EWING MORRIS
INVESTMENT PARTNERS LTD.

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Fellow Limited Partners,

The Dark Horse LP finished 2018 up a tick less than 2%. While we are focused on generating absolute returns we are not above occasionally crowing about our relative performance. 2% may not blow one's socks off in the absolute but in the context of a difficult year for the markets and a truly brutal year for our contemporaries it is a result we are content with.

Protecting capital is always our first priority and given the brutal market environment we feel that Dark Horse performed admirably. The fund demonstrated its defensive characteristics during the extending period of market volatility in Q4 2018 and posted the following returns:

	Dark Horse	TSX	TSX Small Cap
October	+2.1%	-6.3%	-7.6%
November	-1.1%	+1.4%	-3.9%
December	+0.7%	-5.4%	-3.5%

The outperformance relative to the indices was driven by a combination of strong performance from the short book and positive catalytic events in the long book. Every equity short position delivered positive performance in the quarter with stand outs being **Premium Brands Holdings Corp. (TSX: PBH)**, **Savaria Inc. (TSX: SIS)** and **Sleep Country Canada Holdings Inc. (TSX:ZZZ)**, each down 20% or more.

As for catalytic events in the long book we had three significant transactions occur during the year. In August, **Enercare Inc. (ECI:TSX)** was acquired by Brookfield Infrastructure Partners LP at a premium of roughly 53% to last trade. In October **WesternOne Inc. (WEQ:TSX)** announced a sale of substantially all its assets to a unit of United Rentals Corp. (this transaction was discussed in our previous letter) and in November **Echelon Financial Holdings Inc. (TSX: EFH)** announced the sale of its primary operating subsidiary, Echelon Insurance to CAA Club Group for $175m.

The CAA/Echelon Insurance transaction was the outcome of a strategic review process that Echelon Financial embarked upon early in 2018 and was overseen by a special committee of the board of directors of which Lee chaired. The process was far from straightforward and there are still some loose ends to tackle at Echelon Financial. That said, the Echelon Insurance transaction is a great outcome for both parties. Echelon Financial is selling Echelon Insurance for roughly 1.50x book value – a fantastic multiple while CAA is gaining roughly $400m in annual written premium on which it can earn very attractive returns given its heavy investment and focus on software and analytics.

The meaningful market drawdown in Q4 turned up some genuinely cheap securities and we took advantage of what we saw as unwarranted selling to add meaningfully to some existing positions, add one new position and to trim or eliminate some short exposure. The end result of these changes was that the fund has increased in dollar net long positioning from roughly 45% in Q3 2018 to roughly 60%. Additionally, the top 10 long names now comprise ~62% of the long book, up from approximately 50% previously.

During the quarter we looked at a number of "near distressed" situations that surfaced. The turmoil in markets exacerbated a vacuum of capital for small-cap Canadian issuers. This has been a multi-year phenomenon in this country beginning with the resource downturn (now downturns) continuing with global equity market weakness and then enflamed by the implosions amongst the last bastions of growth in Canadian small-cap land (bitcoin miners, cannabis, other silly promotes).

The ranks of those willing to consider an investment in Canadian small-cap equities continues to shrink. From that dwindling sample, those willing to consider something with a bit of hair (be it complexity, illiquidity, etc.) number on the handfuls. We know this to be true because we know all these weirdos and we don't know that many people!

During the last few weeks of 2018 we spent meaningful time on three such "near distressed" files and ending up making an investment in one, Cambridge, Ontario-based maritime data provider and perennial autocorrect victim **exactEarth Ltd (TSX: XCT)**. We lead a $13m convertible debenture financing for the company and Lee has joined the exactEarth board. Alongside this letter is some paperwork for you to read through pertaining to the appointment (sorry!).

The company is a leader in the field of maritime tracking through its Satellite-Automatic Identification System (S-AIS) service. Via the recently completed launch of the Iridium Next satellite constellation, exactEarth now has its software loaded on 58 low-earth-orbit satellites which provides continuous global coverage of the earth and allows for near-real-time tracking of ocean-going vessels. The company sells this information to government and commercial customers worldwide and the real-time capability makes exactEarth stand apart from competing services.

The exactEarth opportunity, in our opinion, represents a highly asymmetric risk/return potential. There are multiple avenues for value creation at the company and now, given its remedied balance sheet, the company has the breathing room to execute on those opportunities.

