DUNDEE CORPORATION

2011 ANNUAL REPORT

Chairman's Report

"Sacred cows make the best hamburger."
Mark Twain

Fellow shareholder:

In the period starting December 31, 1991 to December 31, 2011 the compounded annual return on the share price of Dundee Corporation was 17.01%. The following comparisons are revealing:

- The TSX - 6.31%
- The Bank of Nova Scotia - 11.90%
- Nike - 12.60%
- Berkshire Hathaway Inc. - 14.70%
- Apple - 18.30%

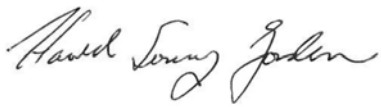
More than a year has passed since the sale of DundeeWealth Inc., and while this transaction was emotional, this sacred cow produced filet mignon. It has enabled the Corporation to execute on its long standing plans to become a merchant bank and to focus primarily on real estate, energy, resources, agriculture and infrastructure.

A team of executives and managers have been assembled and they are at the centre of this new direction. Ned Goodman's dream to build a true Canadian alternative to traditional financing and banking is taking shape with a consistent vision and concentration on opportunities in those sectors that have been chosen to be in our focus.

This is the new Dundee, a partner, a principal, an advisor and always entrepreneurial in an exciting world, made rich by limitless possibilities that lie before us, particularly, those that build upon and reflect the power of our past.

I look forward to reporting the compounded annual return on the share price of Dundee as of December 31, 2031.

Sincerely,



Harold (Sonny) Gordon, Q.C.

Dear Fellow Shareholders,

In an historical financial book by Satyajit Das called "Extreme Money", I found two paragraphs very insightful. I wish to start my Annual Report with those words:

> "The Masters of the Universe and their cult of risk had come to dominate economies and lives. Marshall McLuhan argued that 'any technology gradually creates a totally new environment.' The human race created money and the finance economy. Somewhere thereafter, money and the finance economy recreated the human race, not always for the better. Governments and policy makers now play financial games and pump money into the economy to try to restore growth and stability. There is increasing risk of a further more severe crisis, with a loss of confidence in government, risk-free sovereign debt and, of course, money itself. The risk of unavoidable financial, economic and social dislocation is ever present.
>
> Ben Bernanke told the US Congress that the future now was 'unusually uncertain.' John Maynard Keynes understood 'uncertainty':
>
>> *"By 'uncertain' knowledge…I do not mean merely to distinguish what is known for certain from what is only probable…the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence…about these matters there is no scientific basis on which to form any calculable probability whatever. We simply do not know."*
>
> The future had always been uncertain. Human ability to predict and control the economic future had been an illusion. It was *hubris* – arrogant, excessive pride in achievements. In the end, *Nemesis*, the goddess of retribution and downfall, ends all dreams.

As suggested in last year's Annual Report, the stock market continues to be in a range bound scene and treads water, going up and down in accordance with the latest news about the Euro crisis, the Middle East affairs and the enormous level of US and Euro debt that should be undergoing a massive deleveraging. The debt load of a deficit driven $16 trillion and $60 trillion of IOU's for the United States is changing the entire culture of the US and how they are being perceived by the rest of the world. A range bound global stock market will stay with us for a long time.

Most investors, while worried about the stock market, are underestimating the potential risk and disruptiveness from the existence and attempted elimination of very high global financial leverage. We are continuing to live with an expanding era of global financial instability. The era of being fully invested in a broad index or ETF or mutual funds and adjusting diversification in accordance with how a current index looks, is dead and has really been dead for many years.

The year 2011 was a very busy, important and a reasonably successful year for our company. We sold our DundeeWealth subsidiary to Scotiabank, later in the year acquired and privatized 100% of Dundee Capital Markets. We sold our position in Breakwater at a profit, ran our capital markets, brokerage and investment banking operations at a small loss and sold other investments at minor

profits. Our balance sheet is strong and we are now poised, with some minor adjustments, to be a much bigger factor in the asset management, private brokerage and investment banking business.

As far as asset management is concerned, we intend to move some parts of our company currently considered as corporate investments into specialty funds or corporations. We intend to emulate the model that we use in our Dundee Realty subsidiary. DREAM is the asset manager for certain institutional accounts as well as for the two Dundee REITs, domestic and international investment vehicles; we are significant shareholders of both REITs.

At the same time, we are moving away from the Dynamic logo towards utilizing the logo that you can see on the Annual Report cover for all of our Dundee subsidiaries, funds and affiliates. This program is in line with our plan to unfold a significant branding program so that our offices in Montreal, Toronto, Calgary, Vancouver, London, and Hamburg will have equal recognition.

The asset manager for the new projects that we unfold will be our wholly owned and newly renamed Goodman Investment Counsel (GIC). GIC also intends to provide advice and counsel to our retail private client brokers providing them with the information and assistance for them to be able to provide a superior service in the management of their high net worth clients.

As we have done with the Dundee REIT, the Dundee International REIT and CMP Gold Trust, we intend to be significant owners in all our stand alone asset management corporations or partnerships.

For us the old expression of "maximizing shareholder returns" is too narrow an objective. Personally, as the company's largest shareholder, I look to build another high performance organization that will create and sustain top line growth and be very profitable.

With the sale of DundeeWealth Management on February 1, 2011 for a total price of $3.2 billion after its existence since 1991 or 20 years, makes 2011 easily the most eventful and profitable year in the twenty year history of Dundee Corporation. Our stock price increase ranked twelfth out of one hundred and fifty mid-cap companies as rated by Canadian Business. Our 1 year stock price return was 83.9% and the 5 year return was 119.7% and we were correctly described as a capital markets company. For the 2011 year end we are showing a billion dollars in profit, mostly from the sale of our 50% ownership of DundeeWealth, which really only came into existence in 1999.

I reveal herein the comparative balance sheet from the start up of Dundee in 1991 as compared to the recent financials as of December 31, 2011. Twenty years on the basis of comparison was very successful for our shareholders as our stock price went from approximately $1 a share to its year end $24, an annualized return of 17% while our net book value per share increased from $2.60 to $30.63 an increase of 13% per annum.

DUNDEE CORPORATION
CONSOLIDATED BALANCE SHEET
(expressed in thousands of Canadian dollars)

		31-Dec-11		31-Dec-91
ASSETS				
Cash	$	112,263	$	6,687
Loans and accounts receivable		304,049		46,819
Investments, real estate and resource assets		2,796,991		384,878
Other assets		513,606		11,958
Income taxes receivable		6,270		(1,385)
	$	3,733,179	$	448,957
LIABILITIES				
Accounts payable and accrued liabilities	$	226,779	$	4,653
Corporate debt		532,833		130,510
Other liabilities		905,639		-
	$	1,665,251	$	135,163
NON-CONTROLLING INTERESTS		(134,862)		(95,009)
NET ASSETS	$	1,933,066	$	218,785
NET ASSETS REPRESENTED BY:				
Share capital, including preference shares	$	347,617	$	390,793
Deficit		1,552,789		(171,643)
Accumulated other comprehensive income (loss)		32,660		(365)
	$	1,933,066	$	218,785

To continue with my macro economy comments of last year's annual report, I have to report that there has not been much of a change in position in the last 12 months to categorically change our views. With years of knowledge and experience I do know that financial markets have the ability to correct themselves both on the upside and downside. And I do understand that financial markets cannot and do not predict the state or direction of the economy with any accuracy.

Our mission is to operate the "New Dundee" as classic merchant bankers and entrepreneurship. This old style business has been a bit overtaken by the post modernship of capitalism where risks are taken by the entrepreneur in order to promulgate a new business idea, and make it work. Our main goal is to create a new product or entity that will make money. Clearly, at the outset, classic merchant banking focuses on one aim: making as much money as possible. There is no hidden agenda. Business is business, and the bottom line is the only factor. Classic entrepreneurs do not go into business thinking about all the benevolent things they may be capable of doing with the money. While we do strive to make the world a better place, it is not on the agenda at the time of due diligence and investment. However, we are philanthropic, based on our success.

Merchant banking in its classic sense of the word, really came to an end on both Wall Street and the City of London during the Great Depression. The Glass Steagall Act put Wall Street out of that business for a while. But merchant bankers of London kept up their efforts. The City is traditionally proud even to this day of the high standards of integrity that came with the early day merchant

banking. They are proud of the emphasis placed on trust and verbal promises. Since my previous days of merchant banking personally being involved during much of my fifty year career in the business, a time when billions of dollars of securities was done orally, immense deals closed with a handshake or over the telephone, only later to be confirmed in writing.

Today, as compared to the days of the 1800s and the Industrial Revolution, Merchant Bankers have to look abroad to the emerging and pre-emerging markets to be able to do deals that justify the expense of high caliber people moving around the world. The costs are high but the potential rewards are likewise high.

The Brits in those early days, knew they must trade or perish and had a head start in the new countries in Asia and Africa on which they had the territory to themselves. Today in resources and other basic industries the countries that need merchant bankers are in the same territory – Asia, Africa, Latin America. The English in the 1800s also had the emerging United States which was shared with the early Wall Street bankers – Goldman Sachs, Lehman, Morgan etc.

There remain plenty of lucrative opportunities in many countries where you need a variety of special injections in order to even travel there. We do go there but we are fortunate here that we have the entire untapped northern part of Canada – Nunavut; northern Ontario; northern Quebec and Saskatchewan - as our at home territory.

The typical merchant banking person is often characterized by a profusion of thoughts. We always assume that everybody understands what we are talking about without realizing that we know more about the subject being tackled than anyone else. We delegate authority freely, very seldom worried about detail that can be better produced by others. Merchant bankers operate without worry of incidental early problems because they enter the transaction with full ability to cope with them.

This thrust of our projected success is not ego; it's that we wake up every morning knowing that our day will be to enjoy what we do. Personally, I have kept whatever sanity I have by operating with an old merchant banker's advice, "A man who has no personal enemies has many personal friends." A good merchant banker always understands the extent of the risk being taken. Risk and reward are always measured against the probability of loss.

As classical merchant bankers we sense and work with three cardinal qualities. First, to be able to put oneself into the situation of the first owner, or of the person with whom one negotiates. Second, courage as one approaches a certain task that may be scary. Third, caution – to know the extent of all risks.

Too many so-called and failed merchant bankers had a history of too much courage and not enough caution; of underestimated risks and bitter failures. The banking crisis of the thirties and those even more recently, had too many people disregard and not consider the extent of the risk. A good banker always knows the extent of the risk, and allows for it.

The history of merchant banking as outlined by the Deutsche Bank's guiding spirit of merchant banking – Georg Von Siemens who built that bank during 1870 – 1900. He was a man of strong opinions who often had to bitterly fight the control of his conservative board of directors to achieve his success. He is quoted as saying, "when twenty four men manage a bank, the result is the same as

when a girl has twenty-four admirers; none of them marries her, but at the end she has a baby." My personal experience with banks and bankers can verify that it still is the same.

But Von Siemens once made a speech declaring about merchant bankers that, "We are in a sense the leaders of the spirit of enterprise of the nation."

The new Dundee and our Dundee Merchant Bank have as our mission and vision to be the spirit of merchant banking enterprise globally in our chosen areas of resources, agriculture, real estate and infrastructure.

The basic aim of our mission is to continue the good tradition of a classical merchant banking house while building on our reputation. We will fight to preserve our good name, show ingenuity and be allowed to do constructive things for our clients and our community. This is nothing more than the original basic aim of the great merchant bankers in their early days in London.

Like those old-timers, we will spend blood, sweat and tears to be there when something goes wrong to make it right again. We are less worried about financial losses than by the loss of reputation. We expect that there will be some mistakes, but not too many. We regard mistakes as part of the learning curve and we have already made many.

We take pride in being capable of helping to build the reputation of little known client companies, so that our Dundee sponsorship becomes more important to the company than its past record.

We expect that if Dundee approves of a company after due diligence, we will always be prepared to invest our own money and others should be prepared to invest with us. This is where a great investment and merchant bank acquires prestige. Our motto and formula is that we do not intend to sell any idea or anything to third parties that we would not buy for our own account

Breaking news:

While I was trying to complete this message on April 19th, the International Monetary Fund came out with its world Economic Outlook Report warning that there is: "Risk of collapse of Euro and full bloom panic in financial markets". The statement was that the Eurozone could break up and trigger a "full blown panic in financial markets and depositor flight", as well as a global economic slump to rival The Great Depression."

To quote the report directly, they said: "the potential consequences of a disorderly default and exit by a Euro area member are unpredictable---if such an event occurs it is possible that other Euro economies perceived to have similar risk characteristics would come under severe pressure as well, with full blown panic in financial markets and depositor flight from several banking systems." "Under these circumstances a breakup of the Euro area could not be ruled out."

Even without the April 19th missive, we have known that financial markets today have caused the investing public (including me) to be totally confused by biased, misinterpreted and incorrect actuality that is presented by the media at large, who today have the propaganda ability of a Goebbels. This has created a diversion in the thinking of the masses based on those bad emotions of fear, greed and hope. We have been living through such a time as we witness the financial markets ebb and flow based on not totally understood macroeconomic events. The world remains in a major

financial crisis and central bankers are taking extreme gambles which could have serious longer term negative repercussions.

George Soros asks the question: "When do the reflexive connections which are endemic in financial markets turn into self reinforcing, historically significant processes which affect not only prices in the financial markets but also the so-called fundamentals that those prices are supposed to reflect?" He then submits an hypothesis, that has to be tested, that there has to be both some form of credit or leverage and some kind of misconception or misinterpretation involved for a boom-bust process to develop. He goes on to say that "Misconceptions play a significant role in the making of history."

