Quarterly Portfolio Review
As at December 31, 2013

NELSON
PORTFOLIO MANAGEMENT CORP.

Contents

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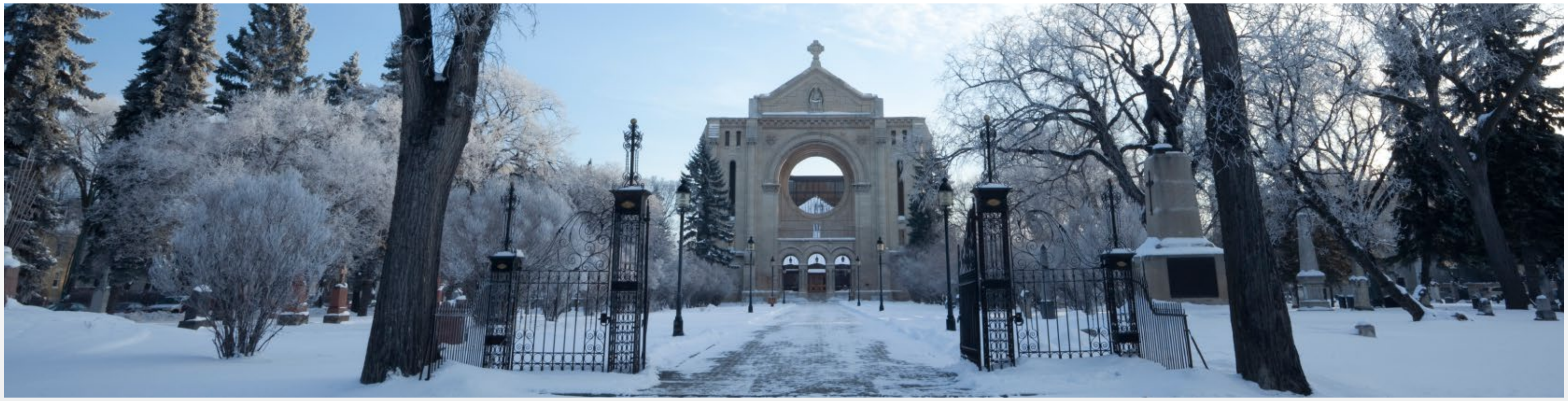

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Introduction

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Welcome to the first Quarterly Portfolio Report provided by Nelson Portfolio Management Corp.

It is our goal to make this package simple, focused and as meaningful to you as possible. Please provide us with your feedback and ideas for enhancement and improvement. A portfolio package such as this will be provided to you at the end of every three month period of time. Specifically, the report will be provided to you for the period ending March, June, September and December each year. We will continue to send to you Market Update reports on e-mail as necessary between the issuance of these Quarterly Portfolio Reports.

The commentary is meant to be brief and to the point, touching on the most significant issues of the day.

In this package you will find an updated commentary written by Doug Nelson. The commentary is meant to be brief and to the point, touching on the most significant issues of the day. All of the performance data quoted comes from the charting feature inside Yahoo Finance and is based on the price returns of the securities and does not include distributions.

Next you will find a step by step guide on how to read the statements I have provided to you. These statements are produced by the Croesus software program available to us through NBCN. This is the same software we've used for several years now.

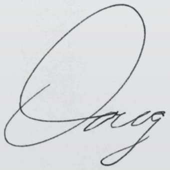
The first report is a monthly performance report, illustrating the month by month returns of your portfolio including your beginning investment value, new deposits, withdrawals and portfolio management fees incurred. This report will also show your return both before and after fees have been applied.

The second report is a consolidated listing of your portfolio holdings by investment category. This report is unique because it illustrates the value of the NFC Tactical Asset Allocation Pool and each of its components within your overall portfolio. When designing the Quarterly Portfolio package we wanted to provide you something unique above and beyond the statement you are receiving from NBCN.

