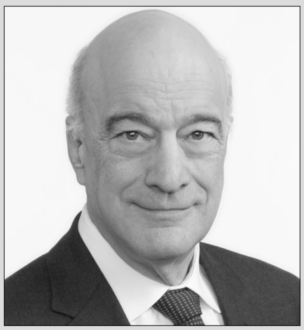
REPRINTED FROM DECEMBER 3, 2012

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Concentration and Diversification in Long-Term Investing



ROBERT F. RICHARDS, President of Heathbridge Capital Management Ltd., has more than 40 years of experience in the investment industry. The first 20 years were spent as a top-ranked Research Analyst, starting in 1970 with Harris and Partners, later absorbed by Dominion Securities. Mr. Richards was a founding Partner in McLean McCarthy, a specialty research investment dealer serving the institutional market. This was taken over by the Deutsche Bank in 1988. He became Head of Equity Sales, and then Portfolio Manager. For the past 20 years, Mr. Richards has managed portfolios in accordance with an investment discipline distilled from his decades of observing markets and the techniques of the most prominent portfolio managers in North America. Through Heathbridge Capital Management and its predecessor businesses he has been implementing the Checkmark™ Investment discipline for its current client base since 1996. Mr. Richards was born and raised in Winnipeg and took his B.A. at the University of Manitoba. He received his MBA from the Ivey School of Business at the University of Western Ontario in 1970. He earned his CFA accreditation in 1976.

RUPEL M. RUPARELIA, Vice President, Finance, Portfolio Manager and Head Trader of Heathbridge Capital Management Ltd., has been in the investment industry for more than 18 years. He started in the mutual fund client service area of Richardson Greenshields in 1994. Mr. Ruparelia joined Robert F. Richards in early 1996 as Trader and Research Associate. Mr. Ruparelia graduated from Queen's University in 1993 with a B.A. in economics. He has completed various industry courses, including the Ivey Executive Program at the University of Western Ontario, and the CFA program in 1999.

RICHARD M. TATTERSALL, Vice President, Portfolio Manager and Compliance Officer of Heathbridge Capital Management Ltd., first started in the investment industry in 1986 in equity research at Merrill Lynch Canada. He worked for 10 years in Citibank Canada's corporate finance division as a Financial Analyst and Global Relationship Manager. In 1993, he initiated an industry study of Canadian money managers. He was the architect of several mergers and acquisitions of fund managers, working closely with leading industry players. Pursuing his ambition to become a Portfolio Manager, Mr. Tattersall joined MD Management in 1999 to manage portfolios for doctors as well as mutual funds and pension funds. He met Robert F. Richards and Rupel M. Ruparelia at various research functions. He was impressed with the Checkmark™ Investing discipline and Heathbridge's unique risk management. The firm welcomed him as a Portfolio Manager in early 2001. Mr. Tattersall graduated with a Bachelor of Commerce degree from McGill University in 1989. He earned his CFA accreditation in 1993.

SECTOR — GENERAL INVESTING

TWST: Please give us a little bit of a background and an overview of Heathbridge Capital Management.

Mr. Richards: Heathbridge is a private wealth management company. We do some institutional and foundation types of work, but that's not our focus. Our main interest is segregated portfolios for individuals. We're managing $365 million right at the moment and practice a pretty strong brand of investment medicine. So far, the results of that process have been pretty strong.

TWST: So what are the types of strategies Heathbridge currently offers?

Mr. Richards: We run concentrated portfolios and aim to own 20 to 22 differentiated securities. We have a very strong diversification program. Each of the securities in the portfolio will be as different from one another as possible. We also implement a timing discipline that directs us to buy a stock that we have been following only after it's had a period of price decline. Concentration, strong diversification and buying after price declines are the three elements of our investment strategy. We also have balanced portfolios, but for the equity part of any portfolio, that describes what we do.

TWST: Please summarize the firm's investment philosophy for us.

Mr. Richards: Our belief is that most portfolios tend to mimic indices one way or the other. Our very strong diversification strategy means that our bets aren't duplicated and ensures that index-type weighting doesn't happen in the accounts that we manage.

It also means that, in any particular sector, you're looking for the best of breed. Each security in the portfolio should behave differently from all others. This multiplies the ways that the portfolio can generate returns. We believe that, in the long term, it will result in less volatility, smaller declines in periods when the market goes down and better returns when the market goes up.

TWST: Is this part of the Checkmark Investing Process?

Mr. Richards: Checkmark Investing really refers to the timing mechanism for the purchase and divestment of a security. We follow a security for many years but we don't like to get involved when its price is in an ascending phase and expectations for the company are building. We believe that rising expectations make investment in a stock increasingly risky.