While his message was particularly relevant in understanding the 2008 market crisis and bust, it also helps to give some understanding to the current turmoil in Europe and the United States – that misunderstanding and misconception of the degree of impact of the vast quantity of sovereign credit and leverage, especially in the United States and its "reserve currency" dollar.

Historically, be it for a state, a company, or an individual, an excess of debt and/or credit does not lead to good things, especially when we have to deal with fiat currencies as the only available resource to achieve repayment.

Too much leverage with debt and credit is resolved in usually one of four ways:

1. Repay in a currency acceptable to the lender
2. Beg and receive forgiveness of the lender
3. Do not repay, accept default and face bankruptcy proceedings.

There is a fourth way only if you are a sovereign state with your own fiat currency. In that case you merely print more currency and hope that it remains acceptable to relieve the economic turbulence.

Many years ago, a wise man by the name of Ludvig von Mises said:

> "There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."

Today, after the financial crisis of 2008, we are witnessing massive printing of fiat currency by virtually all of the important nations of the world, but especially the three super currencies – the US dollar, Europe's and Germany's Euro, and the Chinese Yuan.

History of thousands of years has proven that we cannot "print" ourselves to prosperity, and the current central bankers have not figured out something new and creative. But they are using the same tools and calling them by different names. Printing fiat currency by buying garbage debt owned by the commercial banking community is really printing new fiat currency but they call it quantitative easing. Since the 1970s the US has led the world in money printing and the US dollar has fallen from being able to buy one dollar of goods in 1970 to the dollar only buying 17-18 cents of goods today. This is inclusive of the early dollar debasement from 1970 to 1977 when the purchasing power of the dollar fell by fifty percent. All of this expansion of the credit system and building the balance sheet of the Federal Reserve under the guidance of many Fed governors from

Arthur Burns in the 1970s and, of course, through Alan Greenspan and, today, Ben Bernanke. They all did it because they had to, and they could. There were continuous times when it was required to paper over the economic cracks that emanated from the forceful growing of the US economy so that politicians could get reelected. Eventually, as they are facing it today, those economic problems became deep holes. One thing that often occurs, is that we tend to keep digging when we are stuck in a hole. Continuing to dig means that the US requires increasing amounts of monetary expansion and debt in order to seduce the population about American prosperity.

Before 2008, there were many instances to correct those debt and credit imbalances but for political reasons it was easier to push them (or, as they say, "kick the can") hoping that something would happen in the future so that we will achieve a self correction.

But instead, we had 2008, a period that will remain in the memory of most of us for a long time. And as a result of that financial crisis it was necessary to do even more printing so that the American and British banks could be bailed out and subsidies could be provided to the beaten industries and many unemployed.

Time after time, financial economies, when in distress, cause the smartest of the political and financial administrators to forget about the long term consequences and go on with the quick fix without resolving any of the obvious problems. Politicians are only judged by quick solutions that last until the next election. They do not have the political time to go for a long lasting permanent fix. History is littered with the remains of dead currencies that were allowed to die because the quick fix was more expedient than biting the bullet of permanent repair.

Because of the quick fix solutions over those many centuries of dead currencies, nations had to live with budget deficits to fight wars, keep the King or President in fine luxury living and fine wine, and of course the whole process continues to build up debt. Debt that becomes more and more difficult to live with and eventually something has to give. As a global economy, we cannot achieve or keep prosperity by continuing to take on debt and printing money. Or to bring it back to a business company. Where too much debt must be forgiven, defaulted, or we have to print new equity and face the dilution of equity.

Bill Gross, the bond maven of PIMCO, recently put it on the line when he said: "A 30-50 year virtual cycle of credit expansion which has produced outsized paranormal returns for finance assets – bonds, stocks, real estate and commodities alike – is now deleveraging because of excessive risk and the price of money is zero bound. We are witnessing the death of abundance and the borning of austerity, for what may be a long, long time."

Gross made this statement in February 2012, almost at the same time that Warren Buffett gave us a clue of something that will come out when his Annual Report of Berkshire Hathaway is released. Buffett is advising investors to stay away from bonds because of low interest rates and inflation. He included bonds with other holdings that are tied to currencies. "They are among the most dangerous of assets ----- over the past century these instruments have destroyed the purchasing power of investors in many countries, even as their holders continued to receive payments of interest and principal ----- high interest rates of course can compensate purchasers for the inflation risk they face with currency based investments ---and indeed rates in the 1980s did that job nicely ----- current rates however do not come close to offsetting the purchasing power risk that investors are assuming ----- right now bonds should come with a warning label."

Jeremy Grantham, another superb long term investor, said on February the thirteenth, the day after Gross and Buffett, that "we are literally running out of expletives to describe how much we hate bonds. Yields are pitiful, dangers of even a slight recovery that could wreak havoc for long duration portfolios, loom, and monetary policies globally certainly have added to the spectre of rising yields."

These comments, which are similar to those we made in last year's Annual Report, follow the very recent release made by Ben Bernanke of the US Federal Reserve when he said "The Fed has kept borrowing costs near zero ----- and economic conditions may warrant ---- exceptionally low levels for rates through at least late 2014 to boost the economy and put more Americans back to work."

The fact is that the world, and especially the US, is obliged to go to a serious program of deleveraging their credit debt position. No one likes deflation and the only cure for deflation is inflation. And inflation at least has an answer of economic growth.

John Paulsen's year end letter to his clients says that he expects that Greece will soon default because they have to come up with 14.5 billion Euros by March 20th and will not be able to meet that payment unless they get more rescue bailout money. If they do not get help for this payment, he too believed that we can see the beginning of the breakup of the Euro. He believes that the Greeks will default. To quote him, "We believe a Greek payment default could be a greater shock to the system than Lehman's failure immediately causing the global economies to contract and markets to decline. The Euro is structurally flawed and will likely eventually unravel." To which we add – Is all happening.

By the time anyone is reading this, the default event will be behind us, but John Paulsen is not a dummy and while his comments are not foolish, he should take a look at Spain, Italy and now even France after the recent election. The breakup of the Euro and a default by Greece has disastrous negative implications and even if Greece is somehow saved, the Euro crisis is not over and may even become worse, but this is not an unknown to the powers that still have some powder to provide delays to the ultimate negativity; but we will be living in troubled European times for some time.

The resultant recession and low interest rates has caused a rise in US household debt from 47% of GDP in 1980 to 97% of total output in Q4 2008. This is an ever increasing burden, and the Fed has been forced into a series of lower lows and lower highs on its benchmark lending rates. Keeping rates low is an attempt to make debt service levels manageable by the government and to keep the consumer afloat. The problem is this endless pursuit of unnaturally low rates has so altered the Federal Reserve's balance sheet that Mr. Bernanke will be hard-pressed to substantially raise rates to combat the likely inflation, once consumer and wholesale prices begin to significantly increase because of the massive printing of money. But it's not only the size of the Federal Reserve balance sheet that is so daunting; it's the makeup and all the other central banks financials that's becoming truly scary.

To get back to our thematic concern, we must show agreement with what the Minister of Finance of Brazil said in September 2010 when he declared that the world has entered a period which he called a currency war – and that is what we are living through today.

The three super currencies of the world:

The dollar	-	US
The euro	-	Europe
The Yuan	-	China

are in a currency war and all other currencies around the world are feeling the unexpected consequence of this war, which centers around the reserve currency status of the US dollar.

As he states on a regular basis, Ben Bernanke continues to delude himself, and tries to do likewise to the world public that when the time comes he will be able to shrink the size of the US balance sheet and reduce the monetary base with ease and impunity. And along the way he has also deluded himself, or is basically hoping, and lying to us, that inflation will be easily contained.

I say that he lies – but let's remember that his job description says that he must keep monetary and economic policy out of instability. As such he knows that he cannot be saying or doing things that will cause the citizen population to see and feel that they live in an unstable environment. His other job is to arrange the financial coffers of the US such that unemployment should not be a problem. He is failing on both of his mandates and while he is allowed to fool himself, we should not let him fool us as well.

I have just read a recently published book written by James Rickard – "*Currency Wars*". For me it turned the lights on with what is happening in the world of global trade, the macroeconomic scene and investment prospects. Rickard simplistically makes our Dundee business plan of defining our emphasis to specialize in hard asset investments, assets like resources, real estate, energy, infrastructure and agriculture.

My previous firm, Beutel, Goodman and Company started as a partnership of investment counselors in 1967. Little did we know that we chose probably the toughest time to branch out starting as an investment counsel just before the 1970s. But once we figured out the scene we were able to prosper both for our clients and for the partnership itself. That macroeconomic scene is being replayed today on a more global basis but similar to the later 1960s and 1970s is that many of the so-called experts in economics and traditional investment observers do not generally tell us how to protect ourselves from the economic problems that lie ahead. According to Rickard, and I agree, "Not only have their theories failed to prevent or predict calamity, they are making the currency war worse. This US Federal Reserve has engaged in the greatest gamble in the history of finance with a sustained effort to stimulate the economy by printing money on a trillions-of-dollars scale. Its solutions present hidden dangers while resolving none of the current dilemmas."

Rickard tells us that in the last 100 years we have had two serious episodes of Currency

We are currently living through a new time of economic and financial events which are related to a new global currency war. A war which emanates directly from the financial crisis of 2008, which - as I have stated many times - will remain in the memory of investors for a long time. The current currency war started in 2010.

Currency wars have happened many times in history and they always end with a destructive outcome of the global and international economy. We are witnessing much of this today with the Euro crisis, the manipulation of the Chinese Yuan, the Federal Reserve imposed very low interest rates, and overall massive printing of United States dollars which are backed by nothing more than the suggestion that we should trust in God.

Rickard introduces his book by saying, "currency wars are one of the most destructive and feared outcomes in international economics. At best they offer the sorry spectacle of countries stealing growth from their trading partners. At worst, they degenerate into sequential bouts of inflation, recession, and sometimes actual violence."

Currency wars "always end badly", and the recent headlines about the debasement of the dollar, the price of gold and other hard assets, bailouts of the US and Euro banks, Greece, Ireland, Portugal and now Spain, the British banking community, currency manipulation by all nations and China, along with the many other nations including a recent $1 billion worth, serious purchase of gold, by each of Russia and Mexico are all indicators of the problem.

The greatest threat, which most traditional economists fail to give much issue by saying that the US dollar can be the only acceptable world reserve currency, is the actual potential collapse of the currencies, especially the US dollar itself.

We are in a global currency war and traditionally currency wars result often in stagflation and/or inflation which can only be corrected by higher interest rates and austerity; but none of the three super currency countries can politically live with austerity and higher interest rates.

The US has:

- Too much debt
- A Presidential election
- Massive unemployment
- A dysfunctional political system

Europe also has many problems:
We all know the problems there; but they, likewise, have the same problem of too much debt with Germany trying to keep the Euro together for a purpose that seems to be more for political ego and economic fiscal advantage.

And this is all happening while at the same time the emerging nations of the world are moving towards the modernity of life that we, in the submerging world, have achieved over the last 100 to 150 years. You know: refrigeration, TV, good housing, inside toilets, cars, etc.

In fact, not only are the emerging nations quickly moving in a rapid positive direction with their low wage costs, they are beginning to export and import goods and services at a faster rate than the so-

called developed, or today, submerging, countries. All the while we in the submerging nations are slacking off, feeling rich and happy and, in the US, arguing amongst themselves about an election.

The world is transitioning very rapidly and, unfortunately, we are living through this transition during the third currency war since 1930. Currency wars are not pretty, but as the emerging world continues on the way to prosperity the world will need more of the stuff that comes out of the ground – resources, agriculture, energy.

Artificial low interest rates are achieved by inflating the money supply. Low interest rates cheat the savers and punish the thrifty. They are supposed to promote consumption and borrowing instead of saving and investing. Manipulating interest rates is immoral.

A central bank fooling with interest rates is price fixing and a form of central planning. Price fixing is a tool of socialism and it destroys production. No one really knows what the rate should be, but by keeping rates unduly low for an extended period of time the administration has put the fear and uncertainty in the minds of the public while they are buying toxic low interest treasury bills for financial safety.

Zero interest rates have taken monetary policy into uncharted waters – waters of uncertainty. But one fact has changed – fiscal policy does not have much effect on a monetary equation and those unfunded future liabilities of worries about money will likely raise the spectre of inflationary expectations. In today's uncertain economic position, both politicians and central bankers are flying blind or sailing in the dark trying to figure out where the good or bad winds come from.

Without oversight or supervision and insecurity, the Federal Reserve and other central bankers can inflate currency, creating new money and credit out of thin air. Inflation (even if it is quiet) facilitates deficits, needless wars and excessive welfare spending. Debasing a currency is counterfeiting. It steals value from every dollar earned or saved. It robs the people and makes them poorer and is the absolute enemy of the working-for-wages population. And inflation is a regressive form of taxation.

At the end of March 2012, Ben Bernanke said:
"While I'm encouraged by the unemployment rate's drop to 8.3 percent, further improvement in the job market will require continuing the central bank's easy monetary policies. Faster economic growth is needed to keep the unemployment rate moving lower, and with GDP growth of 2-2.5%, good for no change in the unemployment rate long-term, further growth is required to significantly lower the unemployment rate. Therefore, the Fed should be targeting at least 4-4.5% growth for several years. Economic theory tells us that monetary policy loses its effectiveness if the unemployment rate stays high for too long.

We clearly can see more pain on the horizon when the effects of Quantitative Easing 2 (QE2) wear off and that all the market really cares about is more free money, regardless of the long term negative effects. Lest we forget, this is an election year, and Bernanke is appointed by the president, not elected.

Michael Snyder of "Business Insider" wrote on March 26th:

"The U.S. dollar has probably been the closest thing to a true global currency that the world has ever seen. For decades, the use of the U.S. dollar has been absolutely dominant in international trade.

