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INVESTMENT PARTNERS LTD.

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March 31, 2018

Annual Report to Limited Partners as of December 31, 2017

Year	**Ewing Morris Opportunities LP Class A**[1]	S&P/TSX Index with Dividends Included	S&P 500 Index with Dividends Included
Sept. 9, 2011 – Dec. 31, 2011	**6.3**	(2.5)	7.8
2012	**11.5**	7.2	16.0
2013	**16.2**	13.0	32.4
2014	**(1.7)**	10.6	13.7
2015	**8.3**	(8.3)	1.4
2016	**18.9**	21.1	12.0
2017	**8.9**	9.1	21.8
Total (Cumulative)	**89.8**	58.1	165.0
Total (Annualized)	**10.7**	7.5	16.6

	Ewing Morris Flexible Fixed Income LP Class P[2]	iShares U.S. High Yield Bond Index ETF (CAD-Hedged)[3]	iShares Canadian Corporate Bond Index ETF[3]
Feb 1, 2016 – Dec. 31, 2016	**14.6**	16.8	3.6
2017	**7.0**	5.5	2.7
Total (Cumulative)	**22.6**	23.2	6.4
Total (Annualized)	**11.2**	11.5	3.3
Annualized Volatility	**2.5%**	3.6%	3.2%

[1] 2011 data is from September 9th, the date the Ewing Morris Opportunities Fund LP began investment operations. Results are net of all fees and expenses.
[2] 2016 data is from February 1st, the date the Ewing Morris Flexible Fixed Income Fund LP began investment operations. Results are net of all fees and expenses.
[3] Low-cost, index tracking funds; representative of an individual's opportunity cost in fixed income.

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Business Summary

In last year's letter we wrote:

> *At the end of 2016 the S&P 500 price/earnings ratio was 21x. This multiple expansion has meaningfully contributed to the strong results of the S&P 500 over the last five years. It is almost certain this expansion will not be repeated in the next five years. Assuming no change in earnings multiples, investors should expect to achieve mid-to-high single digit returns from portfolios that look like the S&P 500. If earnings growth stalls (i.e. prolonged recession) and/or multiples compress towards the historical average of 15x, returns will be lower, possibly negative.*

We continue to stand behind those words. Earnings multiples cannot expand indefinitely, especially as interest rates rise. Return expectations for equities from current levels should be modest. Similarly, credit markets are expensive and return expectations should be similarly modest. Fortunately, our portfolios look nothing like well-followed equity and fixed income indices. While our portfolios are not immune to general market forces, they are designed to protect capital and generate solid returns over time.

In 2017, the Opportunities Fund LP returned 9%, net of all fees, and our Flexible Fixed Income Fund returned 7%, net of all fees. Overall, our underlying businesses performed well. Today, our portfolios continue to be well-positioned with hedges, takeout candidates, strong management teams, reasonable valuations and low leverage. Our capital base remains stable with Ewing Morris & Co. insiders representing 18% of capital (or $51 million).

We also added bench strength with the addition of Lee Matheson and Anthony Hammill in early 2017. We have always ascribed to the view that 1) investment talent is rare and 2) when you see it you want to be able to offer a seat at the table. We were fortunate in attracting these two to our team and they have already added value to our investment efforts. Lee Matheson, as a public company director, has developed a well-deserved reputation for being effective in unlocking value for shareholders. In his capacity as Chairman of AlarmForce Industries, Lee oversaw its sale to BCE Inc. at a 71% premium in early November 2017.

We hear a lot of managers lamenting market valuations, political turmoil and economic uncertainty. We too recognize these difficult conditions but believe our efforts are better directed towards identifying investment opportunity.

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Since we first met to discuss the blueprint for Ewing Morris & Co., our guiding principle has been "to build an investment firm of which we would want to be clients." For us, such a firm would have the following characteristics:

- Employs an understandable approach to investing based on common sense principles and underpinned by fundamental business analysis.
- Makes operational excellence a priority and works with best-in-class service providers.
- Strives to build meaningful long-term relationships with its investors based on candid communication.
- Measures its success based on the absolute net returns delivered to its investors over time.