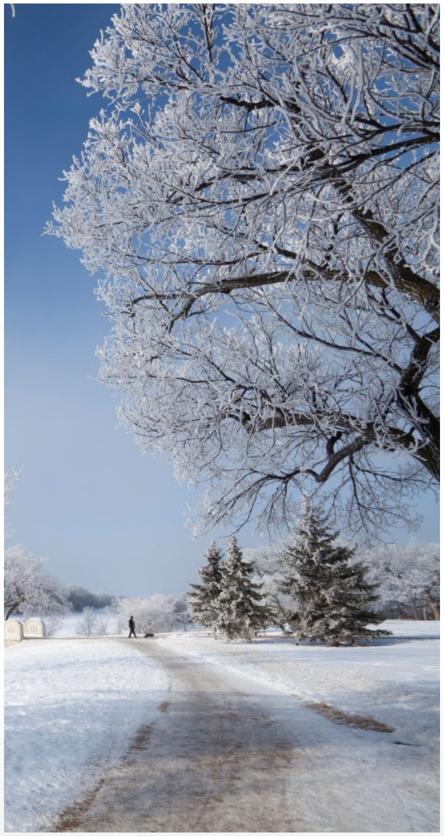
The third report is a list of all transactions over the past 3 months.

Please provide us with your feedback. We hope you find this interesting and beneficial. Please let us know if you have any questions.

Thanks again for the opportunity to do this work for you.



Douglas V. Nelson B.Comm.(hons.), CFP, CLU, MFA, CIM
President. Portfolio Manager



Announcements

1. NBNC Statement Reminder: NBCN is not required to send to you a monthly statement, if there was no activity for that account in that month. This means that you may receive a statement for some of your accounts, but not all. NBCN is required to send to you a statement each quarter for all of your accounts.

2. Tax Reporting: If you have a non-registered investment account, we will be sending to you a summary of your fees paid, interest and dividends distributions as well as your realized gains and losses for 2013. We will be sending this to you through e-mail in the coming weeks. Please show your tax preparer this information. If you do not have a non-registered account, but wish to see a summary of your fees paid for the year, please send a note to Lorraine (lgoldring@nelsonfinancial.ca) and she can forward this to you.

3. TFSA Contributions: If you have a non-registered investment account with NBCN as well as a TFSA account, we will be automatically moving $5500 per spouse from your taxable investment account to your TFSA account in the coming weeks. If you would like to write a cheque instead, please let us know. Cheques are to be made payable to NBCN.

4. RRSP contribution deadline is Saturday, March 1, 2014. All cheques are to be made payable to NBCN.

5. Annual Administration Fees: In the past years, the Croft Group charged an annual fee of $800 + GST to each client account in January. This same fee will continue to be charged by Nelson Portfolio Management Corp. so as to cover the costs related to registration, compliance and auditing. However, this amount will be drawn over 12 months instead of all at once. Thus, you will see a monthly withdrawal of $66.67 + GST drawn from one of your accounts each month throughout the year. $800 + GST / HST is the total amount per family. This amount is not charged to those clients who are 100% invested in the NFC Tactical Asset Allocation Pool.

Our annual tax planning day with Alan Rowell from the Accounting Place will be in late March. If you would like to meet with Alan and Doug, please let us know.

6. Annual Tax Day: We are planning to bring Alan Rowell from The Accounting Place into Winnipeg for 1 to 2 days towards the end of March. Alan prepares the tax returns for a number of our clients, and is available to answer any tax related questions you have. If you would like to arrange a time to meet with Alan and Doug, then please let us know so that we can plan Alan's time accordingly while he is here.

7. Financial Planning Review Service: We are rolling out the first phase of our new Financial Planning Review Service over the coming months. We look forward to showing you what we have built and why it may be of interest and value to you. More on this to come!

