EWING
MORRIS
INVESTMENT PARTNERS LTD.

1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com

October 2, 2013

Dear partners and friends,

Investment Update

We are pleased to mark the second year anniversary of launching the Ewing Morris Opportunities Fund LP. Since beginning operations on September 9, 2011 the Partnership has returned approximately 27%, net of all fees and expenses, and the family of limited partners has grown to 74. We are currently invested in twenty-eight (sixteen long, twelve short) understandable and largely unrelated businesses.

Progress is being made towards making the Ewing Morris Opportunities Fund LP eligible for registered investments (i.e. RRSPs and TFSAs). We are working with our legal team at Borden Ladner Gervais and have submitted our application to the Ontario Securities Commission for approval. The registered investment eligible entity, the Ewing Morris Opportunities **Trust** Fund, will launch in January 2014 in order to accommodate 2013 RRSP contributions. If we can be of service in managing your RRSP or TFSA please let us hear from you.

Investment Commentary

Begins on following page…

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THE IMPORTANCE OF CAPITAL ALLOCATION IN INVESTING

John Ewing, Co-Founder of Ewing Morris & Co., delivered the following presentation at the Ewing Morris Annual Limited Partners Meeting on September 13, 2013.

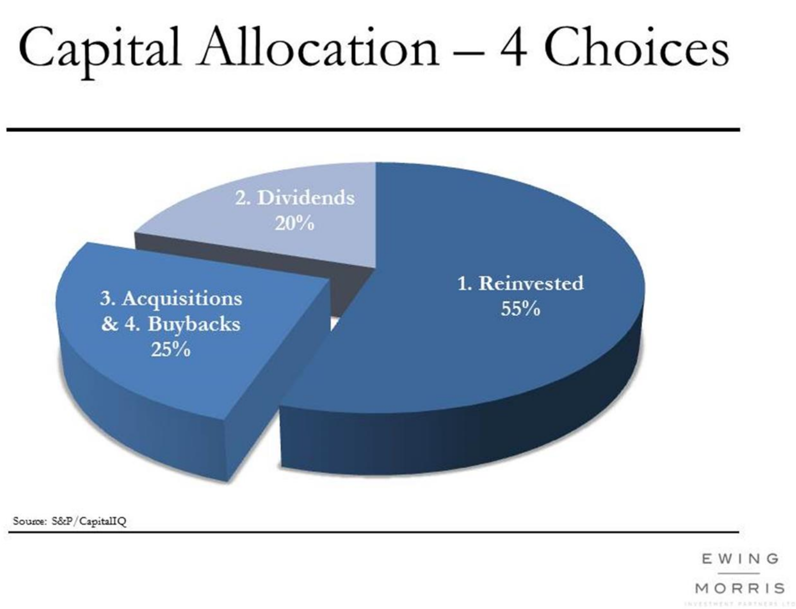
Most of you have heard us describe our playbook before. Today I'd like to spend some time talking about the Great Capital Allocator play. This strategy has generated about half of our return since inception and represents about half of our investments today.

When a company generates cash flow, they have four ways to invest that money:

1. Reinvest in the business by expanding capacity, opening new stores, drilling new wells, etc.
2. Pay dividends
3. Acquire other businesses
4. Buyback stock

In the last decade, here's how Canadian companies invested their cash:

- Just over half went back into the business. This usually earns a reasonable return and there's not a lot of difference between companies in the same industry.
- Another 20% went to dividends which are value neutral.
- But it's the 25% invested in acquisitions and buybacks that I want to talk about. This slice represents $400 billon and was invested horribly. I'm going to prove it to you and then explain why.



