EWING MORRIS INVESTMENT PARTNERS LTD.

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Annual Report to Limited Partners as of December 31, 2018

Year	**Ewing Morris Opportunities LP Class A**[1]	S&P 500 Index with Dividends Included	S&P/TSX Index with Dividends Included
2018	**0.7%**	-4.4%	-8.9%
Since Inception (Annualized)	**9.2%**	13.5%	5.1%
	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]
2018	**4.7%**	-3.6%	0.3%
Since Inception (Annualized)	**8.9%**	6.1%	2.3%

Business Summary

With the benefit of an early-year rally in stocks and bonds, you may have already forgotten that 2018 was a difficult year for investors. But a difficult year it certainly was with almost every major stock exchange delivering negative returns.[4] In 2018, the Opportunities Fund returned 0.7%, net of all fees, and our Flexible Fixed Income Fund returned 4.7%, net of all fees. Last year we wrote:

> *While our portfolios are not immune to general market forces, they are designed to protect capital and generate solid returns over time.*

With that backdrop, the Opportunities Fund's modest positive return is an outcome we are pleased with, albeit it far from satisfied. Flexible Fixed Income's result in the face of challenging market conditions was outstanding. Today, we continue to invest in opportunity-rich areas of the equity and credit markets, maintain high investment underwriting standards and hedge our downside.

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[1] Results are for the Class A Master Series and are net of all fees and expenses. Fund inception was September 9th, 2011. Returns may vary depending on the series or class in which you invest. Returns for the mutual fund trust version of the strategy will also vary.
[2] Results are for the Class P Master Series and are net of all fees and expenses. Fund inception was February 1st, 2016. Returns may vary depending on the series or class in which you invest. Returns for the mutual fund trust version of the strategy will also vary.
[3] Note: Low-cost, index tracking funds; representative of an individual's opportunity cost in fixed income.
[4] Source: Bloomberg; S&P/TSX, S&P 500, FTSE 100, Euro Stoxx 50, Nikkei and Shenzen indices were all negative

The Ewing Morris team is stronger than it has ever been. The research team is working together very effectively. Of note, Breann Kirincich joined us in August 2018 and leads a talented operations team. Our client service team was bolstered with 2018 additions of Will Jones, Oghale Omosa and Cynthia Chan. The continued growth of our business serves as a signal that we must continue to invest to deliver best-in-class client service and operations.

Industry Trends

The investment management industry is becoming increasingly dominated by low-cost index funds. The primary idea behind index investing is the efficient market hypothesis. The academic definition is that markets are efficient because all known possible information is fully reflected in stock prices, therefore making it impossible to earn above-average returns.

Asset managers have responded with consolidation. Independent asset manager firms are increasingly merging or being acquired in order to gather larger pools of capital needed to compete with the fee pressure of low-cost ETFs.

These trends are reducing the percentage of active managers that conduct deep-dive due diligence and comprehensive analytical research required to identify mispriced securities. And with less active managers, there are fewer participants to do the work required to create theoretically efficient markets. We expect these trends to continue with the net effect being more opportunity for firms like Ewing Morris that seek to use our advantages of size and flexibility to invest within the cracks of the capital markets and manage portfolios that cannot be replicated by an ETF.

Board Positions

In May 2016, Darcy was appointed to the board of ZCL Composites. More recently, Darcy joined the board of Caldwell Partners International. Our colleague, Lee Matheson, is currently a director of exactEarth and Echelon Financial Holdings and has previously been a director of several other companies including Medworxx Solutions, WesternOne and AlarmForce Industries. Our colleague, Alex Ryzhikov, is currently a director of LED Medical Diagnostics. Finally, John recently joined the board of Centric Health. There is clearly a trend.

Shareholder Engagement

Our preferred equity investment strategy is to find a wonderful business with outstanding management and stay out of the way. However, opportunities of this sort are scarce. Our response is to identify "Cheap Assets"; undervalued businesses that we understand and wait patiently for the stock price to realign with asset value. Unlike many other investment firms, we are willing to engage proactively with the management and boards of our portfolio companies while always behaving in a respectful, dignified manner.