This has had tremendous benefits for the U.S. financial system and for U.S. consumers, and it has given the U.S. government tremendous power and influence around the globe."

"Today, more than 60 percent of all foreign currency reserves in the world are in U.S. dollars. But there are big changes on the horizon. The mainstream media in the United States has been strangely silent about this, but some of the biggest economies on earth have been making agreements with each other to move away from using the U.S. dollar in international trade."

"There are also some oil-producing nations which have begun selling oil in currencies other than the U.S. dollar, which is a major threat to the petrodollar system which has been in place for nearly four decades. And big international institutions such as the UN and the IMF have even been issuing official reports about the need to move away from the U.S. dollar and toward a new global reserve currency."

"The reign of the U.S. dollar as the world reserve currency is definitely being threatened, and the coming shift in international trade is going to have massive implications for the U.S. economy."

"A lot of this is being fueled by China. China has the second largest economy on the face of the earth, and the size of the Chinese economy is projected to be first by 2020."

"So China is sitting there and wondering why the U.S. dollar should continue to be so superior while China is about to become the number one economy on the planet."

"Over the past few years, China and other emerging powers such as Russia have been quietly moving away from the U.S. dollar in international trade. The supremacy of the U.S. dollar is not what Americans believe that it is."

"As the U.S. economy continues to fade, it is going to be really hard to argue that the dollar should be the primary reserve currency of the world. Things are rapidly changing, and most Americans have no idea where these trends are taking us."

While Europe has been preoccupied with a possible restructuring of Greece's debt, huge risks lurk elsewhere especially in the balance sheet of the European Central Bank. The guardian of the single currency has taken on billions of Euros worth of risky securities as collateral for loans to shore up the banks of struggling Euro nations. Since the beginning of the financial crisis, banks in countries like Ireland, Portugal, Spain and Greece have unloaded risks amounting to several hundred billion Euros with central banks. The central banks have distributed large sums to their countries' financial institutions to prevent them from collapsing. They have accepted securities as collateral, many of which are -- to put it mildly -- not particularly valuable. The ECB is lending to the Euro banks and the banks are Ponzi-like depositing the money back into the ECB.

Let's not forget that the United Kingdom's sterling currency was once the world's reserve currency. From 1870 to around 1933, it took $5 US dollars to buy one pound sterling. From 1933 to 1948 this ratio de-escalated to a little more than half that rate - £1 = $2.50, It was in 1992 that George Soros made most of his money and some of his reputation as being astute when – in spite of the Bank of England's best efforts to manage their currency's devaluation – sterling valuation got away from them and the currency collapsed from about $1.75 – 1.80 to the US dollar to $1.50. There is no guarantee that the US dollar can be defended any better than the pound sterling. Sterling was

removed as the world's reserve currency after the second world war Bretton Woods Agreement and was replaced by the US dollar. Two world wars were followed by socialism which bankrupted the pound at that time.

Most Americans have not yet caught on, but their relative economic importance, superiority, and power are gradually slipping away. While it is true that America likely has the best cards, it will have to hold on to them and learn to play them better, other than solely to assist the President in winning an election. The US today is the world's largest debtor. We all think its debt is $16 trillion but it's much more under modern accounting. The US and the world are potentially looking at an unknown triggering event which could cause a dramatic dollar crisis. It could be the end of the dollar's dominant role as the world's money and will cause a dramatic dollar crisis and cause unknown consequences.

In November 2011, the McKinsey Global Institute, part of the consulting organization McKinsey & Company, prepared a 210 page study entitled: Resource Revolution Meeting the World's Energy, Materials, Food and Water Needs.

The McKinsey Global Institute was established in 1990 as the business and economic research arm of McKinsey & Company to develop a deeper understanding of the quickly evolving global economy.

The preface to their report deserves to be repeated before I state some of the specific observations their report outlines: "Over the past century, progressively cheaper natural resources underpinned global economic growth."

They state that their report aims to offer new insights into how demand for resources has evolved and how it is likely to develop over the next 20 years. It analyzes how demand can be met through expanded supply and higher resource productivity with innovation potentially playing a central role as new technologies scale up across resource systems. It is speaking to the major resource companies and the environmental risks that quantify options for addressing them. The report also examines what policy makers and the private sector might do to overcome potential resource constraints.

A major conclusion from the report is that: 3 billion more middle-class consumers are expected to be in the global economy by 2030 and at least $1 trillion and perhaps as much as $3 trillion more investment in the resources system is needed <u>each year</u> before then, to meet future resources demands of land, food, energy and materials.

The studies' main findings are:

1. In the last ten years alone a 100 year decline in resource prices has been reversed as demand for them has surged, with the volatility of resource prices at all time highs.
2. They outline five factors that could make the next twenty years quite distinct as short-lived higher and volatile resource prices caught up on supply and high prices curtailed demand:
    I. Up to three billion more middle class consumers will emerge over the next 20 years, fuelling demand for a range of resources;

II. Expanding supply and adding capacity could run into logistical and political difficulties, making adding capacity more costly; "Demand is soaring at a time when finding new sources of supply and extracting them is becoming increasingly challenging and expensive."
III. Price shocks in one resource in one market can easily and rapidly spread to others.
IV. The impact of strongly rising demand for resources on the environment could restrict supply.
V. Policy makers may face new demands from a billion consumers who still lack access to basic needs such as food, energy and water.

These five factors could impose a significant negative impact on economic growth, the welfare of citizens (especially with low incomes) as well as public finances and could overall raise geopolitical concerns.

Let me now outline those individual parts of the McKinsey report that particularly affect our Dundee business plan.

1. "A combination of rising demand for agricultural products and slowing agricultural growth could mean that over the next twenty years from 2010 there is a global need for an additional 175 million to 220 million hectares of cropland in order to meet food and feed demand.
2. Urban expansion globally could encroach on an additional 30 million hectares of existing cropland.
3. Supply expansion of resource could be difficult given that a significant portion of reserves are in countries with political or infrastructure risks."

We are living through a global game of chicken. The world is not yet ready to accept 2 to 3 billion more middle class capitalists. The impact of these masses and their reliance on a global currency other than the dollar could cause a chain reaction of dollar dumping in exchange for something they consider better. Dumping of dollars and US bonds would cause a recession and maybe even a depression in the United States along with many other countries in the world. When it becomes more obvious that the dollar is in trouble the first seller will take the smallest loss as a chain reaction becomes unstoppable.

Since the financial bust of 2007, the international economy has witnessed tectonic shifts and a reordering of power relationships as it has struggled to recover from the greatest blow since the 1930s. Developing emerging countries have provided two-thirds of all economic growth over the last five years, helping compensate for the stumbling industrialized world. Developing countries have also become the source of economic ideas, development models, investment and even foreign aid. The stock markets of many of the developed world will continue with up and down spurts and starts for many years.

In particular, there are a billion people in Africa with a high growth rate. Their population, while growing, is becoming better educated, safer and beginning to grow their industry and wealth.
As the CEO of our company, shareholders should know that I think long term. And as such I recognize for investment those many developing countries in our world that are transitioning to modern lives similar to ours. This is a change that started about 100 years ago and came after over 100,000 years of very minor progress. One hundred years ago we had about 1.6 billion people in our

world. Today, we have seven billion who soon will create 2-3 billion more middle class capitalists, all trying to achieve our lifestyle.

Assuming that we are still in the bear stock market that started in 2000-2001 - What is the Anatomy of a Bear Market? Russell Napier wrote a book of that name in 2005 wherein he documented the similarity of the bottoms of four of the great Bear Markets of the 20th Century – the bear market bottoms of 1921, 1932, 1949 and 1982.

He explains himself in the Introduction by saying, "This book was written through a frustration with modern capital markets theory and also the most available financial history books" – The aim of this book is to provide a practical history of financial markets.

Strategically, he has determined that great bear markets have long lifelines and that equities become cheap slowly over a period of 10 to 14 years. If the current secular bear market really started in 2000, we may be getting very close to a buying opportunity.

- The US equity markets reached its highest ever valuation in March of 2000, and all extremes of valuation have followed this slow move to undervaluation which has not yet happened.
- With exception of 1929-32, bear markets actually occurred against a background of economic expansion
- Inflation – adjusted earnings growth ranged from -67% to +28%. The nominal earning growth in all four bear markets ranged from -67% to +119%
- A material disturbance to the general price level was the catalyst to reduce equities to cheap levels.
- In periods of price disturbance, there is great uncertainty as to both the level of future corporate earnings and the price of the key alternate low risk asset – government bonds which always lead the market to decline for equity valuations.
- All four bear market bottoms occurred during an economic recession.
- The return of price stability, following a period of deflation, signals the bottom of a bear market in equities.
- Stabilizing commodity prices augers more general price stability ahead and signals the rebound in equity prices. And of all the commodities the price of copper has been a particularly accurate signal of better equity prices.
- To assess whether price stability is sustainable, investors should look for: low corporate inventory levels; rising demand for some products because of lower prices, and whether producers have been selling below cost.

To add to the confusion of a bear stock market, it is interesting that the world economy in aggregate has grown more during the last five years than in any five year period since the Second World War. China's supply-led model has been funded in an undisciplined manner by a communist policy-directed Central Bank. Any misallocation of capital could upset an apple cart. In addition, China's

dynamic growth has triggered a rising protectionist backlash yet to be displayed in total by the power of the Democrats in the US.

From the days of the 17th Century tulip bubble to the more recent dot-com bubble, the cycle of fear and greed has all too often gone to extremes.

As Lawrence Summers, the ex-US Treasury Secretary and a noted economist has recently said: "lack of fear gives cause for concern", and "the moments of complacency have been moments of greatest danger. Over the past 20 years the world has confronted:

- The 1987 market meltdown
- The banking crisis of the early 1990s
- The Mexican near default in early 1995
- The Asian crisis in 1997
- Long term capital in 1998
- The dot-com bust in 2000, and
- September 11 in 2001
- 2007 - 2008!

While each of these events is unique, the record does suggest that crises occur in about one out of every three years." He went on to say: "perhaps the main thing we have to fear is lack of fear itself."

Today, the US Federal Reserve, under the guidance of its Chairman is engaged in the greatest gamble in the history of finance. Beginning in 2007, the Fed fought off economic collapse by cutting short-term interest rates and lending freely. Eventually rates reached zero, and the Fed appears to be out of bullets.

Are We Like 1974?

My investment career started in 1962. I spent 5 years until 1967 at several security analysis and portfolio management positions.

I started as a "statistician" for a small brokerage firm; I soon went to join Austin Beutel as the portfolio manager of the Edper part of the Bronfman family, where I stayed for 2½ years before joining Francis I DuPont as the head of the Canadian Research Department. I lasted there for less than one year because I would not accept the interference from the head office of the company on Wall Street – I quit, and Austin hired me back, where I stayed until 1967 when Austin and I both left to form Beutel, Goodman & Company.

We gathered some assets to manage quite quickly and in 1968 Seymour Schulich joined us, soon followed by David Williams, who moved us into the pension fund management business.

From 1969 to 1982 we dominated the Canadian pension fund investment management by being in positive performance during a period that our competitors, the now non-existent brass plaque trust companies, were faltering. We did so by including in our investments, oil, gold, real estate and other commodity related companies in anticipation of inflation, which quickly came.

We were subjected, soon after 1970, with a confluence of events very similar to those which we currently face:

- Falling interest rates
- a dislocation of the bond market
- a collapse of the US dollar
- falling global (western based) economic activity
- forced selling by banks and other financial institutions because of a falling bond and stock market
- plummeting asset markets
- a banking crisis
- rising oil prices
- and in 1971, the US closing the gold window and abandoning their part of the Bretton Woods Agreement
- by 1974 US short interest rates were being cut aggressively and corporate spreads went from 1% to 3%
- the dollar lost 16% versus the Deutsch Mark (today's Euro)
- gold jumped from a fixed $35 price to $100 and then as high as $175 in 1974
- the inflation rate went through the roof globally under the double whammy of goods and oil prices
- insurance companies were fighting with reaching their insolvency ratios and were forced to sell like fools and the stock market collapsed – the Dow Jones went from 800 to 570
- the oil price went from $3 to $15 and there was an all out war in the Middle East

While 1974 is not remembered fondly by most people, it was the time that Austin, Seymour, David and I prospered and gathered accounts that we never believed were likely for a bunch of unknowns from Montreal.

By 1974, the world was faced with the failure of the UK secondary banking system, the failure of the Franklin National Bank in the US and of the Herstatt Bank in Germany.

These failures brought out the lifeboats of the UK government who propped up their sick banking system in a manner similar to today and by 1975 the US stock market had doubled from its lows, very similar to 2011.

After the crisis of 1974 it became clear that most of the upward movement in commodity prices was due to stockpiling of inventories which on liquidation caused a collapse of commodity prices with the exception of oil in which OPEC defended the price.

Have we just lived through 1974 again? It feels like it, but there are a number of significant differences:

- Banks are much more essential than they were in those past days.
- By 1974 stock markets were dirt cheap – Warren Buffett started his career with Berkshire Hathaway. Today, stock markets are not cheap if interest rates return to mean.
- Today commodity inventories are not built up; in fact for some we may be short.

- China and India and infrastructure expenditure will keep commodity prices high for quite some time.
- In fact, the whole process of globalization and new technology makes it different.
- The final stock market bottom did not take place until 5 or 6 years later.

While we have been very clear to our shareholders that our target markets for investment are those industries such as real estate, resources, energy, agriculture and infrastructure, let me now outline some of our investment and cultural thinking in addition to the "cowboy ethics" that will come later in this report. When the world is zagging it is very hard to zig; but one of my favourite quotes is by an unnamed real estate investor, who said, "Nonconformity is the highest form of social attainment". He also said that he had a "low bullshit meter" and if something didn't sound common sense plausible, he's gone - me too.