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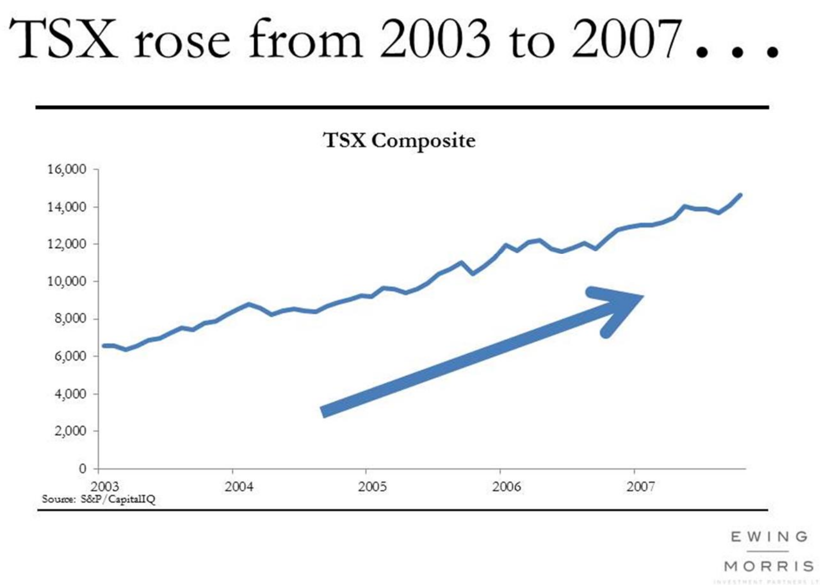
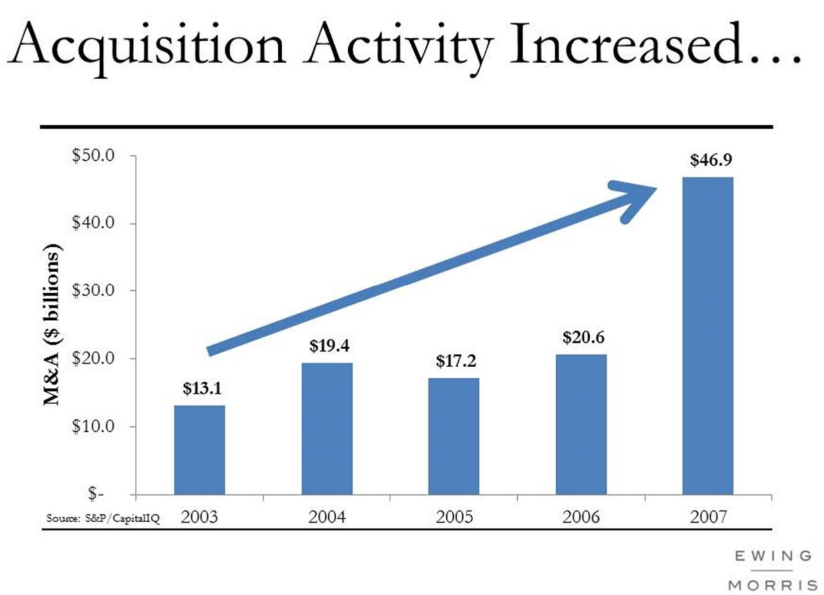
As you can see, the TSX Composite Index rose steadily from 2003 into 2007:



Meanwhile, TSX companies steadily increased cash acquisitions:



