"Those who do not remember the past are condemned to repeat it."

George Santayana

We at Patient Capital Management hope that 2003 is a happy and healthy year and trust that the New Year brings forth much joy.

The pundits all said that it couldn't happen; three successive years of negative equity returns were not possible because such an event had not occurred over the last forty years. What these commentators did not appreciate was that forty years is not a long time in terms of market history. Had they studied a truly long historical record it would have been quite evident that equity markets can indeed suffer three consecutive years of negative returns. They also ignored the fact that Japanese indices have endured several successive years of losses. Most importantly, the extraordinary valuations that existed at the beginning of 2002 were not taken into account. As several recent studies have illustrated prospective equity returns tend to be substantially below historical averages when valuation levels are significantly above long-term norms.

We have no idea what market returns will be this year. While the drums of war have recently weighed down equity prices a quick and decisive victory in Iraq could spark a significant "Patriotic" rally. Even Japan has posted the occasional positive year during its twelve year decent.

As we enter 2003 valuation levels are still not attractive. Price to earnings ratios are still very high and dividend yields continue to be quite low. These valuations do not bode well for equity returns going forward. Thus we are comfortable in stating that there is a strong probability that North American equity returns will not be attractive for the next several years.

Below are PCM's taxable and non-taxable returns for the last two calendar years and since our inception.

Patient Capital Management Inc. Performance*

	Since Inception	Year Ended Dec. 31, 2001	Year Ended Dec. 31, 2002
Taxable Portfolio	5.87%	7.59%	3.86%
Non-Taxable Portfolio	10.30%	18.57%	2.91%
TSX 300	(10.85%)	(12.57%)	(12.44%)
S & P 500 in Can. $	(13.87%)	(6.46%)	(22.74%)

* Inception Date as of March 31, 2000
Based on Representative Accounts Gross of Management Fees
Not Audited

As the above table indicates we have been quite fortunate. We have managed to post positive returns in the wake of declining markets. As a result, PCM is now beginning to generate a substantial amount of interest from many prospective clients. While we very much appreciate the attention we want to emphasize that it is our investment philosophy and process along with our business and personal values that are most important. As we have often stated, our performance is a direct result of our philosophy and skill at executing our discipline.

We also want to point out that as we get fully invested we could lag the major indices. We may even post negative short-term returns. We tend to buy early and then average down as the share price continues to fall. We are very comfortable with this approach because we believe that no investor can pick the absolute low price of a stock nor could our entire

purchase be acquired at the very bottom. Once fully invested we will then be prepared to reap the benefits of our patience and hard work.

Recently we were quite alarmed to learn that some large investors are advocating the elimination of quarterly reporting by public companies. The reasoning behind such thinking is that in eliminating such requirements managements and investors would not be compelled to focus on short-term results but could instead concentrate on the company's long-term fundamentals.

While we strongly agree that management should be focused on managing for the long-term we don't believe that eliminating quarterly reports to shareholders is the answer. Quarterly reports allow investors to assess its progress on a regular basis. We at PCM closely scrutinize these reports for any changes that may alert us to potential opportunities or problems. In our view, increased reporting increases accountability. We shudder to think at the corporate governance abuses that might arise if quarterly reporting were abolished.

What we do advocate is that the practice of providing quarterly earnings forecasts and guidance be stopped. This would eliminate the pressure to match or exceed quarterly estimates. The pressure of meeting expectations can lead to short term business decisions at the expense of important strategic considerations. In our view, corporate executives should be far more interested in the concerns of a thirty-year customer than those of a thirty-year-old portfolio manager!

We would also suggest that pro-form reporting should be outlawed. Pro-forma reporting can lead to serious abuses. These "financial statements" are not audited nor are they required to be filed with the regulatory authorities. Managements often use these reports to present their results in the most positive light possible. Pro-forma earnings often exclude legitimate ongoing business expenses. In addition, these reports often differ materially from

the actual quarterly reports that are later filed with the Securities and Exchange Commission.

We think that eliminating the two practices discussed above would go a long way towards fixing what ails the investment community today. Company executives could get back to working the business rather than the stock and investors would not be distracted by the intense attention placed on quarterly performance by analysts and the media.

The whole issue of option based compensation and how to account for this form of remuneration has garnered much attention over the past eighteen months. In our opinion options should not be used as a means of remuneration. The most effective compensation systems are those that directly link performance incentives to variables that management can significantly influence. For example, a brand manager might receive a bonus based on market share gains relative to competitors or a plant manager could receive incentive pay in direct proportion to productivity increases and safety. Senior management might be measured against some return on capital benchmark.

There are several complex proposals being put forth by accounting bodies and regulators on how to account for options on the income statement. Regardless of the final accounting treatment chosen, we at PCM will continue to expense options on the income statement as in the following manner:

Option Expense = Cost of Shares Repurchased to Offset Options Granted less Proceeds Received from Options Issued

In addition, we remove the tax benefit associated with granting options from operating cash flows. We find it quite paradoxical that a compensation item that is not expensed actually leads to increased net income through a reduced tax rate!

We started PCM close to three years ago. During this time several events have tested investors' patience and resolve; the "tech bubble" meltdown, the tragedy of September 11, corporate scandals and now a possible war in Iraq. Throughout this period we at PCM have not "blinked." Our philosophy and discipline has remained constant. Our conviction is based on the simple notion that despite the "temporary madness of crowds" the fundamental laws of valuation will in time revert to some rational level and provide us with attractive investment opportunities. You can rest assured that we have thoroughly studied the past and are determined not to ignore the lessons of history.

We thank you for entrusting us with your capital and again wish the very best for you and yours in 2003.

Vito Maida
February 2003