The contrarian philosophy also means that we should always question authority as well as the crowd and media's reaction to anything. To keep the language clean I will not quote the real estate guy again but add my own words to this, "When the masses start all running one way without asking the question "Why?", and when the event also defies any logic that I can determine in my head and on my 10 fingers – I call it BS.

Contrary to common opinion that we invest in assets – that is only half true – we invest in people. Good people will create good assets or find others. Bad people will mess them up and always need more money than they thought, and too many end up hitting the wall leaving the problems to us.

Because we know that great businesses of start-up ventures can take anywhere from five to ten years to build and bloom, we pay attention to the macroeconomic future for the product, the industry and the geographical location. During a period of five to ten years, bad macro would mean bad times and bad times require more money when it is difficult to raise. Good times, good assets and good management will be a good investment.

Significant and exceptional asset management for the high net worth market segment is a target that we are preparing to reach. The overall clients within that segment of population command a disproportionate share of investment manageable assets. Surveys have shown that almost 85% of wealthy individuals, unlike their less affluent peers, are now facing an increasingly overwhelming number of investment choices as well as complex tax, diversification, and estate and planning needs.

Lacking adequate time, expertise as well as inclination to obtain same, most high net worth individuals are seeking outside help. We intend to, once again, grow our 50-person investment advisor/retail brokerage group which has been dramatically reduced in size as a result of the sale of the 1100 DundeeWealth mutual fund advisors to the Bank of Nova Scotia.
Our clients will be able to enjoy the depth of experience that we bring to asset management as well as being exposed to the new issue positions that our institutional team provides for large professional accounts.

We are a stock broker and many Canadian and US stock brokers like Merrill Lynch, Morgan Stanley and Canadian banks, have been very successful in providing their broker advisors with a fee based asset management platform.

When we announced the sale of DundeeWealth, we called ourselves asset managers; but aside from our shares in Scotiabank and some incidental resource positions, our real estate assets and some sub-advisor work for Dynamic Funds, we were not really asset managers for third party investors. We are about to change that and not by going back into the mutual fund business. Our philosophy is long term investment and waiting for the "fat pitch" that Warren Buffett often talks about.

We have toyed with the idea of creating a global resource fund with outside investors. But, believe it or not, those large sovereign funds and large pension fund investors are not interested in the resource industry with a long term holding period. They all seem to want to know when we are going to return their money, and our investment philosophy is evergreen – long term.

We are looking to work with those themes that will outdo inflation, which we expect will come during those five to ten years that we are looking forward to, in the buildout of our investment. We remain consistent; our investment outlook is five to ten or more years. We have given up trying to convince those who will be the first to pack up and head for the door, (as the mutual fund industry), because we know that the least knowledgeable are the least committed to the long term gains that we expect from the industries we have chosen for investment. We also know that investors are best served when markets and good companies are in a bearish correction.

Our choice of vehicle for investing is going to be closed-end funds. Because they are the most misunderstood tool for investors, closed end funds are called funds, but they really behave like individual stocks. But unlike individual equities they involve a bit more math and insight than even mutual funds to determine when there is a good time to invest. Throughout my career I have worked on the process that when something is difficult, investors who are prepared to work, are curious and intelligent are able to better succeed.

The statistics show that the target audience for closed end funds is mostly higher net worth, higher risk, longer term profile investors. Being that is how we would describe ourselves and our company, we will create vehicles that will provide excellent potential gains and keep shareholders more comfortable and even achieve better gains than we could with mutual funds.

Unlike a mutual fund, a closed end fund does not need to maintain cash reserves or to sell securities to meet daily redemption. This will give us as the fund manager, with our own money likewise invested, the flexibility to invest in less liquid securities, start-up private companies, thinly traded bonds with higher yields or securities in those countries that cannot be accepted by traditional means because they don't yet have fully developed public markets. In addition, unlike mutual funds, we can be directors and advisors to our invested companies, and for the better ideas we can own more than ten percent of the company and we can even use some leverage to increase gains.

There are currently many million US households who own closed end funds. These households are mostly retired with higher income and wealth, as well as experienced investors that own or have owned a broad range of equity and fixed income investments.

As many of you may know, I have been, and remain, a big fan of Warren Buffett and his investment style and the culture of Berkshire Hathaway – a closed end fund. Warren tells us that "one of the key elements to successful investing is having the right temperament, and most people are too fretful, they worry too much". As discussed elsewhere in this report, success requires patience, but also aggressiveness, when value presents itself. Our investment team and I have years of hard

earned lessons that has taught us in real time so that we can properly act for our investors in the same way we act for ourselves.

In our chosen areas of investment we bring expertise and a passionate interest in "why" things are happening. Warren Buffett calls his investment style focus investing, and that's why while at Dynamic we created the Dynamic Focus Plus Funds and we still sub-advise to the Dynamic Focus Plus Resource Fund which has a record going back to 2000 with a return of 16.2% per annum.

Our philosophy, like Buffett's, is to recognize a big idea and a fat pitch when it comes along, and do so during a time when they are not easily recognized and don't necessarily come along very often. But we remain prepared. Diversification will not be our priority; we will concentrate on those areas that we have a greater surety of success. To quote Charlie Munger on diversification: "when you mix raisins and turds, you've still got turds."

The Institute for Fiscal Studies looked at Inflation of the British experience over the last 10 years and found that: "inflation is concentrated on food and energy, two items which absorb a higher proportion of the spending baskets of the poor than of the rich. As a result, lower income households tended to experience higher inflation rates than the higher income groups in the last decade. The worst rates of all are suffered by the single pensioners. The details refer to Britain but they likely have a broader scope than that.

There was a report submitted by "The Reflection Group" to the European Council in Brussels in December 2007. The introduction to their report was the following:

"Our findings are reassuring neither to the Union nor to our citizens: a global economic crisis; states coming to the rescue of banks; aging populations threatening the competitiveness of our economies and the sustainability of our social models, downward pressure on costs and wages; the challenges of climate change and the increasing energy dependence; and the Eastward shift in the global distribution of products and savings. And on top of this, the threats of terrorism, organized crime, and the proliferation of weapons of mass destruction hang over us."

That was a fair summary of the threats facing Europe, probably not complete in December 2007 but it was written and reported on prior to the full extent of the economic, fiscal, and financial crises that were yet to come in 2008-09 as well as more recently in 2010-11.

Yet, out of this the Reflection Group, an informal European Think Tank, was optimistic, saying:

"The EU can be an agent of change in the world." The only thing they did not say is, "We have a bridge to sell you and its tolls will fix all of the EU's problems."
The EU appears to be currently run by newly positioned dreamers with a false imagination. Europe is poor in raw materials and lacks energy resources. Even if they find some, the environmental regulations are so fierce that it would be decades before they can fix that problem. Europe is finding it difficult to maintain its current standard of living. This is made further negative when it is realized that in the future, Europe will not be able to rely on an American and/or British as the NATO safety net. They have their own problems. Add to the above that Europe is beholden to Russia for their supply of natural gas.

When the EU was established and later enlarged with the Euro accepted as EU currency, its founding fathers did not realize the problems that would come about because of the disparities of the various economies without any fiscal direction. Each individual EU member country is responsible for its own budget, set its own tax rates, bank regulations and social spending. The economic union was not a political union, nor were there any fiscal responsibilities.

Looking ahead, and in retrospect of the 2007 report by the Reflection Group, Walter Liqueur, the author of "*The Last Days of Europe*", determined that Europe had three likely scenarios:

It will fall apart
It will try to muddle through
Or It will become far more unified and centralized

But the coming years will be very difficult for Europe. To reduce their high debt they need steady growth during an environment of cutbacks, bailouts and austerity. Social security payments will be difficult to live up to and unemployment will cause more difficulty and, likely, social unrests. Europe has been in decline for the last 100 years and nothing has happened to eliminate the current "muddle through" process. The Eurozone financial crisis remains a problem.

…

Please excuse me for repeating a portion from last year's Annual Report, but the comments apply even more today. In fact, probably more so because we have seen the IMF much more active in recent weeks.

> *"We are currently witnessing the build out of a plan to devalue the US dollar vis-à-vis other world currencies. This is a grey swan that has a high probability to turn into a black swan at some point. We just don't know the eventual outcome and timing. Over the next one and a half years President Obama will have to eliminate at least half of US unemployment or face being a one-term President. The only way he can create jobs is to produce things. In order to produce things at competitive prices is to have acceptable lower wages to increase productivity or to create an undervalued currency. Just as Richard Nixon closed the gold window 40 years ago in 1971 causing the price of gold to rise from $35 an ounce to today $1500 an ounce, Barack Obama (or today, Mitt Romney) will have to do something just as philosophically unexpected and dramatically different. I don't know what it will be but it is likely that over the next 12 months we will see a new world reserve currency and some kind of trade protection. The impact of either of these events has unknown consequences and as such, in my view, the proper investment strategy today is to stay optimistic but plan for the worst and hope for the best.*
> *Ayn Rand, in her classic book,* ***Atlas Shrugged*** *said:-*
>
> *"When you spend money in payment for your effort, you do so only on the conviction that you will exchange it for the effort of others. It is not the moochers or the looters who give value to money. Not an ocean of fears nor all the guns in the world can transform those pieces of paper in your wallet into the bread you will need to survive tomorrow. Those pieces of paper, which should have been gold, are a token of honor – your claim upon the energy of the man who produces. Your wallet is your statement of hope that somewhere*

in the world around you are men who will not default on that moral principle which is the root of money." Ayn Rand would not believe that today, when you own gold you are fighting every central bank in the world.

Many years later when he visited the US on January 16th, 2011, China's President – Hu Jintao – said: "The current international currency system is the product of the past", adding later, "The monetary policy of the United States has a major impact on global liquidity and capital flows and therefore, the liquidity of the US dollar should be kept at a reasonable and stable level." He then commented on the 2008 financial crisis saying that, "Its root cause lies in the serious defects of the existing financial system", adding that "global institutions had failed to fully reflect the changing status of developing countries in the world economy and finance."

He went on to suggest that what China and most of the G20 want is a reliable, disciplined and apolitical unit of account for global trade. Let's not forget that he is the leader of the country with the largest holding of global forex reserves and effectively speaks for China and another 143 members of the International Monetary Fund who have accumulated in excess of $5.4 trillion in forex reserves, $3 trillion of which are held in US dollars and over $1.5 billion in Euros.

With the above in mind, let me describe how the International Monetary Fund sees themselves as described in their 2009 Annual Report. The IMF endorsed the following broad priorities – for the period ahead:

1. Reassessing the institution's mandate to encompass the full range of macroeconomic and financial sector policies on global stability;
2. Continuing to strengthen its financing capacity, to help members cope with balance of payment problems, including financial volatility, and reduce the perceived need for excessive reserve accumulation;
3. Sharpening multilateral surveillance and better integrating it into bilateral surveillance and undertaking further strengthening of cross country, regional, and multilateral surveillance, and
4. Reforming fund governance to increase the institution's legitimacy and effectiveness.

It goes on with, "in line with the IMFC's endorsement of objectives laid out by G20 leaders in April 2009, the IMF moved swiftly on several fronts to ensure that resources available to it would remain sufficient to meet those goals."

There are 197 member [illegible]

such that it can be used to settle accounts between nations that are trading in our world of globalization. It has to happen before we fall into a global "crisis of credibility" of all currencies.

It is clear to me that the IMF is being anointed as the Global Central Bank and just as the US dollar has fueled the global economy for over 50 years, hopefully the IMF and SDRs will take over fueling the global economy in the future. This has to happen so that the US and the world can preempt the negativity that will come with the collapse of the US dollar as a reserve currency.

The above was last year, pre the whole crisis of Europe in which the IMF had much input attempts to fix.

But to get back to the present and to continue with the International Monetary Fund, I am providing a report written this month of April 2012 by José Viňals, a Financial Counselor and Director of the IMF's Monetary and Capital Markets.

Global Financial Stability: What's Still To Be Done?

"The quest for lasting financial stability is still fraught with risks. The latest Global Financial Stability Report has two key messages: policy actions have brought gains to global financial stability since our September report; but current policy efforts are not enough to achieve lasting stability, both in Europe and some other advanced economies, in particular the United States and Japan."

Much has been done

In recent months, unprecedented policy steps have been taken to quell the crisis in the Euro area. At the national level, stronger policies are being attempted to be put in place in Italy and Spain; a new agreement has been reached on Greece; and Ireland and Portugal are making good progress in implementing their respective programs. Importantly, the European Central Bank's decisive actions have supported bank liquidity and eased funding strains, while banks are reinforcing their capital positions under the Ponzi scheme and guidance of the European Banking Authority.

"But we have not exited the crisis, because lasting stability is not yet ensured. Indeed, we have been reminded in recent weeks that sentiment can quickly shift and rekindle sovereign financing stress, leaving many sovereigns and banking systems caught in a vicious circle."

"Furthermore, pressures on European banks remain from high rollover requirements, weak growth, along with the need to strengthen balance sheets, including by shrinking. Some deleveraging is healthy-when banks increase capital, cut noncore activities, and reduce reliance on wholesale funding that results in more robust balance sheets."

"But like Goldilocks, the amount, pace, and location of deleveraging must be just right at the aggregate level-not too large, too fast, or too concentrated in one region or country."

"So far current policies have prevented a generalized "credit crunch", but we still anticipate a considerable squeeze on credit which will impede growth. <u>We estimate that large European Union-based banks could shrink their combined balance sheet by as much as $2.6 trillion-or about 7 percent of their total assets-by the end of 2013, with about a quarter of that shrinkage leading to a</u>

cutback in lending. Overall, we estimate that deleveraging by EU banks could reduce the supply of credit in the euro area by about 1.7 percent over two years."