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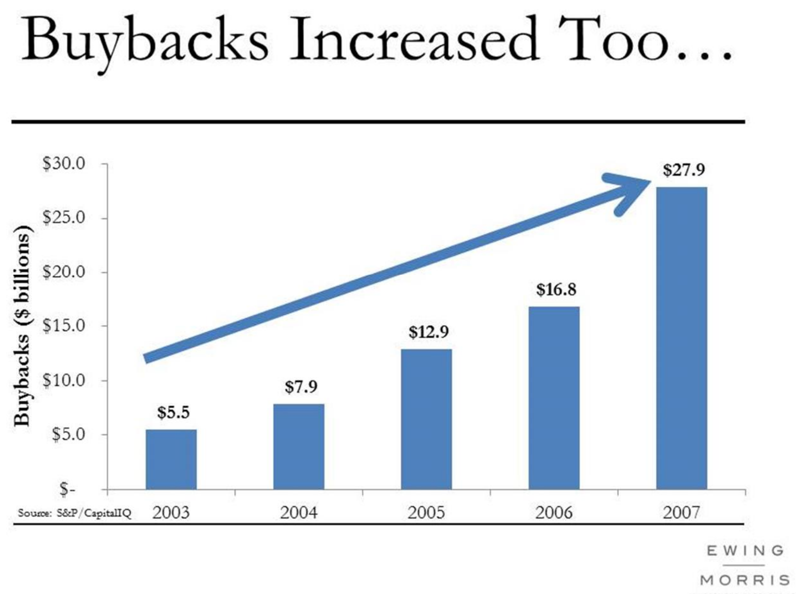
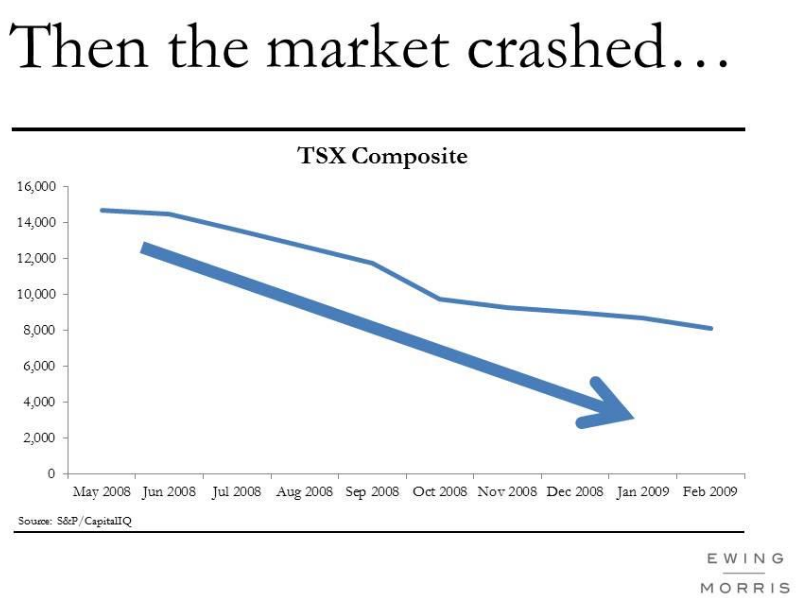
The same was true of buybacks:



Then the market crashed in 2008…



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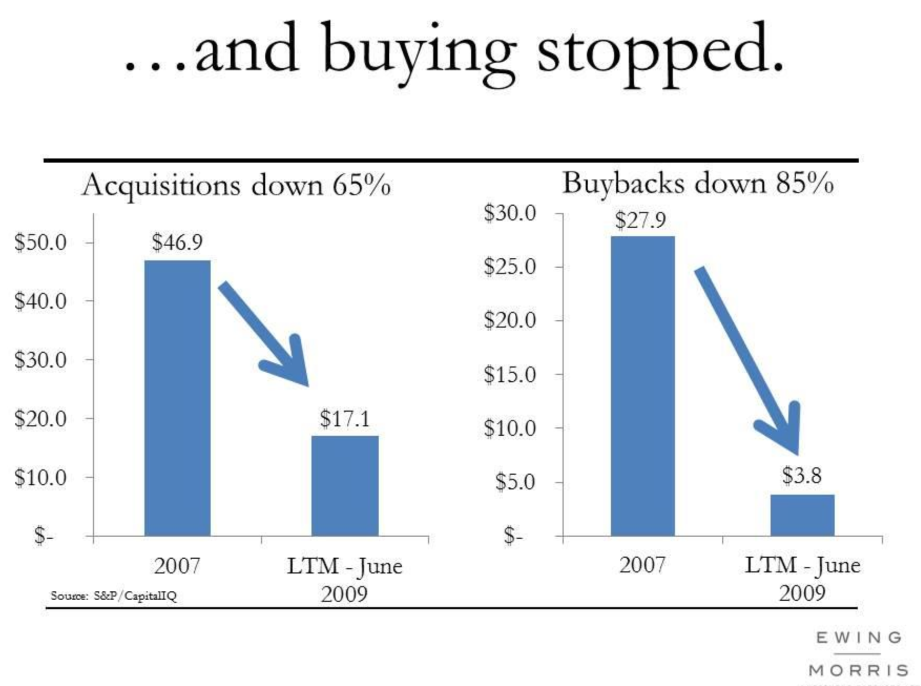

Hadn't these people ever heard of "buy low, sell high"?