The most visible form of engagement is for one of our partners to join a portfolio company's board. But there are several other, less visible, methods of engagement. Joining a board entails several obvious disadvantages, including time commitment and restricted liquidity, and we do not make these decisions lightly. However, in our experience, the ability to influence outcomes often closes the price/value gap much more quickly than passively waiting. Our investment results in situations where we have taken a board position have thus far justified the cost. You should not be surprised to see additional board appointments in the future. This letter is accompanied by some updated Conflicts of Interest Disclosure relating to our board positions.

Market Overview

2018 was another year of political turmoil and the broad sell-off in the fourth quarter was a reminder that we may be in the late stages of a 10-year business cycle. While the global economy looks strong based on employment rates and GDP growth, interest rates remain near the low-end of their historical range and we continue to find the equity and fixed income markets broadly expensive. Despite this environment, we are still using our advantages to find attractive opportunities in which to deploy capital into common stock and bonds.

Opportunities Fund LP

Investment Results

In our seventh full year of investment operations, the Ewing Morris Opportunities Fund LP returned +0.7%, net of fees and expenses. Since inception, the Fund has returned 91.1% (9.2% annualized). At year end, the market value of the strategy's assets was approximately $160 million.

While our long positions were negative in 2018, we were able to generate a return through positive contributions from our hedges and short positions.

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.

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 of delivering double-digit returns, net of all fees and expenses, over time while minimizing the risk of permanent loss.

While our goal is to deliver the results we aspire to, we simply cannot guarantee them. We do promise to invest the bulk of our own money alongside yours.

Investment Review

Three of our investments cost us at least two percentage points of return in 2018: ZCL Composites, Builders FirstSource, and Uni-Select. Two of these situations demonstrate the somewhat arbitrary nature of evaluating results on a calendar year basis. The third represents a regrettable mistake.

ZCL Composites

Despite a lowering of the stock price during 2018, there was a silver lining. Subsequent to year end, ZCL Composites announced its sale to Shawcor Ltd. for $10 per share, a premium of 58% to the December 31, 2018 share price. We purchased most of our ZCL shares in late 2015 with an average cost of $6.33. We received almost $3 of dividends along the way. With the sale at $10 per share, our annual return on the investment exceeds 40%. Darcy has been a director of ZCL since May 2016 and his stewardship of this investment has been invaluable.

Builders FirstSource

Builders FirstSource is a large U.S.-based distributor of building products to homebuilders. Operationally, 2018 was a terrific year for the company; operating profit improved by 31% and debt was reduced by more than 10% with leverage falling from 4.5x to 3.3x. However, fears of a major slowdown in new home construction caused the stock price to decline by 50% in 2018. We were buying as the stock price fell. So far in 2019, fear has abated as mortgage rates drop and the stock price has rallied 20%. We continue to believe the company is undervalued and remain shareholders.

Uni-Select

The story of Uni-Select is a little less pleasant. Uni-Select is a distributor of replacement auto parts for mechanics (in Canada and the U.K.) and of refinish paint to body shops (in North America). We have, regrettably, been shareholders since 2015. We misjudged both the quality of the management team and the earnings power of the paint distribution business and witnessed the stock price fall from about $30 per share into the low-$20s. In September 2018, responding to shareholder pressure, the CEO departed and the Board put the company up for sale. We substantially increased our investment following this announcement; we thought the stock was cheap and given the number of potential strategic buyers for some or all of Uni-Select's assets, we thought the odds of a sale were high. In February 2019, the company announced another disappointing operating result and the stock plunged below $13 per share. Additional research continues to support our view that this is a deeply undervalued business with fixable issues, but the investment has clearly been a disappointment.

