly shift their tone from dovish to hawkish and vice-versa, we ought to remind ourselves that the current interest rates environment, from the historical standpoint, and despite a number of increases from the low, is exceptionally accommodative.

Yours sincerely,

LionGuard's Investment Team:

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