"However, if current policy commitments are not implemented and financial stresses intensify, the downside risk of a large-scale and synchronized deleveraging could do serious damage to asset prices, credit supply, and economic activity in Europe and beyond. In this scenario, we estimate that large EU banks could shed a total of $3.8 trillion, or 10 percent, of their total assets by the end of 2013. Such a retrenchment by EU banks could reduce euro area credit supply by 4.4 percent; and GDP could fall by 1.4 percent from the baseline after two years."

"Outside the Euro area, the region most affected by the deleveraging process is emerging Europe. And other emerging markets are unlikely to remain immune. While emerging markets generally have substantial policy buffers, such an external shock could combine with homegrown vulnerabilities and further undermine global stability."

"Unaddressed fiscal challenges in the United States and Japan represent latent risks to global stability. Both countries have yet to forge a much-needed political consensus for medium-term deficit reductions. The United States is also grappling with high household debt burdens and an overhang of home foreclosures."

So how can we achieve lasting financial stability?

In the Euro area, policy steps are needed along several dimensions:

"To prevent the materialization of downside risks, continued adjustment efforts are needed at the national level, especially by countries currently under strain. Those reform efforts are being bolstered by a financing backstop that has recently been strengthened. This Euro area "firewall" should also be able to take direct stakes in banks in order to help break the adverse feedback loop between sovereigns and banks."

"To ensure an orderly process of bank deleveraging, close macroprudential oversight by European banking authorities of bank business plans is called for. And greater efforts are needed to restructure viable banks and resolve weak banks."

"To strive for better and more balanced growth, accommodative monetary policies need to be combined with a sufficiently gradual withdrawal of fiscal support in countries not subject to market pressures, and with structural policies to lift potential growth rates."

"To provide a vision of "more and better Europe", a roadmap for a more integrated economic and monetary union should be laid out and committed to. This encompasses two key objectives: (i) a truly pan-European framework for bank supervision and resolution as well as deposit insurance; and (ii) greater ex-ante fiscal risk sharing, for example, through some central financing mechanisms. I am well aware that this will not be politically easy, nor immediately achievable. But a consensus needs to be forged now to help restore confidence."

"Beyond Europe, it is essential to start addressing now the medium-term fiscal challenges in the United States and Japan. This should be accompanied by stronger efforts to address US household debt and accelerate housing market reforms."

"Policymakers in emerging markets should not take stability for granted. Given the risks in advanced economies, policy room may need to be used to cushion external shocks and volatile capital flows.

Homegrown vulnerabilities, like those linked to persistently rapid credit growth, need to be addressed to increase resilience."

"None of these policies are easy and some are politically difficult. But I believe they are within reach. Let's not miss this opportunity. Policy makers and politicians must act now and in close collaboration to end this crisis once and for all-this time must be different." (End José Viňals). (Underlined sentences are Dundee's).

As a direct result of that 2009 G20 meeting, the IMF is today used as a secretariat, a research department, a statistical agency and policy referee of the G20. This gives the twenty largest nations in the world access to enormous expertise without having to build and create an expert staff of its own. This means that while the IMF represents 197 countries it is basically taking its lead from the twenty largest and important countries. This gives the IMF a strong position in the world's financial affairs.

As a result, after many years without any real power, the International Monetary Fund has emerged as an important global organization with a discernible mission, positioned as a "Bank" for the world or the world's central bank.

We should remember that the US – led by Secretary Geithner – was constantly chiding the Chinese about the manipulation of their currency valuation against the dollar and other world currencies. The Chinese played the game and allowed very minor yuan appreciation denying that they were a currency manipulator and faced being branded one by the US Treasury. Clearly the US was left on its own to counter the actual yuan manipulation and cheapen the US dollar. And by the middle of 2011 the United States was emerging as an early winner in Currency War III. Like other wars won by the US, they unleashed a secret weapon, which was to increase the nation's debt, called "Quantitative Easing" or QE. QE is really nothing more than increasing the money supply. As they did in 1971 the US acted unilaterally and quietly under a "new" name to debase the dollar through the printing press.

QE was a 2009 policy bomb and it was followed by a second bomb of Currency War III and it was called QE2, dropped near the end of 2010. By using QE1 and QE2, the US started to generate inflation abroad as well as at home and increased the cost structure of almost every major developing and emerging export nation in the world.

Quantitative Easing is nothing more simple than just printing new currency and the Federal Reserve buying Treasury debt and illiquid junk securities from a select group of their commercial banking shareholders. When the Fed buys these securities held by the banks they simply print and distribute new freshly printed dollars.

What is money?

History shows that what was always chosen as money had at least five properties to it:

1. It had accepted value to everyone, but it usually was something that was valued by the people first.
2. It was durable – it had to hold its value as long as possible.
3. It was easily divisible - can be broken up into smaller pieces
4. It had to be consistent in value and quality
5. It had to be convenient to use

Many different commodities have been used as money but two of them stand out - gold and silver.

Ironically as it may sound today, the Greeks were the clearest thinkers when it came to money. They created the first International Currency with all of the above five attributes. The main currency of Greece was the Athenian Drachma. It was a silver coin that stayed constant from 600 BC to Alexander the Great – 300 AD. It stayed at exactly 67 grams of fine silver (.430 grams = 1 ounce). Alexander took the Drachma to India and Asia and even as Greece's fortunes declined and was taken over by Rome its value did not really fall. By the end of the Drachma's life it still contained at least 65 grams of silver.

No other civilization has ever had an international (i.e. reserve) currency that stayed the same value during its greatest influence of about 1000 years, and as it declined in power over a period of 600 years. Whatever Greece had, no other world currency since then has been able to keep its value for any significant period of time.

Currency debasement since that time around 300AD was a regular event regardless of which civilization or country had a currency. And this includes the US even after it confiscated all the US gold in 1933, which is when the US dollar began to lose its value. Since then, real assets of almost any kind, needed more dollars to be purchased, meaning that the value of the dollar has significantly declined by government's purposeful actions.

In the last 100 years, we have lived through two currency wars; CWI which I just mentioned and CWII which existed during the late 1960s and the 1970s. And in 1971 when President Nixon saw that the US was losing its gold to countries like France cashing in their US dollars and asking for gold at $35 an ounce, President Nixon essentially, with the same political power that President Roosevelt confiscated gold unilaterally, passed a US law which said that one could not convert dollars to gold anymore.

As asset managers we are always very concerned of being able to recognize when a company is going through a serious change because of their own doing or a change in their industry. The early recognition of these kinds of changes creates excellent buying opportunities or a necessity to sell.

And today we are within a global currency war not unlike that which occurred in the 1920-30's which caused President Roosevelt to confiscate all privately owned gold at $20.67 and soon after raised its price to $35 and used it to back the US dollar – making the dollar the global reserve currency – a position which today it is on its way to losing.

Central bank hoarding of gold in 1970 ushered in the famous gold bull market. With central banks moving to be net gold purchasers in 2009 for the first time since 1988, the same starting gun is ringing out today. The price at which the USD would be fully backed by gold (as it was during the peak of the 70s mania) is said to be $6,300. So there is a case for gold being "cheap." Moreover, the 70s bull market was facilitated by tight energy markets, overly accommodative central banks and nervousness that policymakers had lost their way. Sound familiar?

Central banks aren't known for their investment acumen. Some commentators have mockingly suggested that the Reserve Bank of India's recent decision to buy 200m tonnes of IMF gold, signals the top of the market in the way that heavy selling by the UK signaled the bottom in 1999.

This is cute. But I think it's wrong. Like today, central banks weren't buying gold in the late 1960s to prop it up, they were abandoning attempts to prop up the dollar. Gold has felt frothy lately, but India's purchase of IMF gold eerily parallels the French purchases of the late 1960s. And policy winds are blowing in its favour. By buying gold, have India, Russia, Mexico and China just sounded the same starting gun the French did in 1965? Today, India is buying oil from Iran, and the currency is gold. So much for the Petrodollar!

Gold isn't intrinsically safer than any other asset. There is nothing mystical about it either. Like all other assets, it goes up and down according to its fundamental drivers. But what are these fundamental drivers? How can something with no cashflow or earnings power be valued? The simple answer, Mr. Buffett, is that it can't be, and that, plus scarcity, is what gives it its value.

The price of gold will be unaffected by any decline in industrial demand because there is no industrial demand! To value gold it helps to understand that paper money was traditionally based on the stock of gold (and silver). Paper was always redeemable into gold or silver. The money supply was historically gold-backed.

Full redeemability was increasingly watered down after WW1 so that by the time the Bretton Woods system was imposed following WW2, only central banks had the right to convert paper for gold. But when that broke in 1971 because dollar holders had become distrustful of US promises to restrain its dollar printing, the link between paper money and gold was severed completely. Since then, paper money has been backed by nothing more than central banks' promises to maintain the money supply at a stable level.

The US dollar is only 15% backed by gold even at current prices. In 1980 the dollar was 140% backed by gold. Today its backing is down to 10% of what it was in 1980. The monetary base has grown much faster than the gold price. Gold is cheap, Mr. Buffett.

Keeping with tradition of mentioning both Warren Buffett and Don Coxe's words of recent wisdom, I can refer to Mr. Buffett's recent comments about gold in the Fortune Magazine, which has since been repeated in his Annual Report. He said that if in 1965 you invested $100 in the S&P500 and $100 in gold, the S&P500 would have returned you $6072 and gold would be worth $4455. He chose 1965 because he said that's when he started his career at Berkshire Hathaway.

I choose to go forward to 1971 when President Nixon took gold off the guaranty of US currency and the price of an ounce of gold was $35 with the Buffett S&P500 around $102; which means that (using mentally rounded arithmetic as I write this) the $100 S&P investment would be worth today around $1300; not bad, but the $100 dedicated to gold would have bought approximately 3 ounces which would be worth – 3 x $1550, or $4650. Sorry, Warren, but I think that Don Coxe is correct when he said in answer to a question about the same Fortune article:

> "The Oracle, remember, lived a larger part of life when it was illegal for Americans to own gold and Ben Graham, his mentor, lived nearly all of his investment life at a time when it was illegal. It was not an option; so what he did was develop the theory of free cash flows from companies, and of course there is no free cash flow out of a bar of gold."
>
> "Over the 40 years ending last August, you would have been better off owning a bar of gold than owning the S&P500."

> "Everyone who has wealth to protect should have something in gold, because things could go seriously wrong."

Hey, Don, with both of us picking on a man we admire, it must mean that while we appear old we are younger than Warren.

For the record, Don, like me and McKinsey, is of the view that the bull market for commodities has more time to run. To quote Don, "What's going on in the leading Third World countries is in a compressed time frame; the story of what happened in North America when it came to challenge and eventually surpass the wealth of Europe. We are still in the early phase of this big change In these countries, as people go from having an income of $400 a year to an income of $4000, the result shows up in the price of commodities".

The recent McKinsey report on resources, and many other reports, has rejected Malthus, the Club of Rome and President Carter's Global 2000 doomsday perspective. There will not be shortages of raw material, and pollution will be handled well as we grow the prosperous hungry world in the future.

This period ahead of us is going to use a lot of "stuff" that comes from the ground and those of us who will be providing food for these new masses will have to work a lot harder.

In a recent article in the London Financial Times, Gillian Telt wrote about meetings that she had with many of the hundreds of bankers who operate small banks within the Federal Home Loan Banks system. She concluded that the US "community bank fit the times". As compared to the large global banks these entities have lending abilities that are concentrated on particular regions or sectors; while specialization has been unfashionable in recent years because it was thought to make these smaller banks vulnerable.

She goes on to say that "finance is prone to pendulum swings" and while it used to be assumed that it was good to be a global diversified banking giant it is now questionable.

There are good economic and political reasons why specialist or community banks are in tune with the times. As such, there also is room for us to succeed as an investment and merchant banker. While smaller community banks with assets under $1 billion represent less than 11 percent of the banking assets, they provide nearly 40 percent of the loans the banking industry makes to smaller businesses. While we are not a bank, we do have capital and in our areas of specialization we have the expertise and desire to be of financial help to small businesses.

Even more importantly, the clients of these specialist banks report that these smaller and more agile banking companies have done as good a job as giants (if not better) at assessing credit risk, because they get to know their clients well. In addition, their executives do not have to put up with the intense bureaucracy that enjoy any "Too Big to Fail" protection and thus know that they must be perfect and conservative in their judgments on credit risk. She says that "banker" can mean a range of things and not all of these meanings are credit friendly. At Dundee we are merchant bankers and we provide investment banking but, thankfully, we not get have addition,get future

near time, could deliver some excellent buying opportunities much as the late 1970s did. Even so we remain concerned about those unintended consequences that may emanate from the huge amount of debt and increasing deficits being ratcheted up by the United States and Europe. There is very little flexibility available from central bankers with interest rates continuing to hover around zero percent and deficits in the US continuing to increase, for sure at least until after the November 2012 presidential election. Both the size of deficits and interest rates are reminiscent of the 1930s, an environment that did not really get better until after the Bretton Woods Agreement and World War II – fifteen years later.

The new economics - rather than worrying about demand and supply and jobs to decide on interest rates and money supply, they now rely on borrowing money.

According to Paul Krugman, now with the New York Times, since he won his Nobel Prize for economics, "If there is one overwhelming lesson from the "Great Depression" it is that putting a higher priority on stabilizing your currency than on domestic recovery, is utterly disastrous." But, as usual for him, his facts are wrong because in the Great Depression those countries that jumped off the gold standard first were the first to achieve economic recovery. The fact is that the world now knows that in order to do better economically, all a country needs to do is devalue its currency. The US always sets out that they know better, but that excessive consumption, large deficits, and government intervention will sooner or later actually destabilize economies, and bring about crises. Devaluing the currency will quickly increase industrial output and economic prosperity. So while the US pretends that free markets are the most efficient way to allocate resources and reject devaluation, they are actually limiting their economic growth.