Inevitably, even for the best of companies, something will happen that causes its share price to decline. Very often, that will be a cyclical turn, either for the economy as a whole or for the industry. Sometimes it's a negative development specific to the company. If we're right, and the company is indeed good, we will be confident that, in two to four years, the news cycle will turn. In this case, we will have bought it at a very good price.

We have selection criteria that are quite extensive that help us to identify good companies and weed out the ones that aren't. If you follow the pattern of an ideal investment, it looks like a checkmark. A stock might well decline further from the price that we bought it. However, if we have reaffirmed that it is indeed a good company, we don't worry too much about price declines from our point of entry. When the stock price recovers and enters an upward phase, we are likely to partially disinvest in a trimming process at predetermined levels. Almost all the stocks currently in our portfolios exhibit this checkmark pattern.

Highlights

Robert F. Richards, Rupel M. Ruparelia and Richard M. Tattersall of Heathbridge Capital Management Ltd. discuss the firm's investment philosophy and strategy, which centers on concentration, diversification and buying after price declines. The trio describes Heathbridge's bottom-up process and the screening criteria for stock selection. They also discuss how safety is an important aspect of the firm's investment process. Mr. Richards says the biggest challenges he sees for the long term have to do with the retirement profile of the population and the low prevailing level of interest rates.

Mr. Tattersall: We would say only one in 20 companies meet our criteria. Of these, few are priced on an attractive basis at any particular time. To be good, a company has to have a competitive advantage, financial strength and management that can take advantage of the company's opportunities. The average listed stock now is held for mere months. We're looking at holding our stocks for years.

We don't allow ourselves to duplicate our bets, so we might have one U.S. bank, for example, but won't have a second. We might own a semiconductor company, but we won't own two. In contrast, the indices tend to have big weightings in the hottest stocks of the hot sectors. When these go down, they drag down not only the indices but also most portfolios, which tend to be geared toward the hot sectors and are not truly diversified.

Mr. Ruparelia: We tend to find that portfolio managers get carried away with the investments that are working. The next bright ideas that come along tend to be in the areas that have already been successful. These are the sectors that the manager feels comfortable with and knows. That's how portfolios become overweighted in the sectors that are working for the moment and how they are excessively penalized when those sectors turn.

TWST: What makes a company good? What are the specific areas Heathbridge looks at?

Mr. Richards: We are looking for certain attributes that are not replicable or common. Warren Buffett talks about good companies having a moat. A company might have a pricing advantage, a competitive advantage or a cost advantage that makes it stronger than other companies in its industry.

In addition, it must meet two other criteria. It must have a strong financial position, either a balance sheet with little debt or, if not, a sustainable cash flow that will enable the company to fund its development without having to sell its crown jewels in periods of stress. And it must have good management. Good management isn't a broad smile, a firm handshake and a persuasive story. Good management needn't be popular. It just needs to be able to deliver the potential of the company.

TWST: Is Heathbridge exclusively bottom up? Does the firm look at sectors? Does it look at the macro? How does the firm approach it from that angle?

Mr. Richards: We don't manage by sector rotation. We don't ignore how the economy will affect various industries, but ours is very much a bottom-up process.

Mr. Tattersall: We are not oblivious to what's going on in the world. For example, we worry about consumer debt levels in North America and have been very careful about retailing and consumer types of stocks. But we start with bottom up, as you described it.

Mr. Ruparelia: Since inception, we've historically gone down less during market downturns and done better when the markets turned up. For us, safety is a very important aspect of our investment process.

TWST: What do you see as the largest threats facing investors today?

Mr. Richards: People mostly focus on the threats and not the opportunities. We think the fiscal cliff is the kind of headline news that causes traders to sell their stocks at the wrong time. The biggest challenges that we see for the long term have a lot to do with the retirement profile of the population. Our anecdotal evidence suggests that perhaps 95% of the Baby Boom generation hasn't enough money to retire. That's going to have a major impact on the development of the economy and on consumer spending.

We are entering a period of lower growth. However, our belief is that equity markets are not expensive relative to the past. While the rates of growth for companies in general may be reduced, we think returns for the good ones are still going to be much better than bonds.

The other significant risk we see lies in the very low prevailing level of interest rates. I don't think investors in the bond market appreciate that there could be significant erosions in portfolio values when interest rates inevitably start to move back up. Half our mandates have investments in bonds, but our bond portfolios are very short in duration with lots of floating rate securities.

Mr. Richards: "We don't manage by sector rotation. We don't ignore how the economy will affect various industries, but ours is very much a bottom-up process."

TWST: How does Heathbridge Capital manage risk in its portfolios?