The investment management business is highly competitive; hard work and passion are mandatory. There is no guarantee or magic formula for success, however, we firmly believe that the odds increase in our favor if we have a solid mental framework to help make difficult decisions and processes in place to guard against emotion. If we do these things, the financial returns will take care of themselves.

As we look ahead, we remain confident in our ability to deliver results that will meet our investors' expectations over time.

Opportunities Fund LP

Investment Results

In our sixth full year of investment operations, the Ewing Morris Opportunities Fund LP returned +9%, net of fees and expenses. At year end, the market value of the strategy's assets was $152 million.

Our Goal

We believe that we need to have a *pre-determined* and *agreed upon* standard of measurement. It is important for us to agree on these standards in advance so that you, our Limited Partners, will evaluate us on known criteria and the opportunity for us to rationalize performance will be minimized.

An appropriate timeframe for measurement is at least three, and preferably five, years. More importantly, the time period should include a variety of market conditions. For instance, a three-year period including 2008 and 2009 (which had large positive and negative market returns) is a more useful measurement period than the current 8-year period from 2009-2017 in which most markets have only advanced upwards.

The fundamental measure of our success will be the wealth we create for our Limited Partners over the long term. This will be a direct result of our goal to deliver double-digit returns, net of all fees and expenses, over time while minimizing the risk of permanent loss.

Investment Review

In 2017, two of our investments detracted from returns, costing us a combined four percentage points of return. In both cases, the operating results of the business were strong. However, the stock prices declined materially. We struggle to label these as "mistakes" but most likely a function of short-term unpredictable pressures. As a reminder, we define risk as the probability of a permanent loss of capital. Permanent losses are usually caused by some combination of:

- Too much debt
- Paying too much for an investment
- Company becomes a victim of industry change (technology or regulatory)

In both cases the companies had modest amounts of debt, the valuations were low and the companies' industries are reasonably stable. The reality is that stock prices, in the short term, are unpredictable and often have little relationship with the performance of the underlying business. Here are the details:

j2 Global

j2 Global is a mini-conglomerate with two business units. The first, Cloud Services, provides IT services (eFax, data backup, email marketing, etc.) to small businesses. The second, Digital Media, owns a valuable portfolio of internet sites (IGN, Everyday Health, MedPages, Speedtest, PC Mags, etc.). The company, led by Vivek Shah and Scott Turicchi, has an outstanding record of allocating capital.

Entering the year, j2 traded at a reasonable valuation (9.5x EBITDA). In 2017, the operating performance was strong: revenue increased 28% while operating profit increased 10%. However, the stock price declined by 8%. At year-end 2017, the valuation had compressed to just 8.5x EBITDA. We added to our position throughout the year.

Gear Energy

With one exception, none of our energy-related investments performed well in 2017. Gear Energy was the largest decliner. Gear is a Western Canadian focused oil producer. Operationally, Gear had a good year in 2017. Oil prices increased by 8% compared to late 2016. The company grew production while maintaining margins and cash flow per share increased by ~10%.

However, the market didn't seem to care. Despite rising oil prices, the energy sector declined 12.5% in 2017. Small and mid-cap energy companies, like the ones we own, underperformed the struggling sector.

Gear's share price declined 28% in 2017. The company entered the year trading at 4.8x cash flow, a discount to its peers which traded at 6.2x. By the end of 2017, Gear's valuation had compressed to just 3.6x cash flow while its peers traded slightly higher at 6.6x.

One of our mentors used to say that, "Good things happen to people who own cheap stocks." With no fundamental change to these businesses, we expect an eventual rebound, perhaps as early as 2018.

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The Machines Are Coming

It is estimated that algorithm-based electronic trading accounts for more than half of all trading activity. We think it is important to understand where machines excel and how we can compete against their weaknesses. Our response is to focus on situations where judgment is more important than statistical cheapness. Our successful investment in a company called Norbord is a good example of this.

Norbord is the largest North American producer of a wood product called oriented strand board ("OSB") most commonly used in new home construction as a low-cost alternative to plywood. When we first invested in May 2015, Norbord's stock looked very expensive; it was trading for more than 30x its operating profit. Worse, the balance sheet was ugly; debt represented more than 7.5x its operating profit. To a machine, Norbord looked like an expensive, over-leveraged company.