So, how do we get ready to take advantage of the next big bull market like the generational market that existed from 1982–2000 - 18 years of great returns after living through 16 years of a range bound secular bear market? The 1970's were a great time to be buying undervalued equity of great companies to hold for the long term. But you had to be a buyer that lived through the 1970's and picked your spots. Warren Buffett achieved his best purchases during that time.

It is my view that we are heading into a 1970's kind of market – range bound for 14 years – it is necessary that you pick your spots and buy those industries and companies that will protect your investment from a coming inflation. By waiting for the Buffett "Fat Pitch" while buying long term assets inexpensively, we will do our job of creating wealth.

So, what's going to get us there? What do we expect to be the all important catalysts to provide our buying opportunities?:

1. China's wages are beginning to rise and as they get richer and suffer inflation, western wages and a devalued US and Canadian dollar should provide a rebirth of industrial activity.

2. North America is on the cusp of the echo baby boomers, the children of those boomers that are today heading into retirement. For the most part, this group of younger people has obtained a better education than their parents and will be more useful to the economy as time goes by.

3. We are witnessing major technological advances to do things and so far the US and Israel have been the leaders of developing these new products.

What about North American inflation? In June 2008 Bill Gross of PIMCO put out his Investment Outlook with the following title, quote and words:

Title:	Hmmmmm?
Quote from Abraham Lincoln:	"You can fool some of the people all of the time, and all of the people some of the time, but you cannot fool all of the people all of the time."

"It's Sunday afternoon at the Coliseum folks, and all good fun, but the hordes are crossing the Alps and headed for modern day Rome—better educated, harder working, and willing to sacrifice today for a better tomorrow. Can it be any wonder that an estimated 1% of America's wealth migrates into foreign hands every year? We, as a people, are overweight, poorly educated, overindulged, and

imbued with such a sense of self importance on a geopolitical scale, that our allies are dropping like flies. "Yes we can?" Well, if so, then the "we" is the critical element, not the leader that will be chosen in November. Let's get off the couch and shape up—physically, intellectually, and institutionally—and begin to make some informed choices about our future. Lincoln didn't say it, but might have agreed, that the worst part about being fooled is fooling yourself, and as a nation, we've been doing a pretty good job of that for a long time now."

"I'll tell you another area where we've been foolin' ourselves and that's the belief that inflation is under control. I laid out the case three years ago in an Investment Outlook titled, "*Haute Con Job*." I wasn't an inflationary Paul Revere or anything, but I joined others in arguing that our CPI numbers were not reflecting reality at the checkout counter. In the ensuing four years, the debate has been joined by the press and astute authors such as Kevin Phillips whose recent "*Bad Money*" is as good a summer read detailing the state of the economy and how we got here as an "informed" American could make."

Still with Gross:
"Let me reacquaint you with the debate about the authenticity of U.S. inflation calculations by presenting two ten-year graphs—one showing the ups and downs of year-over-year price changes for 24 representative foreign countries, and the other, the same time period for the U.S. An observer's immediate take is that there are glaring differences, first in terms of trend and second in the actual mean or average of the 2 calculations. These representative countries, chosen and graphed by Ed Hyman and ISI, have averaged nearly 7% inflation for the past decade, while the U.S. has measured 2.6%. The most recent 12 months produces that same 7% number for the world but a closer 4% in the U.S."

"This, dear reader, looks a mite suspicious. Sure, inflation was legitimately much higher in selected hot spots such as Brazil and Vietnam in the late '90s, and the U.S. productivity "miracle" may have helped reduce ours a touch compared to some of the rest, but the U.S. dollar over the same period has declined by 30% against a currency basket of its major competitors which should have had an opposite effect, everything else being equal. I ask you: does it make sense that we have a 3%—4% lower rate of inflation than the rest of the world? Can economists really explain this with their contorted Phillips curve, output gap, multifactor productivity theorizing in an increasingly globalized "one price fits all" commodity-driven global economy? I suspect not. Somebody's been foolin', perhaps foolin' themselves—I don't know. This isn't a conspiracy blog and there are too many statisticians and analysts at the Bureau of Labor Statistics (BLS) and Treasury with rapid turnover to even think of it. I'm just concerned that some of the people are being fooled all of the time and that as an investor, an accurate measure of inflation makes a huge difference." (End Gross)

To which I can add to Bill Gross' words above, that I totally agree and that it's almost four years later and Abe was wrong, you can "fool all of the people all of the time", except perhaps for Bill Gross and me. It's been my opinion for some time that the US CPI understates the true cost of living increases, but there are many economists who do not agree with that. But let me quote an Institute which calls it as it is:

THE U.S. GOVERNMENT IS COOKING THE BOOKS
Taken from the Institute of Individual Investors

"The government tracks an array of "economic indicators" that tell an official inflation story. Others track those same indicators, and yet tell a different story. What's going on?

"According to an alternate inflation index run by economist John Williams, of ShadowStats.com, whose work is regularly cited by important publications such as Barron's, real price inflation is already running at more than 10% annually (as of August 2011)."

"If the Fed, at the behest of Washington, continues devaluing the currency, expect inflation to rise beyond 10%. When that happens, some people will rush to spend their money before it loses value. They will liquidate some hard assets and spend the cash, tipping money into an already-bloated money supply, bloating it further and pushing inflation higher still. The higher inflation will cause more panicked liquidation and tipping, and a further bloating of the money supply, in a self-reinforcing cycle."

"Ask yourself: Did the billions of people who experienced hyperinflation first-hand throughout history see it coming? Each crisis was unique, but they shared one particular feature. Each crisis arrived like a thief in the night."

"The crisis we are experiencing is different—we can see it coming. We know the government is running up debt. We know the Fed is running the presses. We know the Baby Boomers have begun retiring, and will soon swamp the social security structure. We know the government's unfunded liabilities are unsustainable."

"At the Institute for Individual Investors, our goal is to help investors protect their portfolio from any hypothetical path the economy might take. We believe the prospect of a savings-draining episode of hyperinflation is a lot more probable than most admit."

"You may come to believe it as well once you learn ...
... How the Government Distorts the Truth about Inflation
No government wants to admit to high inflation. It reflects poorly upon their performance. Rising prices usually indicate political and financial recklessness. Moreover, rising prices are something voters care deeply about."

"So throughout history, governments have sought ways to mask inflation. The Romans reduced the amount of silver and gold in their coins. Even the U.S. decreased the amount of silver in its coins. (Prior to 1965, quarters were 90% silver. At today's silver price (near $40 per ounce as of August 2011) the "melt-value" of a pre-1965 quarter is greater than $7. That means that the government has forced into circulation coins worth 1/28th of what they once were.)"

The consumer price index, or CPI, is the most widely used measure of inflation. In the U.S., it has undergone dramatic revisions and changes over the last few decades. The work of economist John Williams demonstrates this clearly. Dr. Williams does not calculate inflation the same way the Federal government does. Rather, he tracks inflation as it was calculated in 1980.

Chris Thompson of East Bay Express, an Oakland-based weekly, sat down with Dr. Williams:

> *"But over time and incrementally, government officials changed the methodology of measuring key economic indicators, painting an ever rosier picture of the economy, which just happened to benefit the incumbent politicians who ran the government. Or as [Mr. Williams] said in his calm, bland timbre, "Over time there has been a series of methodological shifts in the numbers to tend to create an upside bias in employment and downside in bias in inflation."*

How does the government "paint an ever rosier picture" of the economy? By subtly changing what they measure. The technical term is "hedonic adjustment," but what it amounts to is "changing the rules." An important product improvement can provide the government with an opening to paint one of their rosy pictures.

The Federal Reserve Bank of New York has recently invited some of its public critics to visit the bank to unburden themselves of their criticisms. On March 12, it was Jim Grant's turn. My personally summarized and shortened version of his speech entitled "*Piece of my Mind*" follows:

"Have you ever read the Federal Reserve Act? The authorizing legislation projected a body "to provide for the establishment of the Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper and to establish a more effective supervision of banking in the United States, and for other purposes." By now can we identify the operative phrase? Of course: "for other purposes."

"As you prepare to mark the Fed's centenary, may I urge you to reflect on just how far you have wandered from the intentions of the founders? The institution they envisioned would operate passively, through the discount window. It would not create credit but rather liquefy the existing stock of credit by turning good-quality commercial bills into cash— temporarily. This it would do according to the demands of the seasons and the cycle. The Fed would respond to the community, not try to anticipate or lead it. It would not override the price mechanism— as today's Fed seems to do at every available opportunity—but yield to it."

"Central banks," according to the Fed first secretary, "…will do wisely to lay aside their inexpert ventures in half-baked monetary theory, meretricious statistical measures of trade, and hasty grinding of the axes of speculative interests with their suggestion that by doing so they are achieving some sort of vague 'stabilization' that will, in the long run, be for the greater good."

"Ladies and gentlemen, such stability as might be imposed on a dynamic capitalist economy is the kind that eventually comes around to bite the stabilizer."

"Price stability" is a case in point. It is your mandate, or half of your mandate, I realize, but it does grievous harm, as defined. For reasons you never exactly spell out, you pledge to resist "deflation." You won't put up with it, you keep on saying—something about Japan's lost decade or the Great Depression. But you never say what deflation really is. Let me attempt a definition. Deflation is a derangement of debt, a symptom of which is falling prices. In a credit crisis, when inventories become unfinanceable, merchandise is thrown on the market and prices fall. That's deflation."

"What deflation is not, is a drop in prices caused by a technology-enhanced decline in the costs of production. That's called progress. Between 1875 and 1896, according to Milton Friedman and Anna Schwartz, the American price level subsided at the average rate of 1.7% a year. And why not? As technology was advancing, costs were tumbling."

"Much the same sentiments, and much the same circumstances, apply today, but with a difference. Digital technology and a globalized labor force have brought down production costs. But, the central bankers declare, prices must not fall. On the contrary, they must rise by 2% a year. To engineer this up-creep, the Bernankes, the Kings, the Draghis—and yes, sadly, even the Dudleys—of the world monetize assets and push down interest rates. They do this to conquer deflation."

"But note, please, that the suppression of interest rates and the conjuring of liquidity set in motion waves of speculative lending and borrowing. This artificially induced activity serves to lift the prices of a favored class of asset—houses, for instance, or Mitt Romney's portfolio of leveraged companies. And when the central bank-financed bubble bursts, credit contracts, leveraged businesses teeter, inventories are liquidated and prices weaken. In short, a process is set in motion resembling a real deflation, which then calls forth a new bout of monetary intervention. By trying to forestall an imagined deflation, the Federal Reserve comes perilously close to instigating the real thing."

"The economist, Hyman Minsky, laid down the paradox that stability is itself destabilizing. I say that the pledge of a stable funds rate through the fourth quarter of 2014 is hugely destabilizing. Interest rates are prices. They convey information, or ought to. But the only information conveyed in a manipulated yield curve is what the Fed wants. Opportunists don't have to be told twice how to respond. They buy oil or gold or foreign exchange, not incidentally pushing the price of a gallon of gasoline at the pump to $4 and beyond. Another set of opportunists borrow short and lend long in the credit markets. Not especially caring about the risk of inflation over the long run, this speculative cohort will fund mortgages, junk bonds, Treasurys, what-have-you at zero percent in the short run. The opportunists, a.k.a. the 1 percent, will do fine. But what about the uncomprehending others?"

"Many now call for more regulation— more such institutions as the Treasury's brand-new Office of Financial Research, for instance. In the March 8 Financial Times, the columnist Gillian Tett appealed for more resources for the overwhelmed regulators. Inundated with information, she lamented, they can't keep up with the institutions they are supposed to be safeguarding. To me, the trouble is not that the regulators are ignorant. It's rather that the owners and managers are unaccountable."

"Once upon a time—specifically, between the National Banking Act of 1863 and the Banking Act of 1935—the impairment or bankruptcy of a nationally chartered bank triggered a capital call. Not on the taxpayers, but on the stockholders. It was their bank, after all. Individual accountability in banking was the rule in the advanced economies."

"Please consider this fact: On March 27, 1973, not quite 39 years ago, the forerunner to today's G-20 solemnly agreed that the special drawing right, a.k.a. SDR, "will become the principal reserve asset and the role of gold and reserve currencies will be reduced." That was the establishment—i.e., you—talking. If a worldwide accord on the efficacy of the SDR is possible, all things are possible, including a return to the least imperfect international monetary standard that has ever worked."

“Notice, I do not say the perfect monetary system or best monetary system ever dreamt up by a theoretical economist. The classical gold standard, 1879-1914, “with all its anomalies and exceptions . . . ‘worked.’”

“The visible hallmark of the classical gold standard was, of course, gold—to every currency holder was given the option of exchanging metal for paper, or paper for metal, at a fixed, statutory rate. Exchange rates were fixed, and I mean fixed. “It is quite remarkable that from 1879 to 1914, in a period considerably longer than from 1945 to the demise of Bretton Woods in 1971, there were no changes of parities between the United States, Britain, France, Germany—not to speak of a number of smaller European countries.” The fruits of this fixedness were many and sweet. Among them, again to quote Dam, “a flow of private foreign investment on a scale the world had never seen, and, relative to other economic aggregates, was never to see again.”