Commentary

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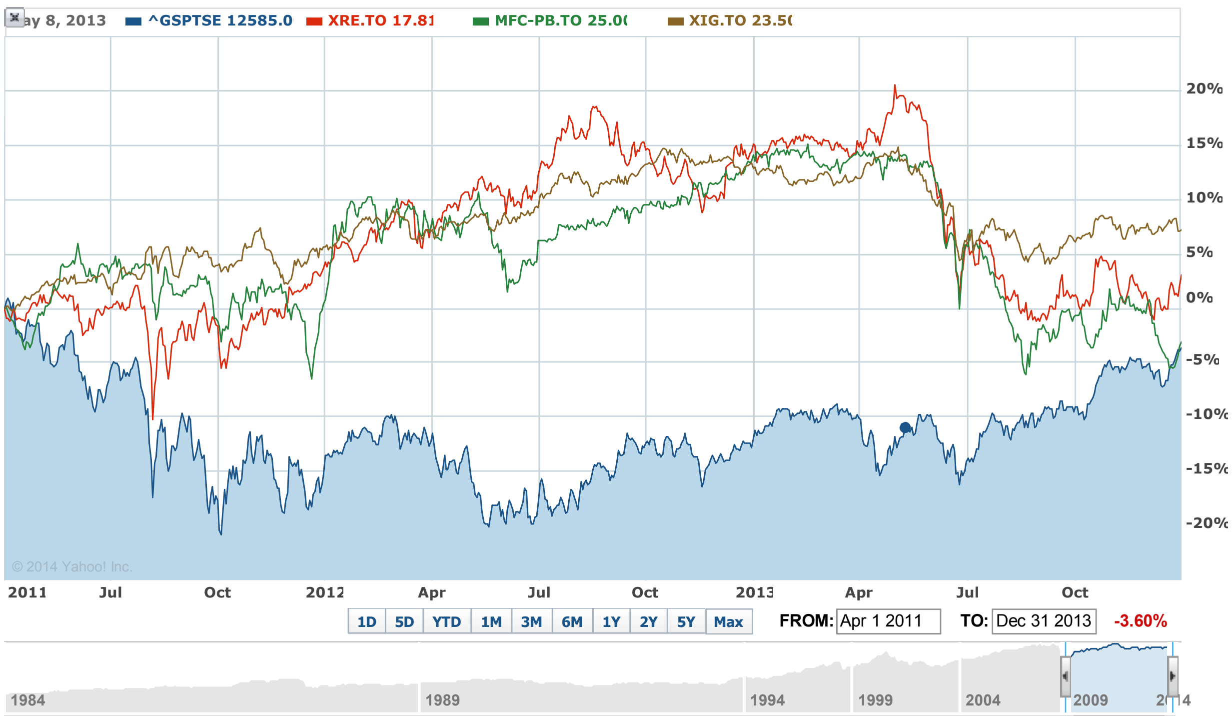
The most significant event of the past three years was the 20% correction that took place between April 1 and October 1, 2011.

Coming up on almost three years ago, the Toronto Stock Exchange peaked in value. Today it is still trading approximately 3.6% below the high it reached on April 1, 2011 (see the blue shaded area in the chart below). By comparison, between April 2011 and April 2013, the real estate investment trusts (red line), the preferred shares (green line) and the investment grade corporate bond investments (brown line) all outperformed the Canadian stock market by close to 20%.

When markets began to correct in May of this year, many of these defensive, income oriented investments corrected by as much as 10% to 20% during the May through August time period. Yet it is interesting to note that even with these corrections, the total return of each of these defensive investment areas still out performed the returns of the Toronto Stock Exchange (ie: between April 1, 2011 and December 31, 2013). In other words, if you had been invested purely in Canadian stocks from April 1, 2011 through to today, you would have experienced a flat return.