However, upon closer examination, you could have observed that the underlying commodity was trading at multi-year lows. You also would have seen that new home construction had barely recovered from the mid-

2000s correction which created pent-up demand. You also might have noticed a radically transformed industry; Norbord had just acquired a large competitor while Louisiana Pacific, Norbord's largest competitor, was actually removing supply in order to focus on its siding business. It looked likely that industry competition be much more rational going forward. Lastly, Norbord issued new debt in April 2015 with a 6.25% coupon which is hardly a distressed level. Credit markets clearly weren't worried about the company's balance sheet, despite its leverage.

Since our initial investment, housing starts have increased 20% and the commodity price has doubled. Norbord's operating profits have quintupled and the stock price has doubled. We think this is a good example of how "Big Judgment" can defeat "Big Data".

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Our Big Short

In our December 2017 letter, we outlined our framework for shorting bonds. We have identified a number of packaged food companies, including Kraft-Heinz, Kellogg, Smucker and Campbell Soup that seem particularly vulnerable to industry change. The entire packaged food sector is under pressure from a number of directions. Trends towards healthier eating are hurting demand, retailers are emphasizing private label offerings more than ever and new entrants, like Amazon, are disrupting the value chain.

Equity investors have started to notice; the stocks of these companies declined ~10% in 2017 compared to the S&P 500 which increased 20%. That 30-point underperformance is remarkably large and we would expect these companies to attract interest from activist shareholders.

In order to fend off activists, we expect the management teams will feel intense pressure to "do something!" "Something" likely involves one (or more) of the following options: 1) increase dividends 2) buyback stock 3) buy something 4) sell the company. Each of these alternatives has negative consequences for bondholders.

To summarize, investment grade debt is historically expensive and debt issued by the packaged food sector seems particularly vulnerable to both industry trends and corporate actions. In addition to representing a good stand-alone opportunity, we think this investment represents a good hedge for our equity investments.

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Increased Valuations Are Not Always Your Friend

In many instances, increased equity valuations have hurt our returns. Boyd Group is a good example. One of our most successful investments, on a percentage basis, is our 2012 investment in Boyd Group. Boyd Group is one of four large chains of automotive collision repair centers in North America.

When we initially invested in Boyd Group, we were paying $16 per share or ~12x its operating profit. Since then, without increasing leverage, the company has grown operating profit per share at 29% per year – a remarkable achievement. If the valuation had remained at 12x and we had held our shares throughout, we would have made 29% per year.

As strong as the business has performed, the stock has done even better. The stock is now $109 per share, having appreciated at 44% per year. Boyd currently trades for 19x operating profit. We were spooked by elevated valuations and began selling some of our stock in late 2013 before exiting completely in late 2016. We still enjoyed a good outcome – doubling our money in just a few years. But we probably would have owned more shares if the valuation had remained modest, in which case we would have made more dollars of profit.

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If we can continue to successfully identify situations like Boyd Group circa 2012, we won't need valuations to expand in order to meet our return objectives.

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Current Portfolio

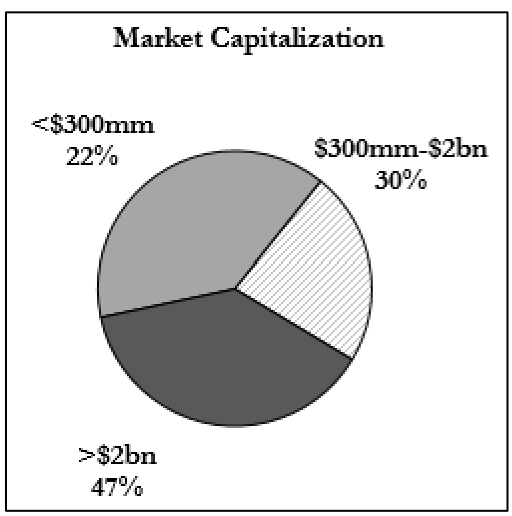
The Partnership is currently fully invested. The ten largest investments represent approximately 82% of assets as of this writing. The table below shows the breakdown between longs and shorts:

	Stocks	Bonds	Combined
Long	86.2%	33.2%	119.4%
Short	(14.7%)	(13.1%)	(27.8%)
Net	**71.5%**	**20.1%**	**91.6%**

The division of our portfolio among investment plays is largely determined by the availability of actionable investment ideas. Today, "Compounders" (Great Business & Great Capital Allocators) represent about 40% of capital. We have the bulk of the portfolio invested in the Cheap Assets play where investment results will be determined by company-specific events rather than the direction of broader equity markets.