“It’s a little rich, my extolling gold to an institution that sits on 216 million troy ounces of the stuff. Valued at $42.222 per ounce, the hoard in your basement is worth $9.1 billion. Incidentally, the official price was quoted in SDRs, $35 to the ounce—now there’s a quixotic choice for you. In 2008, when your in-house publication, “The Key to the Gold Vault,” was published, the market value was $194 billion. Today, the market value is $359 billion, which is encouraging only if you personally happen to be long gold bullion. Otherwise, it strikes me as a pretty severe condemnation of modern central banking.”

“Finally, I would redirect the efforts of the brainiacs at the Federal Reserve Board research division. “Ladies and gentlemen,” I would say, “enough with ‘Bayesian Analysis of Stochastic Volatility

have some cash in your portfolio, but that gets more respect (unless the market goes up without you being fully invested). But for most investors the love for stocks and bonds over takes any other passion, and investors like me are faced by the media and most investors with outright skepticism.

As you read through the rest of this message, perhaps you will get to understand why we at Dundee and the Goodman family have a significant portion of invested capital in gold mining and gold exploration companies. We are staying with that position along with other "hard" assets like real estate, energy, agriculture and land, oil and mining resources. We have not done badly so far, and we see no reason to change. Please read on and you will get a better view.

We do not own gold because we are fanatical and nutty strange, we do so to protect our wealth and manage risk; On the other hand, we do not own any bonds.

The Chinese used to refer to dollars affectionately as *mei fin*, literally "American gold". China's dollar investments are not the real thing, merely iron pyrite, "fool's gold".

One can appreciate why China is prowling the planet searching for places to use their US currency and buying hard assets of every kind – iron ore, land, copper mines, real estate and others. At Dundee, we think it is smarter for us to be putting our money into the same assets that China aspires to. That's why our investments are in iron ore, land, real estate, energy, infrastructure, mining, etc.

We used to say that our investment policy is to own those businesses that produce things that China and other emerging nations need. Now, unfortunately today, we have to compete with the Chinese for those very same assets.

A little known tidbit on which I am trying to get verification is that, two years after President Nixon cancelled the Bretton Woods Agreement and therefore took the US dollar and the world off the gold standard he made a deal with King Faisal of Saudi Arabia. The agreement was that in return for the Saudis only selling oil in US dollars, the US would protect the Saudi oilfields from Russia and any other aggressors that might surface.

This agreement set up the US dollar as the "Petrodollar" and helped to keep it in place for 40 years as the de facto reserve currency, notwithstanding its fiat status. The US dollar has remained dominant in international trade. The global currency role of the US dollar has created immense demand and value. Today that international demand makes up a large part of the dollar's valuation on a daily basis. It also created demand for US Treasuries as countries needing Saudi oil sought to maintain "petrodollars". This made the dollar have a demand that has allowed the US to have the ability to sell Treasury Bills to many nations who would use it to buy oil. This dominance of the dollar allowed the US to have influence and power around the world, and was a catalyst helping America to build up its massive debt position. The petrodollar is probably as dead as the Euro in Greece.

Today, as China, Russia and many emerging countries gain prominence, the US is likely to lose its hold as a superpower. There are many countries around the world that truly dislike the US and are always looking for ways to reduce America's influence. For example, China and other emerging nations such as Russia have been quietly moving away from using the dollar and oil is now being sold by other oil countries in currencies other than the dollar and both the United Nations and the

International Monetary Fund have issued reports arguing for the need to create a new global reserve currency independent of the dollar.

Recently, the Saudis made a deal with China that will allow Saudi oil to be sold to China in a currency other than the US dollar. To top it off, the Saudis will build a modern refinery in China.

Clearly, the US is not the global superpower that it once was. The US was of the belief that oil is sold in US dollars and set up the Iranian sanctions on that basis. Clearly Iran is selling oil and natural gas in currencies other than the dollar, and the sanctions are not working.

Russia and China are leading their charge in the move away from the dollar and have been using Rubles and Renminbi to trade amongst themselves. Recently, Japan has entered the story with an agreement with China to promote trade with each other in their own currencies and China is now discussing similar plans with several other countries. A recent new agreement amongst the BRICS nations is designed to promote the use of their national currencies when trading rather than the US dollar.

The next emerging market of prominence is Africa and China is today Africa's largest trading partner, eclipsing the US. China is working to expand the use of Renminbi in Africa instead of US dollars.

Recently, the United Nations Conference on Trade and Development has stated that, "The current system of currencies and capital rules that binds the world's economy is not working properly and was largely responsible for the financial and economic crisis."

"The dollar should be replaced with a global currency." The International Monetary Fund likewise recently argued that the dollar should cede its role as a global reserve currency to an international currency, which they state should be a basket of national currencies. At the same time, gold is being mobilized among central bankers around the world as collateral for new loans, putting gold back front and centre as a reserve asset.

To quote Professor Lew Spellman at the University of Texas at Austin: "The great corollary of over indebtedness is the relative scarcity of good collateral to support the debt load outstanding. This imbalance of debt to collateral is impacting the ability of banks to make loans to their customers, for the central banks to make loans to commercial banks, and for shadow banks to be funded by the overnight Repo market. Hence the growth of gold as a collateral asset to debt heavy markets is inevitably in the cards and is de facto occurring. Gold is stepping up to the place as "good" collateral in a world of bad collateral."

Gold is the default currency; it is very much different than fiat paper. Its increase in price reflects the real world's realization that the US dollar status as a reserve currency is very much in doubt and is likely leading to devalued currencies on a global basis.

We are, unfortunately, living through an era where the natural price mechanism has been overtaken by interest rate manipulation and in cases without reference or approval heeded by the elected politicians of the country. The world is in such disarray that the central bankers and the International Monetary Fund has overtaken the hand of the elected politicians who definitely are not proving to have the necessary knowledge or power to even intervene.

When Ben Bernanke tells us that he will arrange a highly accommodative interest rate while he knows that the deleveraging of the Fed's debt is what is causing deflation, he really means he will be highly manipulative.

This is why James Grant, when asked what he would add to the central bank's tool box, suggested that they form a well staffed office to research "unintended consequences."

Including China, there exists an Asian debt crisis that is hard to detect because of rigged numbers and no reporting about prior use of debt for investment purposes. There is lots of building and construction, all using debt of some sort. Not only in Asia, but there appears to be worldwide manipulation of interest rates by monetary bureaucrats and this includes the United States.

This manipulation will have to soon end because of the size of the total debt and the expansion of the currency wars which will make the effect worse because the world, led by the US, has gone from central banking to central planning. The world has gone through five years since 2006-7 of money printing without concern or planning how to deal with the accumulated debt. Further, there will soon be a negative atmosphere from buyers of US Treasuries to earn negative real interest rates and there is not a good probability that the planned actions of the Federal Reserve actually working without massive continuous money printing.

Dundee Realty Corporation (DRC is a 70% subsidiary of Dundee Corporation)

From Michael Cooper, President and CEO of DRC

Once upon a time….
Once upon a time, there was a Canadian real estate company, (DRC), that got nervous about future economic prospects and sold two-thirds of its biggest company. The year was 2007 and, even after the sale, Dundee REIT had over $1 billion of assets. In addition to its commercial real estate assets, DRC also had a land and housing business in western Canada. In 2008, "the worst recession since the depression" was created by a global financial crisis. DRC was well positioned to handle a storm, but the storm never came. Notwithstanding tremendous fear throughout the world economy, by the summer of 2009, DRC had not encountered an unemployed person, a tenant that wasn't paying their rent, or a condo sale that didn't close. Seemingly, individuals and businesses were going about their normal routines.

Seizing upon this view of the economy, DRC began to grow Dundee REIT, taking advantage of low prices for good properties. In 2009, Dundee REIT acquired $140 million of assets, $900 million in 2010, $1.6 billion in 2011 and, so far in 2012, it has acquired assets worth $1.6 billion. In total, Dundee REIT grew from a market cap of under $500 million to $3.3 billion in just 30 months. The unit price increased from $18 per unit to $37 per unit, and the business became the 4th largest REIT in Canada, and today, largest owner of commercial properties in Canada.

But, that is not all that DRC did to take advantage of its expertise, its sound financial position and its view of the economy. In December 2009, DRC acquired a further $50 million of land in Calgary and also grew its land holdings in Saskatchewan. Now, the western Canadian land and housing business has over $1 billion of assets and significant cash flow and earnings.

Our urban development group also expanded, acquiring a number of small sites in downtown Toronto, in addition to the development of two 340-unit buildings in the Distillery District. Our urban group also successfully bid on, and won the contract to build the Pan Am Village project, a 20 acre mixed-use development project in downtown Toronto. In total, DRC is currently developing about 2,500 condo units. Aside from the Pan Am Village and 11 Peel Street, which have not yet begun marketing, they are almost all pre-sold.

Given the low growth, low interest rate environment, DRC began to grow its 20% interest in a renewable power infrastructure business, together with its partner, a Canadian pension plan. We began with a $100 million fund and, as this became committed to hydro, wind and solar projects, it was increased to $200 million, and then increased again to $300 million. We now own, have under development, or are committed to $1.3 billion of projects. We are currently assessing the opportunity of introducing a new infrastructure vehicle for retail and institutional investors, using our initial investment in this partnership as a starting platform.

Given Canada's outperformance relative to many parts of the world and the availability of capital to invest in real estate, in August 2011, we created Dundee International REIT, which was Canada's biggest and most successful REIT IPO ever. We are making significant progress and the opportunities continue to get more exciting. We are pursuing a growth strategy and expect the balance of the year to be critical for the diversification of the business by tenant, lender and building. If we can successfully diversify, the business will be worth much more in the public markets.

What Does All of This Mean?

In 2007, DRC managed one business with over $1 billion of assets, and owned and managed a land development business in western Canada, as well as a few other assets. Today, five years later, DRC is responsible for managing five distinct businesses, each with over $1 billion of assets. This year, we will approach $10 billion of assets under management, consisting of over $9 billion of assets managed for third parties. As such, the management business is actually a sixth business and it is becoming increasingly valuable.

Following below are our business segments:

1. Dundee REIT – with $6.4 billion in office assets across Canada, it is the largest office REIT and 4th largest REIT in Canada. At the closing of our recent equity issue, we will have a very reasonable amount of debt at 50%, which is all the more remarkable because we have closed over $1.6 billion of acquisitions in the first quarter alone. Our market cap is $3.3 billion. Dundee Corporation et al directly and indirectly owns approximately 10% of this REIT.

2. Dundee International REIT (DI) – with about $1.1 billion of assets and a $550 million market cap, DI has had a reasonable start since going public nine months ago. Dundee Corporation directly and indirectly owns 29% of this REIT.

3. Dundee Western Land and Housing – this business comprises 7,000 acres of land, owned or under contract, in Saskatoon, Regina, Calgary and Edmonton and our housing operations in Saskatchewan. Altogether, we have produced over $400 million of profitable revenue annually for the last 5 years. We continue to re-invest some of the profits to increase our land position. The

division has a significant land inventory in strategic locations. Profits will likely increase from current levels as we continue to participate in the growth in these markets. We also intend to create additional value from our lands by joint venturing with multi-family builders and building some of our own retail developments.

4. Toronto urban development group – this division consists of about 2,500 condominium units under development in downtown Toronto. The urban group has grown rapidly in assets and value as a result of our successful joint venture with Streetcar Developments.

5. Firelight Infrastructure (renewable power group) – After years of hard work, the infrastructure business took off in 2011. We now have $1.3 billion under development or in operation.

DRC is very well positioned in each of its divisions. We are focused on how we manage our business in order to improve the results and to manage a much larger business than what we have now. While we focus on these improvements, we are still able to grow: we expect to grow a lot in Germany; Dundee REIT has many opportunities and the capacity to grow; we continue to look for land for future development in western Canada and are finding some very exciting parcels; the urban development group is very busy and is more focused on executing on current projects than on growing; and, we intend to grow our infrastructure group.

It is a very exciting time. Our Dundee brand is better than it has ever been and we are dedicated to improving our reputation by increasing the value of all of our businesses on a per unit basis. We plan to fortify our platform so we can handle sustained growth and deliver even better asset management. In the meantime, we have many opportunities, and the capital and relationships to capture them.

While 2012 looks like it will be another excellent year, our main focus is to position our business for the years beyond. (end of Michael Cooper)

Looking back at the previous two hundred years of human history, there have been massive life changes – population, increase in freedom, and large amounts of wealth created and accumulated globally.

I have been watching the Euro scene very closely lately – for obvious reasons. However, it was not until my old partner – Seymour Schulich – sent me the following, that I began to really understand. Perhaps it may help you as well:

> ***"It is a slow day in a little Greek village. The rain is beating down and the streets are deserted. Times are tough, everybody is in debt, and everybody lives on credit.***
>
> ***On this particular day a rich German tourist is driving through the village, stops at the local hotel and lays a €100 note on the desk, telling the hotel owner he wants to inspect the rooms upstairs in order to pick one to spend the night.***
>
> ***The owner gives him some keys and, as soon as the visitor has walked upstairs, the hotelier grabs the €100 note and runs next door to pay his debt to the butcher.***

The butcher takes the €100 note and runs down the street to repay his debt to the pig farmer.

The pig farmer takes the €100 note and heads off to pay his bill at the supplier of feed and fuel.

The guy at the Farmers' Co-op takes the €100 note and runs to pay his drinks bill at the taverna.

The publican slips the money along to the local prostitute drinking at the bar, who has also been facing hard times and has had to offer him "services" on credit.

The hooker then rushes to the hotel and pays off her room bill to the hotel owner with the €100 note.

The hotel proprietor then places the €100 note back on the counter so the rich traveller will not suspect anything.

At that moment the traveller comes down the stairs, picks up the €100 note, states that the rooms are not satisfactory, pockets the money, and leaves town.