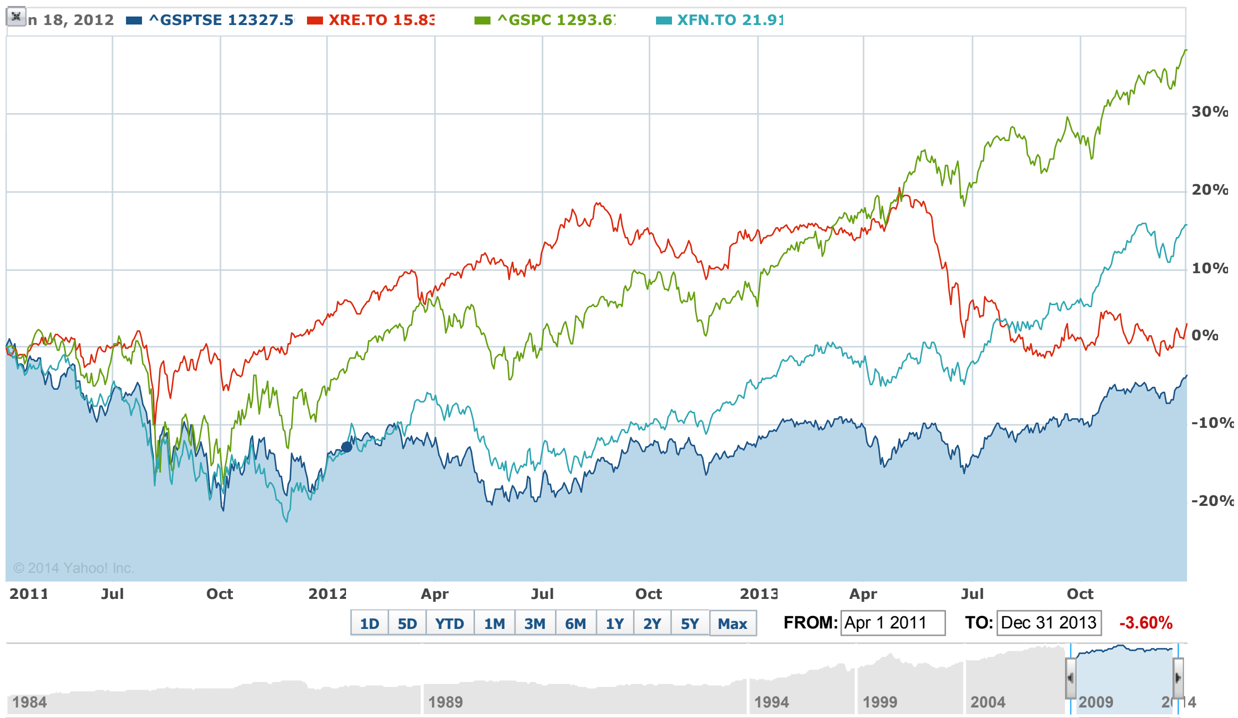


Commentary

Commentary - continued:

In October 2011, after the correction took place, US stocks began a strong upward climb that is still in place today (green line). But it is interesting to note that the overall return in the US market did not surpass the return we were earning on the Real Estate Trusts until May 2013. The Canadian financial stocks (light blue line) started to out-perform the overall Canadian stock market beginning in April of 2012.

As a result, we began to add to financial services, health care and US stocks in the fall of 2012, which have all produced strong gains inside the portfolios over the past 12 to 18 months. By comparison, since April 1, 2011, the energy sector in Canada is down by 22%, the BRIC nations (Brazil, Russia, India and China) are down by 30% while gold is down by 18% (not shown on the chart below).



Yes, interest rates have begun to rise. Will this continue and what impact will this have on our defensive holdings?

Commentary - continued:

Yes, interest rates have begun to rise. Will this continue and what impact will this have on our defensive holdings? History tells us that if the economy is growing, rising interest rates will not impact our defensive holdings that significantly. However, if rates are rising yet the economy is not growing, then our defensive holdings may decline further. This means that reducing our exposure to defensive investments may be the best strategy. Yet, as we start the new year, our defensive holdings have been the best performing investments.

With all of this being said, we come back to the point that the goal of every portfolio is to combine the right amount of a unique collection of investments that strives to achieve a reasonable return with as little risk as possible. The three sample Finametrica portfolios I shared with you in your new Portfolio Binder illustrate these facts very clearly.

Looking more specifically at some of your investments, I am very pleased to report the following:

- We are currently using two Canadian equity exchange traded funds as core holdings in most client accounts: IShares Canadian Dividend ETF (symbol: XDV) and the Horizon's Seasonal Rotation ETF (Symbol: HAC). Both of these investments have outperformed the Toronto Stock Exchange in each of the last three years, which is why we feel confident holding them as core investments in your portfolio today. Since April 1, 2011, both of these investment tools have produced returns 10% to 20% higher than the Toronto Stock Exchange.