Why is timing so bad?

The timing is bad because the Darwinian Process of selecting CEOs is broken. Think about how someone becomes CEO of a large company. They start off in sales or operations or finance and they work their way up the ladder by excelling in their area of expertise. No sales manager ever gets promoted because he's better at valuing businesses than his peers. Then, when they reach the pinnacle of their career and move into the corner office, they're handed responsibility for billion dollar investment decisions. Investing is hard and takes years of practice. It is unfair to expect an amateur to excel. It is as absurd as making the final step in an economist's career being named goalie of the Toronto Maple Leafs.

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Let's look at some real examples.

One of the worst acquisitions ever made was Hewlett-Packard's $11 billion 2011 acquisition of Autonomy, a U.K.-based software company. They paid an eye-popping multiple of revenue even before it turned out that the accounting was fraudulent. Just one year later, they took a $9 billion write-down. Whoops.

Acquisitions Gone Wrong

- HP acquired Autonomy in 2011 for $11 billion
- Paid 31x operating profit; 45x earnings
- Took $9 billion write-down in 2012
- Whoops!!

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Let's look a little closer at the man responsible for this deal.

Leo Apotheker's Resume

- Joins SAP in 1988 in sales
- 1995 – Head of Sales for France/Belgium
- 1998 – Head of Sales for South West Europe
- 1999 – Head of Sales for EMEA Region
- 2002 – Head of Global Sales
- 2007 – Deputy CEO of SAP
- 2008 – Co-CEO of SAP
- 2010 – Becomes CEO of Hewlett-Packard

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Leo Apotheker was HP's CEO at the time but he spent most of his career rising through the sales division at SAP, another global software giant. I'm sure he's a hell of a salesman, but there is nothing to suggest he was qualified to be making multi-billion dollar investment decisions.

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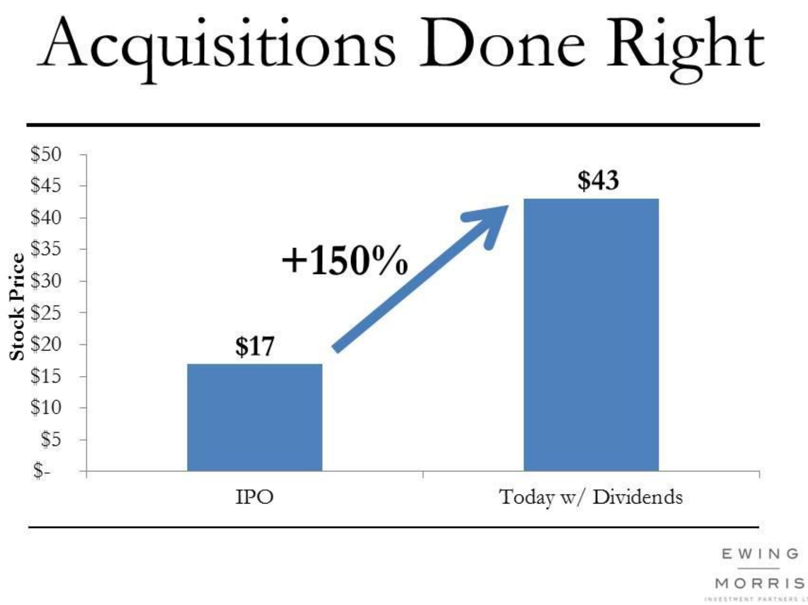
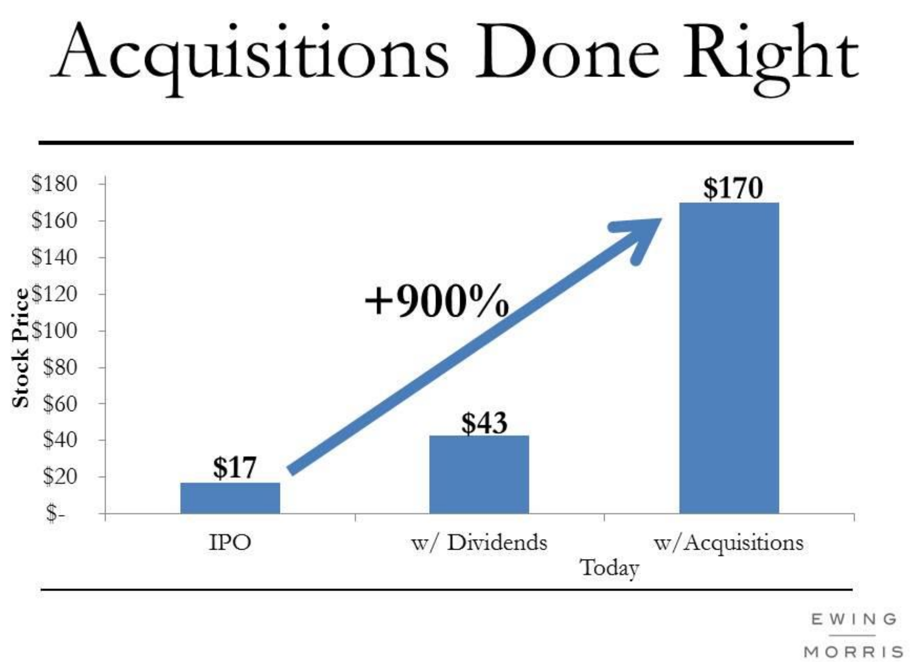
Let's contrast HP with a Great Capital Allocator in the software industry – Constellation Software. Constellation went public in early 2006. They've since been excellent in growing revenue and improving margins while the stock trades at a similar multiple of earnings. If they'd just paid dividends with their cash, we estimate the stock would be worth about $43 today – a 150% increase in 7 years.