The Partnership's investments are currently 55% in Canada with the balance in the U.S. (30%) and Commonwealth (7%). Despite the seemingly large exposure to Canada, we should note that many of these businesses derive the majority of their earnings outside Canada. For example, Norbord is primarily a U.S. company with a Canadian head office. On a look-through basis, we think the portfolio's exposure to NAFTA, Canadian housing or the general Canadian economy, is quite small.

We continue to allocate a large percentage of assets in smaller capitalization companies where we can take advantage of our relatively smaller pool of capital. The median market cap is $245 million.



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A final word about volatility

Most economists (and many investors) define risk as price volatility. In contrast, we define risk as the odds of a permanent loss of capital. While our historical volatility has been lower versus broader equity benchmarks, we know that a focused portfolio of smaller companies always has the potential to be volatile. If you are not comfortable seeing your investment decline by 10% in a relatively short period of time, you should consider shifting some of your investment to the Ewing Morris Flexible Fixed Income Fund. Long term, your returns will be lower, but the ride will almost certainly be smoother.

Flexible Fixed Income Fund LP

Investment Results

In 2017, the Ewing Morris Flexible Fixed Income Fund LP returned +7%, net of fees and expenses. This result exceeded both of the low-cost corporate fixed income ETF's we regard as our investors' fixed income opportunity cost. At year end, the market value of the strategy's assets was $62mm.

We are pleased with Fund's performance relative to our benchmarks, particularly when considering the Fund's stable returns. Since inception, we have kept pace with the robust performance of the high yield bond market, while having meaningfully less volatility than the investment grade bond market.

Our Goal

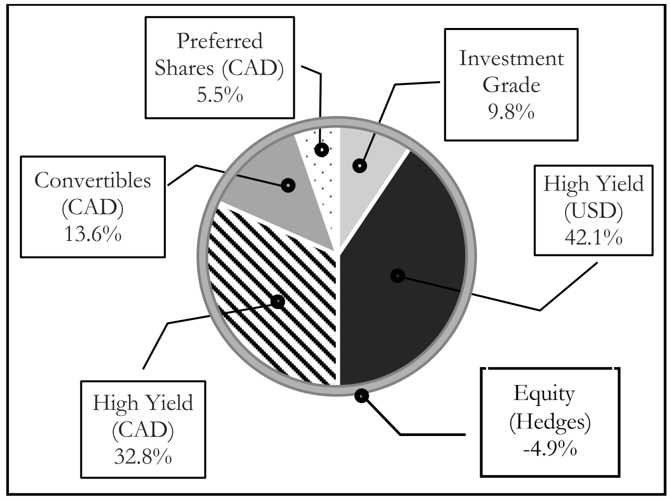
The goal of the Partnership is to earn 5-7% annualized net returns, over a reasonable timeframe while minimizing the risk of permanent loss and controlling volatility. We define a reasonable timeframe as five years which translates into a cumulative holding period return in the range of 30-40%. We think our goal of achieving stable 5-7% net returns compares favorably to our two principal benchmarks (noted at the beginning of this letter), which reflect well-known and accessible alternatives for our investors.

2017 Performance

In 2017, our portfolio used very little leverage throughout the year and maintained low exposure to the riskier end of the credit quality spectrum (CCC rated bonds, specifically). We also avoided popular bonds owned by ETF's, which can have more exposure to 'downside volatility' following periods of market strength. Our portfolio going into the year was positioned with a focus on capital preservation and is illustrated below.