In the early fall of 2012 we began to add the IShares TSX Financial Index to most portfolios. Over the past 12 months this investment has generated a return of +22%.

- In the early fall of 2012 we began to add the IShares TSX Financial Index to most portfolios. Over the past 12 months this investment has generated a return of +22%. In the NFC Tactical Pool, we have continued with this approach by investing in a number of both mid-sized and large Canadian and US banks.
- In the summer of 2012 we began to invest in the BMO US Health Care ETF. Over the past 12 months this investment has returned 40%. When we rebalanced your portfolio, this holding was moved into the NFC Tactical Pool where we still hold it today. But in addition to this we have bought a number of additional US health care stocks that have also done very well this past fall.

Commentary - continued:

- Last December 2012 we chose to completely exit all of our gold positions. This proved to be a timely decision as over the last 12 months gold has declined by 30%.
- On the downside, despite the success we have had with Real Estate Investment Trusts over these past three years, the one year return in this category was -10%. We saw similar declines of -8% for the overall preferred share category. I am glad that we sold off all of our Long Term Government Bonds and Real Return Bonds last June. When we sold these securities, their year to date returns were actually slightly better than Canadian stocks. Since the end of June, each of these categories has declined several more percentage points. We no longer have anything invested in these two categories.
- The total return for the NFC Tactical Asset Allocation Pool, from September 1 through December 31st was +4.5%. The pool contains 100 different holdings, which helps to further diversify the portfolio by having 5 to 7 holdings in each sector. Several securities were "stopped-out" during this time, which helped to protect capital. The pool is yielding close to 4% at this time.

Looking Ahead

Looking ahead, we are hopeful that we will continue to see the Canadian and US economies grow as they have these past four months. But as always, we also see that markets are very skittish and can change quickly. Our bias remains focused on income oriented securities, particularly those that have already seen declines over the past year. However, we have more invested in the US today (approximately 20%) and in equities overall, than we have in the past several years.

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How To Read Your Reports

Monthly Performance Report:

- The top section of this report shows your starting value, deposits, withdrawals, fees and your ending value for each of the past four months. The cumulative column shows your net invested value: deposits – withdrawals – fees.
- In this top section on the right hand side, there are two rate of return columns. The first is the Net Performance Percent Return After Fees and the second is the Gross Performance Return before fees. If you had your Portfolio Monitoring Fees drawn this past fall, you will see this figure in the Management Fees column, which in turn will influence the difference between your Gross Return Before Fees and your Net Return After Fees.
- In the boxed area of this report you will see your longer term portfolio return calculations.

NPMC Portfolio Summary Report:

- This is a consolidated report of all of your accounts. This is also a consolidation of all of your holdings. If you own the same investment in more than one account, the total will show up on this report, not each individual holding.
- Note how the NFC Tactical Asset Allocation Pool holdings are presented to you by investment category. This helps you to see your total diversification by each investment category, which is not something that you can easily see on your monthly NBCN statements (Reminder, a monthly statement will only be sent by NBCN to you if there was activity in the account that month).
- Most of the columns are self-explanatory, but here are a few exceptions:
  - Invested Capital represents your net investment value (deposits – withdrawals). This is different than the book value figure you see on your NBCN statement.
  - The Unrealized G&L column represents the total gained or lost dollars on this investment, in Canadian dollars.
  - The G/L % column represents the percentage gain or loss on this investment, in Canadian dollars. Remember, this is not a time specific return, just a total percent return calculation.
  - The Current Yield is the interest or dividend percentage rate on each investment.
  - % of Total is the percent amount that this investment holding represents in your portfolio. If this figure is 5%, then this means that this investment represents 5% of your total investment value.
  - You will also see totals for each category, which can be helpful in seeing your total exposure to each investment category.