But instead of paying dividends, they've allocated all of their free cash flow towards acquisitions with a lot of success. And the stock now trades at $170 per share. Capital allocation has been responsible for more than 80% of the total return.



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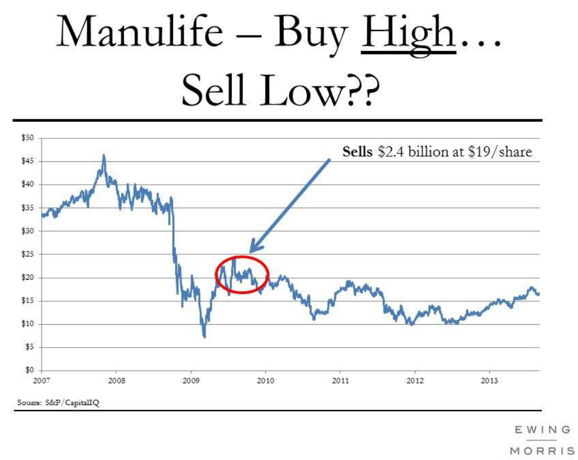
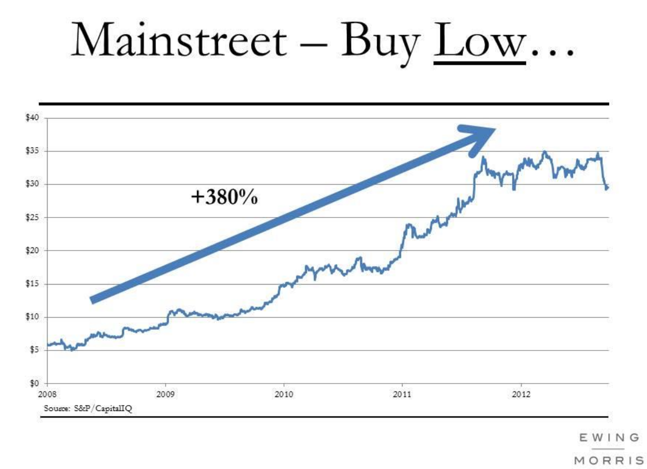
Now let's look at stock buybacks.

In 2007 and early 2008, Manulife spent $2.6 billion on buybacks at $40 per share. Then when the financial crisis hit, the stock went as low as $10 and hasn't traded above $25 since. Not only have they not bought back any stock at lower prices. They actually had to sell stock in 2009 at $19/share.