Mr. Richards: We manage risk in a couple of ways. One is the very strong diversification principles that we have described. When you've got 22 stocks and you approximately equally weight them at the time of investment, you provide very strong balance to the account and can control the diversification variables. You can make sure that you're not duplicating your bets. The other important way is that we risk-score our clients and risk-score the investments that we make for them to make sure they match.

Mr. Ruparelia: It comes back partly to the question of timing. Because we don't chase companies that have gone up a lot, there is generally low expectational risk in the stocks we buy. We find that when we buy a company after it's gone down in price, its information stream changes, and we tend to know more about it. If we don't find something in an area that we like, we're not afraid to hold cash.

TWST: Heathbridge has been around for about 16 years. Overall, how has the firm's performance been?

Mr. Richards: Our 16-year rate of return is 10.4% versus the benchmark at 7%. The benchmark is 70% S&P/TSX, and 30% S&P 500 in Canadian dollars. We have some U.S. mandates that have delivered a 9% rate of return over 10 years, versus the S&P 500 total return of 8% during that interval. All our returns are quoted on an after-fee basis, and we can claim GIPS compliance.

TWST: Please tell us about your backgrounds.

Mr. Richards: I was an Analyst for many years with a Canadian institutional firm. I sold my investment ideas and the firm's to most of the famous money managers in Canada and a few in the States. I had a chance to see how the money managers did it well, and I also saw how they didn't do it well. I started developing the investment disciplines that we just talked about as I observed the pros in action, emphasizing what was good and minimizing what wasn't. So while the early experience I've had has been mostly as an Analyst on the broker side, I've been managing money for the past 20 years — 16 years in the format we are in now.

My colleague, Rupel Ruparelia, joined me at the very beginning. He is a CFA charterholder and, in addition to being a Portfolio Manager, he is our Head Trader and our Chief Financial Officer.

Richard Tattersall joined us in 2001. He also has his CFA designation. His experience was at Citibank, where he had analyzed the investment management industry, and we were flattered that he chose us, having known the competition so well. Richard is our Chief Compliance Officer, a job from which he derives great satisfaction. We have 10 employees in total.

We manage the portfolios jointly. We don't specialize as to industry. We want six eyes looking at each investment idea.

TWST: What do you believe Heathbridge does particularly well in servicing the needs of its clients?

Mr. Ruparelia: We manage funds for approximately 150 families and get to know them well. We understand their needs. We like to spend time with them to explain what we do and how we do it, and also to understand their circumstances and requirements. It's our job to be a gatekeeper for them. By knowing our clients' needs, we build a level of trust and have done well for them over a long period of time.

Mr. Tattersall: For people who are looking for a logical investment discipline and no-nonsense advice, we're a good fit.

Mr. Richards: We know the financial circumstances of our clients well enough that we can get a good fix on what the requirements of their portfolios are going to be. That means that we can risk-score the client and we can also risk-score the investments that we are likely to put into their account. I think our clients get the very strong feeling that we understand their needs and requirements as a result of that process, and that we will be able to match up those needs and requirements with the investments that go into their portfolios.

TWST: What is your best advice for investors?

Mr. Richards: Don't get frightened out of the market; hold on. I think even professional investors for the most part don't really understand the return potential of a good company owned for a long time. If you look at the history of business, the best companies have returned over 9% per year over very long time frames. That means that you don't want sell a good investment just because the big scenario starts to look dark. Our strongest advice to anybody that invests in the equity market is just hold on, enjoy the long term and don't sell out in the short term.

Mr. Ruparelia: Clients shouldn't chase the latest, hottest ideas or the best recent performances. Sticking to a long-term plan is boring. It's slow sometimes, but it gets you where you need to go. It goes back to the point Rob just made — stay the course with good businesses, have good advisers that can clearly explain their long-term investment strategies and are transparent about what they do and how they do it.

Mr. Tattersall: Investors should invest like owners. You don't sell your business or sell your house just because there are storm clouds on the horizon. You should hire professionals who really know their investments and who are going to apply a logical discipline to the process of managing them.

Mr. Richards: Another way of putting it is let the companies make the returns for you, and don't give your money to someone who makes returns for you by trading.

TWST: Thank you. (LMR)

ROBERT F. RICHARDS
President
RUPEL M. RUPARELIA
Vice President, Finance, Portfolio Manager & Head Trader
RICHARD M. TATTERSALL
Vice President, Portfolio Manager & Compliance Officer
Heathbridge Capital Management Ltd.
141 Adelaide St. W.
Suite 260
Toronto, ON M5H 3L5
Canada
(416) 360-3900
(800) 446-3819 — TOLL FREE
www.heathbridge.com