Lionridge
CAPITAL MANAGEMENT INC.

Portfolio Manager Commentary **Winter, 2012**

PICKING DAISIES IN A MINEFIELD

The above expression describes how I feel about the current investment climate. Much of the pessimism and fear that is expressed regarding the economic outlook, and the ramifications for investing, are well justified. At the same time, however, the markets are offering for sale a select number of companies with positive outlooks at very attractive prices. Investing in these companies provides an excellent opportunity for great returns (the "daisies"). The trick is to harvest enough daisies without stepping on any landmines.

There are too many headwinds out there to take a rosy view of the outlook for world economies. The European fiscal situation, the bruised and battered American consumer, the potential for a significant slowdown in China - taken together these factors call for extreme caution on the part of investors. Although our investment approach can always be considered to be defensive, that is definitely the primary call to action right now. As I always say, we can do a much better job of growing your capital if we don't lose it in the first place.

If you're going to pick daisies in a minefield, you'd better have a pretty good mine detector. This is the function that is served by our stringent stock selection process, which is designed not only to find great opportunities but to also steer our clients clear of potential disasters (e.g. the Nortels and Enrons of the world do not pass our criteria).

This approach has served us very well. We launched our Total Equity Portfolio early last year, and since inception it has beat its benchmark by a very wide margin. For the period to December 31, the blended index benchmark we compare our results against declined by 8.0%. The TSX declined by 13.6%. Our Total Equity Portfolio, on the other hand, enjoyed a gain of 2.5% for the same period. Our longer standing U.S. portfolio also continues to do well, evidencing our ability to meet our objectives of achieving superior long term returns for you while exposing you to lower risk.

To conclude, we might be in for some turbulence but our approach is designed to secure your capital and position you well for achieving strong returns over the longer term. Continue to sleep well.

At your service,

Hardev Bains
President & Portfolio Manager

Investment Highlight – Anheuser-Busch Inbev

Anheuser-Busch Inbev ("ABInbev") fits well into some of our favoured investment themes; a well run, highly profitable company with strong brands, selling affordable consumer products in both developed and emerging markets.

As the world's largest brewing company, you're likely familiar with its major brands. Budweiser, Stella Artois and Beck's are marketed around the world. ABInbev owns the Labatt's line in Canada, as well as a variety of leading local brands in several other countries including Brazil, China and Russia.

We like the demand characteristic of the beer industry. Beer is considered in many markets to be a staple item, in others an affordable luxury. The industry therefore has resiliency in the demand for its products through challenging economies. A company like ABInbev enjoys a very strong competitive position by virtue of its strong brands and extensive distribution capability.

The company's management has an outstanding track record as good business operators. They manage costs well and maintain high returns on capital. We are confident in their abilities to maintain and enhance profitability while expanding sales of major brands like Budwieser through its global distribution network. We are confident in this company's abilities to continue generating significant wealth for its shareholders.

Lionridge
CAPITAL MANAGEMENT INC.

DISCIPLINE, DILIGENCE, EXCELLENCE

1120 – 200 Graham Avenue • Winnipeg, Manitoba Canada • R3C 4L5

T. 204.957.1802 • www.lionridgecapital.com