We intend to continue to look for similar situations where we can be a provider of capital when other market participants are unable or unwilling to invest. In our view, these investments offering a very compelling combination of protection (debt or preferred share instruments, nomination rights) and upside (high coupons/dividends, equity participation).

In spite of a (relatively) decent outcome in 2019 we still managed to step on our fair share of rakes. Our retrospectively mouth-breathing idea of looking at the ex-SPAC cohort once they were down 50% proved to be overly optimistic (down 80%-90% would have been a better starting point!). We certainly cannot recall a file that has been bungled as badly as **Acasta Enterprises (AEF: TSX)**. Multiple underwriting errors compounded upon themselves to cause meaningful losses to the fund. Further, those losses constitute a permanent impairment of capital (i.e. we ain't making it back).

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Other names that resulted in losses, though in our belief not permanent impairments were **Uni-Select Inc. (TSX: UNS)**, **Trilogy International Partners (TSX: TRL)**, **Strad Energy Services Ltd (TSX: SDY)** and **Dundee Corp preferred shares (TSX: DC.E/DC.D/DC.B)**. Our analysis has us remaining sanguine on the prospects for each of these 2018 losers and have added to the positions recently.

As we begin 2019 we have a slightly more concentrated and slightly more aggressively postured portfolio. The patience and caution towards small cap valuations that were demonstrated throughout 2017 and 2018 has paid off.   Late last year we saw valuations come in dramatically and were able to take advantage of true, absolute bargains – the likes of which we had not seen since around the time we launched the fund in 2009.

With that said, we remain hesitant to go all in on this beginning of the year rally. The central question we have to answer is, what will bring an audience back to the Dark Horse-type ideas we tend to own? Hopefully the following can further illustrate our thinking as it relates to this question.

We were all saddened a few weeks back by the news that Actor/Comedian Bob Einstein had passed away. Einstein was best known for his role as Super Dave Osborne. *Super Dave* was a favourite of ours when we were kids. As a farewell to Super Dave, Lee thought he'd introduce Einstein's famous stuntman character to the next generation of fans. With a quick YouTube search every episode of the show that ever aired was available to the Matheson clan.

Within a few minutes of the first episode the kids were gone. Apparently this generation isn't exactly down with long preambles, dry mumbling under one's breath or Japanese stereotypes (The Fuji Hakayito character may seem a bit insensitive by today's standards). Eventually, Lee gave in and fast forwarded to the stunt at the end of the program and got a few laughs. "Show us another stunt" the kids asked and more slapstick comedy ensued.

Kids of today still find a dummy in a jumpsuit propped up at a piano on the roof of a bus slammed into an overpass to be hilarious. This is because they are human and such a scene is undeniably funny. What has changed is that they don't have the patience that our generation had – or at least as we recall we had with Dad hindsight – to wait for the punchline. Today's world is about creating, delivering and receiving immediate gratification.

It is not just kids who suffer from the inability to wait for their reward. The investment community is likewise addicted to immediate results. While our focus remains on the seemingly old school approach of patiently digging through files and, in many cases, engaging with our investee companies to generate outsized returns our peers continually scream "get to the chorus[1]".

While we can bemoan our new reality all we want, that doesn't really help you – our partners. What we can do is work towards bringing the reality of the value we see to the forefront. By becoming more active and engaged shareholders we can effectively press the fast-forward button on our

[1] Under Lee's authorship Simpsons references are replacing Buffalo Bills references. In this case, an impatient Homer yells "Get to the Chorus" at a BTO concert as he can't possibly wait for the band to get through the first few chords of "Taking Care of Business".

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investee companies and accelerate a clear catalyst for value to be realized. As we have seen numerous times with files where we are active these events are often so obvious that even the most short-term focused buyers can't ignore them.

As the pool of willing buyers of odd-ball securities continues to shrink we expect that we will need to continue to rely on our "shareholder engagement" toolkit to drive returns. While public market investors are increasingly fickle they are but one potential counterparty for us. We continue to expect that the counterparties who most think our investments are "Super" are strategic corporate acquirers and that we will continue to generate returns through the inherent arbitrage opportunity between public and private market valuations.

Thanks again for your support and RIP Super Dave.

Lee Matheson

Anthony Hammill

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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 equity and credit strategies with a focus on North American small-capitalization companies and high yield bonds. We manage investments for individuals as well as charitable organizations, institutions and corporations.

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