The good news: WesternOne

The biggest contributor to returns in 2018 was WesternOne. WesternOne is a construction equipment rental business based in Western Canada. We invested in the company's convertible bonds in 2015. At the time, the company had a bloated balance sheet and its survival was doubted. Thanks in part to the determined efforts of our teammate, Lee Matheson, who joined the company's board in 2016, WesternOne successfully sold assets, reduced debt and was ultimately acquired by industry leader United Rentals in 2018. Our bonds, which we first acquired for less than half their face value, were repaid in full. All told, our return on the investment exceeded 30%. This was a strong example of how the Ewing Morris team can work together to unlock value for shareholders. At the time of sale, we were the largest shareholder, largest bondholder and had board representation.

Current Portfolio

The Partnership is fully invested today. The ten largest investments represent approximately 67% of assets as of this writing. Three "Compounder" ideas, Certarus, Parkland Fuel Corporation and Tricon Capital Group, have migrated into the top-ten. Investing alongside management teams with the ability to compound value within their businesses remains the most lucrative way to invest that we know. We are delighted to be invested with, respectively, Curtis Philippon, Bob Espey and Gary Berman.

The table below shows the breakdown between longs and shorts as of March 29, 2019:

	Stocks	Bonds	Combined
Long	98.3	25.5	123.8
Short	(19.5)	(17.6)	(37.1)
Net	78.8	7.9	86.7

In terms of geography, ~60% of the portfolio is invested in Canadian-based companies with the balance invested internationally (primarily U.S.).

In terms of size, the median market cap is about $400 million. About 40% is invested in companies worth between $300 million and $2 billion. We have 25% in microcaps (less than $300 million) and 30% in mid-caps (more than $2 billion).

Outlook & Expectations

Our long-run expectation for stock markets, from today's levels, is less than 8% annually with wide variances from year to year. Stock markets seem to have shrugged off their fears from late 2018 and another correction would not surprise us. The Opportunities Fund is accordingly positioned defensively. Yet we still expect our portfolio, particularly our larger investments, are capable of delivering strong future results, regardless of short-term fluctuations in the economy.

Flexible Fixed Income Fund LP

Investment Results

In our third year of investment operations, the Ewing Morris Flexible Fixed Income Fund LP returned +4.7%, net of fees and expenses. Since inception, the Fund has generated an annual average return of +8.9%. Our performance compares favourably versus the fixed income benchmarks noted at the beginning of this letter.

Our Goal

As a reminder, 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. While our goal is to deliver the results we aspire to, we simply cannot guarantee them. We do promise to invest the bulk of our own money alongside yours.

Investment Review

The Flexible Fixed Income Fund's collection of investments creates a portfolio that looks nothing like any individual fixed income market. Our Limited Partners allow us the flexibility to invest in only the most attractive securities we can find in the fixed income market and this flexibility was the key ingredient to our results in 2018.

2018 was a useful period for performance evaluation as it includes both calm and volatile markets. Through the first nine months of the year, the high yield bond market was orderly, earning about 2% over this time. Then, in October, the market saw a swift fall from its peak, diving 6% and finishing down roughly 4% on the year.[5] Our results for the year of 4.7%, net of all fees, stand out.

Long Bond Investments

In last year's annual report, we communicated that we saw opportunities in exchange-listed Canadian fixed income securities. One of our top positions was in Cineplex's 4.5% convertible debentures due December 31, 2018. At the start of the year, it was clear the company had available credit capacity to mature the debentures without returning to public capital markets to do so. The chance of a failed refinancing was remote. The debentures were repaid at par at the end of the year, earning an exceptionally stable 4% return stream through the year.

In addition, we earned strong contributions from event-driven debenture investments: Student Transportation's debentures became quite cheap following a takeover offer from the Caisse de Depot and our involvement on the board of WesternOne helped create a transaction which accelerated the repayment of its debentures, which were trading at a substantial discount to par.

In 2018, we held convertible debenture investments across 12 companies. Our convertible investments combined to contribute 1.4 percentage points to return and we made money on all but one of these investments in 2018. On the other hand, our portfolio was quite heavily weighted to

[5] Source: Bloomberg; HYG

high yield investments and most of our high yield investments produced returns that were modestly negative. All told, we lost about 1.7% on our long investments. However, the modest losses from these long investments were more than offset by thematic and situation-specific hedges in place. These hedges served to control risk and weather market turbulence later in the year, creating results that were quite differentiated.