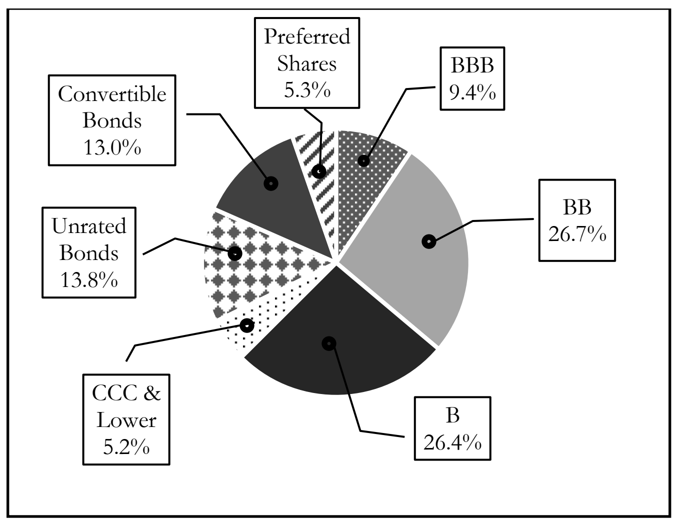
Corporate Sub-Asset Class Allocation[4]

Investment Grade	**9.8%**
High Yield (CAD)	**32.8%**
High Yield (USD)	**42.1%**
Convertibles (CAD)	**13.6%**
Preferred Shares (CAD)	**5.5%**
Equity (Hedges)	**-4.9%**

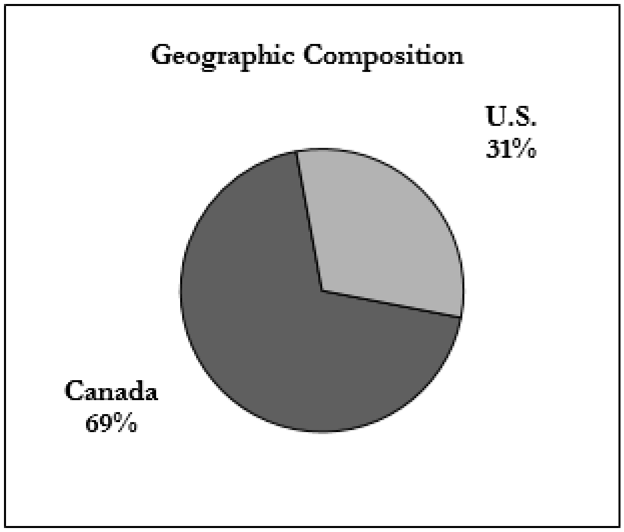


Corporate Credit Rating Allocation[5]

BBB	**9.4%**
BB	**26.7%**
B	**26.4%**
CCC & Lower	**5.2%**
Unrated Bonds	**13.8%**
Convertible Bonds	**13.0%**
Preferred Shares	**5.3%**



[4] Per cent of fund capital
[5] Per cent of corporate debt securities



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Flexibility is now mandatory

Bond yields are currently trading near the bottom of their 150-year range and threatening traditional fixed income's ability to preserve investor purchasing power. In contrast, a key factor in our success has been our flexible approach and the ability to harvest returns from across the fixed income landscape.

Today, we are finding opportunities in several market niches:

1. *Canadian Dollar denominated high yield bonds*. We value the stability of this market and, as such, it serves as a solid foundation for the portfolio. The Canadian high yield market is not as susceptible to the large fund flows that lead to more (occasionally violent) volatility in the US high yield market.

2. *Exchange listed Canadian fixed income securities.* We own a floating rate investment grade bond, two series of fixed-rate preferred shares and several shorter-term convertible debentures. Exchange listed debt securities tend to be overlooked due to their smaller issue sizes and relatively weak capital markets coverage. Given this dynamic, this space can be home to plenty of bargains. While exchange traded securities have the potential to see more volatility, most of our investments carry a short term, making them much less exposed to the potential of unfavorable price moves.

When we do invest in more conventional US high yield bonds, we are focusing our efforts on shorter duration bonds with an event-driven horizon of less than 18 months. These bonds are less vulnerable to rising rates and/or credit market weakness.