Let's look at another financial company– Mainstreet Equity. Mainstreet owns a portfolio of mid-market apartment buildings in western Canada. In late 2008, as the world was falling apart, their stock price was plunging from $20 to $5.

In December 2008 Mainstreet announced an offer to repurchase up to 4 million shares, representing almost 30% of shares outstanding, at $6.25. This represented a 30% premium to the stock price. In short, this looks like a gutsy move. But the net asset value per share was over $20; Bob Dhillon, Mainstreet's CEO, was buying assets he knew well at a 70% discount. Here's what the stock's done since:



Mainstreet's $20 million investment is worth over $100 million today. Talk about being greedy when others are fearful.

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Great capital allocation is clearly valuable. So how do we find these guys? They are usually run by their founder and can be discovered at the helm of smaller capitalization companies. That means that with our focus on smaller companies, we are fishing in the right lake to find more Great Capital Allocators.

Hopefully you all have a better appreciation for our Great Capital Allocator investment strategy. And with that, we'd like to move on to the Q&A portion of the day.

Miscellaneous

We are now set to join the digital age with the official launch of the Ewing Morris & Co. blog. Our blogging agenda is to reflect on our experiences running Ewing Morris and share some lessons learned - whether it's communicating our investment approach, an opinion, an idea or even to recommend a good book we recently read. The blog can be found here.

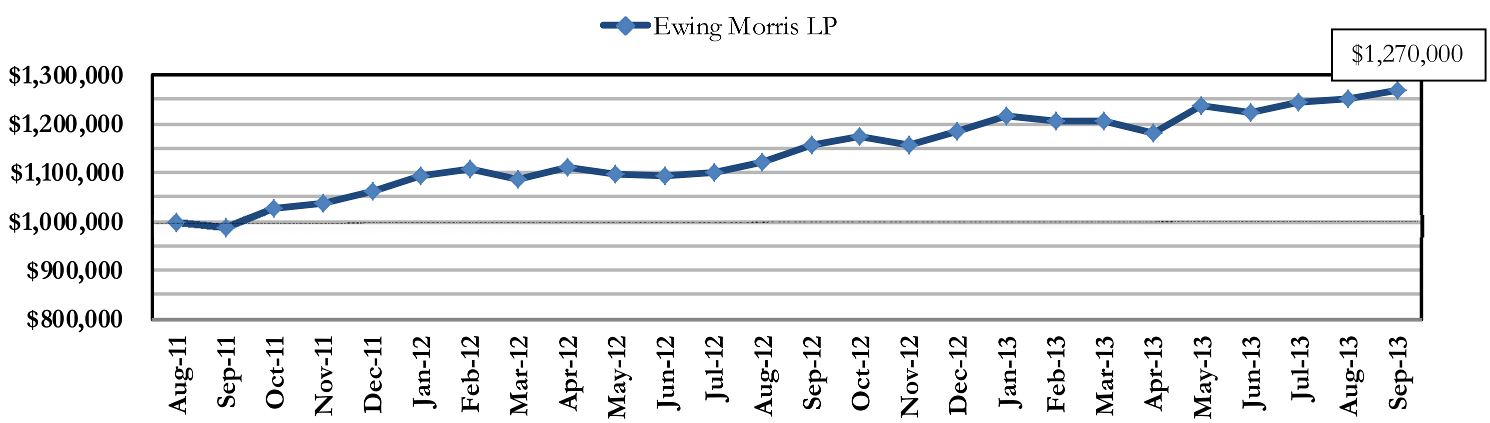
As always, please let us hear from you if you have any questions.

Cordially,

John Ewing
Co-Founder

Darcy Morris
Co-Founder

Growth of $1 million invested since inception* as of September 30, 2013



**September 11, 2011*

About the Ewing Morris Opportunities Fund LP:

The Ewing Morris Opportunities Fund LP was established by John Ewing and Darcy Morris in September 2011 to achieve preservation and growth of capital through superior securities selection. The Partnership invests in securities that are inefficiently priced based on a number of factors. The Partnership is focused on North American-based small-capitalization companies.

CONTACT INFORMATION:
Ewing Morris & Co. Investment Partners Ltd.
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Canada
info@ewingmorris.com
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