Consumer Packaged Food Short

At the outset of the year, we shorted corporate bonds of Kraft Heinz, General Mills, Kellogg, JM Smuckers and Campbell Soup with the view that these companies were at high risk for balance sheet deterioration. The bonds of these companies were priced very optimistically presenting a low-downside opportunity to make money. And it worked. This investment was a meaningful contributor (a little more than one percentage point) to both the Opportunities and Flexible Fixed Income Funds in 2018.

Equity Hedges

Equity hedges contributed 4.5 percentage points of return in 2018. We had stock hedges on 25 companies during the year and the contributions came from a variety of businesses including Rite Aid (drugstores), Mattel (toys), Diebold (ATMs), Taseko Mines (copper) and Manitowoc (cranes).

While it is easy to trumpet returns from stock short positions in a year when stocks were down, our ultimate aim is to earn returns from equity hedges over the long term. The past returns from our equity hedges are as follows:

2016	2017	**2018**	Total
-2.1%	+0.1%	**+4.6%**	+2.6%

Outlook and Expectations

We are proud of our performance amidst the turbulence of late 2018. Despite the recent calm, we are certain there will be more market dislocation in the future. High yield markets seem to be ignoring this reality. We believe credit investors should demand above-average compensation for risk at this stage of an economic cycle. However, high yield spreads (a measure of risk premium) are below long-term averages, making high yield uncompelling.

The market backdrop notwithstanding, we continue to identify sufficiently attractive opportunities to deliver strong absolute returns. Similar to early 2018, we are particularly focused on situations with narrow range of outcome and are actively controlling risk with equity and credit hedges. When turmoil inevitably arrives, we will be ready to take advantage of opportunities when others are fearful.

The Partners Fund

We are pleased to announce the launch of the Ewing Morris Partners Fund LP. The Partners Fund will hold all of our major underlying funds which provides two advantages to our clients: 1) access to the entire team and 2) the ability for us to dynamically reallocate between funds. The initial weighting of the Fund is 60% Opportunities Fund, 10% Dark Horse Fund and 30% Flexible Fixed Income Fund. The Fund is focused on capital preservation and targets net returns of ~10% over time. The fee on the Partners Fund is 1.25% management fee[6] with a 20% profit allocation after a 6% preferred return to Limited Partners.

Miscellaneous

Year-end tax slips for each fund have been finalized and should be arriving in your mailboxes soon if not already. We will also be posting all tax slips to your online portal and these should be available shortly. Tax slips for registered plan investments for the first 60 days of 2019 will also be mailed and uploaded to your online portals within the week.

Assets under management have grown to approximately $350 million and the family of limited partners is now in excess of 350. Our capital base remains stable with Ewing Morris & Co. insiders representing 13% of capital. We continue to have a diverse client base with our largest outside investor accounting for 7% of assets.

Lastly, our Annual Meeting will take place on Tuesday, April 9, 2019 at the Toronto Reference Library. We will host a comparable sessions in Calgary on Tuesday, April 2nd at the Petroleum Club and in Vancouver on April 11th at the Vancouver Club. We look forward to seeing many of you there.

Yours sincerely,

John Ewing
Co-Founder

Darcy Morris
Co-Founder

6 Base management fee of 1.5% for accounts under $2 million

About Ewing Morris:

Ewing Morris & Co. Investment Partners Ltd. is a value driven Canadian investment firm established in September 2011 by John Ewing and Darcy Morris. Our aim is to achieve preservation and growth of capital for our Limited Partners by focusing on inefficient markets. We do this by relying on fundamental analysis, high conviction and the use of flexible capital. We manage strategies with a focus on small and mid-cap companies. We manage investments for individuals as well as charitable organizations, institutions and corporations.

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