The Importance of Reliability

World class professional sports scouts are tasked to find talented players. Scouts would be quick to note that raw talent is not worth much if the player is not *reliably* talented. Therefore, assessment of reliability is as crucial to the decision-making process as the assessment of talent. This analogy applies to fixed income portfolio management. 2017 was a successful year in large part because the bonds we had 'in play' performed largely as we expected. The only two positions that made a visible drag on returns were Taseko Mines which detracted 0.13% and Rite Aid, which detracted 0.35% from fund returns as of the year end. Since the year end, losses on these investments proved temporary as they are in profit positions today. We continue to emphasize internal rate of return "reliability" as this market cycle extends.

A Note on Equity Hedges

Despite buoyant equity markets in 2017 we actually made money on our equity hedges this year. The difference compared to simply shorting the Russell 2000 was almost a full percentage point. As a reminder, the purpose of our equity hedges is to reduce investment risk, so we are willing to handle some loss on these positions, provided they reduce risk disproportionately. Over time, however, we do expect our equity hedges to produce an underwriting profit.

Current Portfolio

The defensive positioning of our assets remains similar to a year ago, despite about half of the portfolio having turned over. In January 2018, we introduced hedges in credit for the first time since we began our fixed income investment operations. These credit hedges were expressed via a short position in high yield spreads and longer-dated investment grade bond spreads. We have maintained our equity hedges and expect capital structure arbitrage opportunities to be an area of focus for us in 2018.

The Asset Allocator's Quandary

Historically, people own bonds to diversify their portfolio and to add ballast since when stocks are down bonds could be relied on to be up. Unfortunately, this relationship appears to be breaking down. Since the end of January until March 22, the S&P 500 shed 6% in value, and US investment grade bonds were down 3%. At Ewing Morris, we solve this problem in a unique way. We look for opportunities at the intersection of debt and equity markets. We identify opportunities where we can own a high yield bond, and at the same time reduce that position's credit risk through an equity hedge. This perspective opens up a rich opportunity set which can position us to deliver all-weather results.

It wouldn't come as a surprise to us that government bond and equities' positive correlation persists for years causing migraines for asset allocators and automated strategies that rely on blunt historical relationships. On the other hand, it would be exceedingly unusual to find a persistent divergence between a stock and bond of a high yield company; either the bonds are paid back at maturity or the stock will go to zero.

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Outlook – Follow the Flows

Since fixed income investments have limited upside, avoiding downside risk is paramount. One important risk management tool is identifying areas of excess. Examples of this include telecom in 2000, energy in 2014-2015 and "everything" in 2007. Two areas of excess we have recently identified are leveraged loans and BBB-rated investment grade bonds.

The BBB-rated corporate bond market has experienced a staggering amount of growth. This market is 4.5 times larger than it was in 2008. In addition to this abnormally high growth, the tailwinds for investment grade credit are now in the midst of a reversal and the forthcoming supply/demand mismatch is concerning:

1) International investors are slowing their purchases due to growing hedging costs. *This reduces demand.*
2) Central banks will be unwinding bond-buying programs. *This reduces demand.*
3) U.S. corporations are set to sell bonds as they repatriate offshore cash in response to recent changes to U.S. tax law. *This increases supply.*
4) Companies are issuing bonds to fund late cycle mega deals, like CVS. *This increases supply.*
5) U.S. deficit spending. *This increases supply.*

As we all know, when supply goes up and demand goes down, prices inevitably fall. We think these changes will have the greatest impact in BBB corporates where investment grade investors reach for yield.

Admittedly, we are more accustomed to identifying individual sectors within high yield that have seen excessive flows of capital. In this case, it appears that the entirety of the investment grade bond market has seen excessive flows of capital making it an area that could become exceptionally profitable as a portfolio hedging opportunity.

Miscellaneous

The family of Partnerships has grown to 185 Limited Partners and 156 RRSP/TFSA investors while total firm assets under management now total $281 million.

As always, if there is anything in this letter that is unclear, please do not hesitate to contact us.

Yours sincerely,

John Ewing

John Ewing
Co-Founder

Darcy Morris

Darcy Morris
Co-Founder