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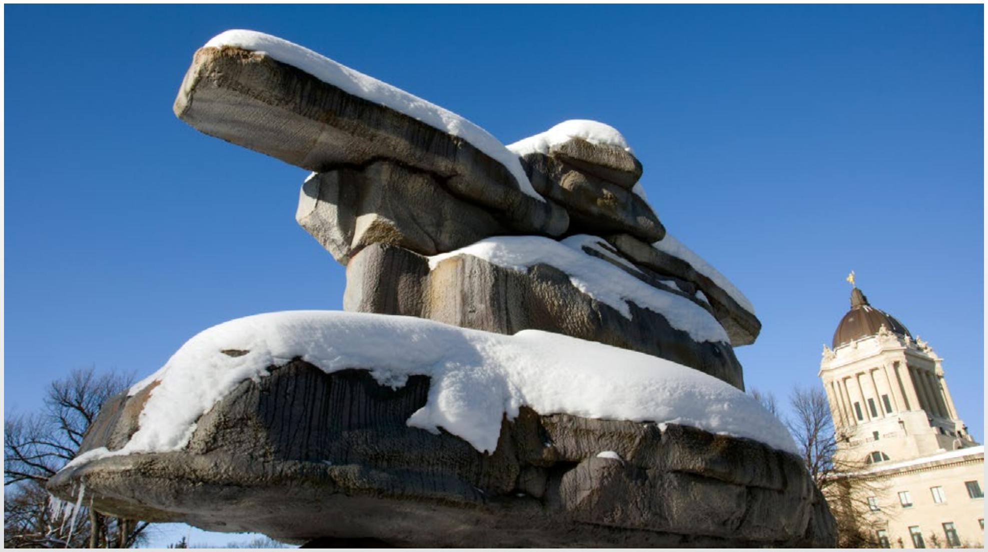
NPMC Portfolio Summary Report - continued:

- On the last page of this section of the report you will see a rate of return for the overall portfolio. Remember that this is a total return and is not time weighted. Your time weighted returns are on the Monthly Performance Report.
- You will also note that the NFC Tactical Asset Allocation Pool does not show any "yield" at this point. The first distribution out of the pool took place on December 31st, 2013. For those who own the Tactical Pool inside their RRIF or LIF accounts, this distribution was paid out in cash. For all other types of accounts (RRSP, TFSA, RESP, etc.) you received additional shares of the Tactical Pool. Over the next year I expect that we will see a distribution figure show up in this column. This figure will be in the 3.75% to 4% range.
- On the final page of this report, you will see a listing of all the total values on a per account basis.

Transactions Report:

- This report contains a listing of all transactions in your portfolio over the past three months.
- The report shows dividends and interest received, buys and sells, deposits and withdrawals as well as fees paid.

This will show the realized gains or losses that you need to record on your tax return.



This brings us to the end of this Quarterly Portfolio Package.

Please send us your comments and let us know what you like or don't like about this combination of reports so that we can continually improve this package over time.

Additional Reports: In addition to these reports, **for those clients who have taxable investment accounts**, we will be sending out to you, in a separate package, the following reports that you will need so as to complete your tax return:

- **Realized Gains / Losses Report:** This will show the realized gains or losses that you need to record on your tax return.
- **Interest and Dividends:** This is a transaction detail report that shows all of your interest and dividends paid to you this year in your taxable account. You can then match this up with the tax slips you receive to make sure you have everything you need to complete your tax return.
- **Fee Summary:** This is a separate transaction report that will show your fees for 2013, which can be fully or partially deducted against your investment income.

About Us

NELSON
FINANCIAL CONSULTANTS

We are an integrated financial services boutique that provides customized financial planning, portfolio management and insurance services. Even though we have three distinct entities, our services are designed to be seamless to you.

NELSON
FINANCIAL PLANNING CORP.

- Fee for Service, Custom Financial Planning & Retirement Planning Services
- The Financial Planning Monitoring Service
- 25 Point Portfolio Inspection Service

NELSON
PORTFOLIO MANAGEMENT CORP.

- Custom Portfolio Design
- Fixed and Variable Fee Schedule to Reduce Portfolio Management Fees
- The NFC Tactical Asset Allocation Pool is a core holding to increase efficiency in the portfolio management process

NELSON
INSURANCE SERVICES CORP.

- Licensed as independent insurance brokers so as to provide to you a wide selection of insurance options
- Life, disability, critical illness and long term care insurance for individuals, couples and business owners
- Individual, joint, lifetime or term certain annuities

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