No one produced anything. No one earned anything. However, the whole village is

concert with massive technological advances in communication and data transmission which supercharged the movement of goods, services, capital, ideas and helped spawn incredible things.

But of utmost importance is that we are being forced to accept globalization as a major secular trend, especially the China story, along with globalization in general – the demographics of Canada and the rest of the world along with the rise of consumer power and preferences. We regard these and the reinvigorated regulatory environment as major trends that have combined to move the world, as we know it, totally out of balance.

These out of balance major trends are converging and combining to change the world, especially the world of commodities and resources which we once thought were infinite in supply. We are living in a world with resources that while not scarce have many challenges to growth, opportunities for investment and development.

All of this means that we must remain prepared for a wide range of possible outcomes in the market place. And we must do this while the noise that emanates from our newspapers and academic communities looks backwards and expect the bull market of all time – 1982-2000 – to come back and expect index returns of double digits.

Today we have to realize that it is now a small world and it is getting smaller, and all of the good things that we enjoy are now available, often in better form and availability, to all of the emerging world, especially to that part of the world of which we never bothered to even take notice.

In very few years from now the majority of the world's population will live in large cities and will be demanding living standards that include many of the things that we today take for granted. Asian cities alone are already home to 1.5 billion people – more than the urban centers of Europe, North America, Australasia and Latin America put together.

By the year 2016 most demographers expect that the emerging and developing world will likely have many cities with a population that exceeds that of Toronto. What we have been witnessing for the last ten years since soon after the stock market bubble burst in March 20-00 is that many so-called investment experts with heuristic biases and questionable abilities were not prepared to believe that emerging countries are for real. As a result they were totally surprised by those unexpected events that have taken over the emerging world as they surpass our developed but submerging world.

For some, globalization is believed to be either the most positive force in the history of humanity or the most vile. The correct view is that it is "neither the end of the world nor the end of the rainbow".

Globalization is just one more thing out there that we have to be aware about. Along with these global secular trends, we have to see how it will intertwine with the many powerful influences and perceptions of investor mass psychology.

The rise of China and India with a population base of 1/4 of the world, is not only about a flood of cheap imports and services and the decline of certain segments of the manufacturing sectors in other countries, or the outsourcing of jobs – as important as these trends are.

It is not an exaggeration to say that the rise of China alone is a watershed event that is changing the global economic and investing landscape that is on a par with the rise of the United States as a global, economic, political and military power over 100 years ago. Yes, the fact that the world is out of balance may make this time actually different from those of the past.

We at Dundee are operating on the belief that we should be prepared for some future events that may be either disastrous or wildly positive, but more importantly we recognize it is truly a time for caution and focus in our investment practices.

The years ahead cannot be known from the study of recent history and should be treated carefully. This is said with optimism, not necessarily with surety or negativity.

The modernization of China, and most of Asia, including India, remains a tremendously bullish development for the entire global community and especially for an unlikely duo of Canada and Africa. These emerging nations are creating a massive new source of demand. They also are creating new sources of supply from countries that were not always friendly. This clearly causes pain for those less competitive producers in other countries.

In overall terms, China's emergence as a consumer of industrial and resource product as well as a low-cost production, with an acceptable supply of goods, has served to raise real incomes almost everywhere.

As an emerging economy, China's growth path is not and will not always be smooth. Nevertheless, those fears of a near-term bust are overdone, in my opinion.

History has proven that success in long term investing depends on adjusting the allocation of investable assets not to their prospective stock exchange index weights as they used to exist, but to where they will exist in the future.

We are riding the whirlwind of a world out of balance while most investors are awaiting the nostalgia of the halcyon days of relative global stability when investing was a no-brainer contest. Those days are over.

As Will Rogers once said, "Things ain't what they used to be – and probably never was." In a world that was connected by fewer threads, far away occurrences had a less immediate impact on companies and the psychology of our markets.

China, Asia, the Eurozone crisis and American financial crisis as well as the impending US crisis of too much debt and the deflationary deleveraging, have placed the world out of balance. For a long time it was a major no-no for someone like me to construe that times are different, and I am prepared and will be surprised if I am wrong.

To understand what is happening in Asia and Africa, you have to go back to the early days in the United States of 150 years ago when the US itself was an emerging market to see what this new paradigm can be all about.

The climate for equities as a class of investment, remains basically favourable, especially, and mostly, because of the potential returns of companies to the likely negative returns of the bond

market and short term money - but remember, and I know what I am about to say will be laughed at, but "this time it is different."

The late economist, Herbert Stein, used to answer tough questions with the words, "things that cannot go on – don't."

The US debt and the forecast for necessary continuing deficits and trade credits to increase its debt even more, cannot go on; while the third world of China and Asia are making the enormous strides in the increase of the wealth of that population base.

US journalists and TV announcers play the game by ignoring the realities of the new world capitalism. It is comforting to keep telling Americans to keep telling themselves they are the best and will remain the location of choice for foreign investment. But the official statistics do not say that.

In those previous times of the bullish era of overvalued stock being sold to investors, the concept of "shareholder value" became The Wall Street mantra for analysts. It first came about in 1981, just before the 18 years of a generational bullish stock market when Jack Welch, GE's CEO, gave a speech at the Hotel Pierre to a large group of security analysts. He stated that GE's objective was to provide shareholders with maximum value via the stock price. "Companies should only make investments and take on businesses providing returns above the firm's cost of capital," implying that the incorporation process has increased the separation between owners and managers of the business. Shareholder market value was the only bogey that managers should be striving for. Other than, of course, their own compensation, for which Jack Welch was really an expert. We at Dundee don't work that way.

The Efficient Market Theory (EMT) which abides by the above premise has been proven to be bogus to my satisfaction. The EMT has been called the financial version of "the Price Is Right". The concept of market efficiency and the active Capital Market Theory rests on the concept that investors are rational people, which is decidedly false. Nobel economist Paul Samuelson said it best – "if one could be sure that the price will rise, it would already have risen." Professional investing is a challenging process that has to achieve success without certainty.

The needs of portfolio managers of pension funds, mutual funds, insurance funds was fulfilled as long as the stock price went up – the simplest mechanism needed to evaluate the companies in which they invest. The last quote on the price of a share gave them certainty without any work, and "shareholder value" as market price became the narrative and language of communication between companies on takeovers or mergers; their managers of compensation and of course the professional investors who earn their performance bonuses on the price of the stock.

Companies were told by their board of directors to rate compensation by being overly concerned about the appreciation of the stock price; and management in general have become fixated on enhancing shareholder value by boosting the stock price in order to achieve maximum compensation and keep shareholders happy. As a result, today most companies have a staff that looks after shareholder relations; companies hold meetings throughout the year to tell good stories about how they are doing, executives spend as much time on TV as they do in the office. Its almost down to the point whereby the only slide a company requires on any of its "show and tell"

shareholders' meetings is a price chart of the trading of stock. This whole process has caused the losses in many ways – World Com, Enron and a host of others.

Higher shareholder value requires growth in income, reducing or increasing the amount of capital used by the business and increasing earnings. Business growth and improvements are not something that is achieved overnight. It requires the assurance that the right people are in the right place to get the job, mission and vision of the company done correctly and profitably. Stock prices never tell you the real underlying value of a business. The discounted present value of the business' expectation for future earnings are an important part of a company's value and most people very seldom take that into consideration. As a basis for all of our investment purchasing we are very cognizant of future earning potential.

As the head of the company as well as the head of the family with the largest shareholding and control of the company, I can tell you that we likewise believe in shareholder value – but of a different kind. We strive to increase the intrinsic value – the fundamental value, of Dundee, on a long term outlook. Everyday decisions are made with the expectation to increase intrinsic value. We don't really worry about the stock price because we are not sellers. In fact, through our stock repurchase program we buy our company at every opportunity. The facts are that stock prices are random moves, not a valuation but a price related to a trend or a cycle, and economists have a lot of trouble with that fact. Stock market prices have been called "the Demon of Chance" suggesting that the current price is randomly chosen from a distribution of possible price changes, which when added to the current price determines the next price.

In March 2009, in wealthy retirement, and newly married, Jack Welch changed his mind after twenty-eight years and called his version of shareholder value "the dumbest idea in the world."

I have written this entire message in a bearish and fearful manner because the potential of a currency collapse would be a Taleb "black swan" caused by continuous budget deficits creating a huge collection of debt by a nation, and also very likely an unbelievable time to buy undervalued companies.

TO MY FELLOW DUNDONIANS

I have learned over my years that every successful business is successful to a large degree because of people. The people who work to make things happen correctly and with good cheer and treat each other like family members. Successful firms adopt product platforms, not just products. Each platform, whatever its specialty, is also sales and service driven. Our firm is moving in that direction. Our objective is to create a company that uses the excellent capabilities we have in each of our platforms which will be positive ecosystems with sales driven with a pull style not a push style. We are a firm that was founded on expertise – our capabilities, not just strategies. We are searching for economies of scope for our company; not only economies of scale. While we hope for efficiency, we demand flexibility from all. Everyone is allowed the freedom to explore and experience within well framed spaces to further our business missions. This culture and strategy has been proven by many successful firms and leads us to be way ahead of our competition most of the time, and be able to adapt quickly to unexpected changes as well as adversity from our competitors.

With the sale of DundeeWealth we declared the New Dundee, to be an extraordinary business. We remain as asset managers for ourselves and for others from whom we get a fee for service and we are asset managers, investment bankers, and private client investment advisors through our brokerage channel. We intend to expand in all of these attributes – Expand with Excellence.

We intend that every part of our business must be extraordinary. Every part of our business is fully filtered through our intellect and the "kicking of the tires"; by being able to rise above any emotional hang-ups which then get filtered through the intellectual programme. We look forward to our business being more effective and successful than those against whom we compete. We are intellectually passionate about what we do.

As classic merchant bankers, our business plan is centuries old – it goes back to the dawn of modern capitalism. Risks are taken by the entrepreneur in order to promulgate a new business idea and then make it work profitably. Our main goal is to create a new product or asset or repair an old product such that the entity will make money. Clearly, at the outset, classic entrepreneurs focus on one aim: making as much money as possible.

While we unashamedly say that for us top line growth is important, pure growth as a concept does rank behind to quality, perfection and long term sustainability.

When we decided, many years ago, to run our company with the culture of a business family and not just a business or family business, it was with a purpose that, I now realize, has relation to my scientific background and the process of fusion. Fusion occurs when two atoms join together through affinity to form a greater energetic role. Fusion in physics forges connections formed through the bonds of affinity between two or more energetic bodies positively attracted to each other, thereby creating a new entity of greater energy and therefore greater and faster growth than each atom on its own.

Fusion reminds our "business family" that the bonds of affinity that have since been created provide a harmony among our individual parts which are far more acceptable than otherwise and can be truly beautiful. It helps a family see the virtue of beauty in its aspiration to be a mosaic of light created from the individual particles of light that emanates from its family members. Together in a familial manner we can truly shine.

To stay with the family theme, I know that the most successful leader a family can have is one who leads from behind. The leader from behind is sometimes known as the "herder of cats" who is rarely seen, heard or felt but one who is respected and revered because he allows his/her family members the right to say "We did it ourselves".

Leadership from behind is what is required if the happiness of each member of the family is to be enhanced by the family as a whole.

The family can be preserved and thrive if it is allowed to grow in multiple paths followed by each of its members wanderings down those roads that can make a difference. Roads that can develop possibilities for discovery and creativity which will help the family's success.

Staying with the leadership theme, I also agree with the Chinese military strategist of 500 BC, the author of "*The Art of War*", Sun Tzu. Sun Tzu essentially said that the greatest general is one who never fights a battle he can lose because his long term strategic planning and thinking is such that no opponents would ever take him on, and that no opportunity that risks the survival of his family, regardless of the reward, is worth taking.

According to James E. Hughes the author of Family Wealth, there are four terms that are traditionally used to provide the affairs of a family:

1. The business of the family is its well being and development
2. The assets of the family are the human beings who make it up
3. The goal of the family is the growth of its wealth – its human intellectual, financial and social capitals.
4. A family is an enterprise, and to be successful it must be enterprising.

In addition, he adds – families are complex systems working towards an outcome that is intended to make a profit: the greater happiness of each succeeding generation."

Every member of a family, whether born, married, or invited into it, automatically becomes a participant in the stewarding – conserving – stakeholder role of owner.

1. Our clients' interest always comes first. If we serve our clients well, our own success will follow.
2. Our assets are people, capital and reputation and the last is hard to retrieve if lost.
3. We stress teamwork in everything we do. We have no time for those who put their own interest ahead of the firm and our clients.
4. Profits replenish our capital and are the key to our success and we share our profits generously with all who helped create them.
5. Everything that we do is subject to secrecy and confidentiality.
6. Our culture is family. All are treated as loving members of our family – clients, partners and assistants.

On January 12th, 2012 I was honoured to be inducted into the Canadian Mining Hall of Fame and I am offering here my induction speech which I delivered after, I was introduced by my old partners and friends, Seymour Schulich and Pierre Lassonde, which I started out by thanking them:

It is an honour and a pleasure for me to be here tonight with distinguished fellow inductees to the special Mining Hall of Fame. I want to thank those of my fellow mining compatriots who wrote in, unbeknownst to me, unbelievable letters of recommendation that have allowed me to be here tonight.

They all said some very nice things, and some were even true, but in the interest of time I will only use one quote; it's from Robert Friedland and I obviously agree with him on this. Quote: "From the early days of my career in the resources industry I quickly came to respect the knowledge and judgement possessed by geologists, the men and women who go out into the cold and dark, to the four corners of the earth, and crack open rocks of interest. Geologists are the gatekeepers to the discoveries that quicken the pulses of investors and are the key to the buildings and machinery that shelter and drive our modern lives."

Stan Sudol of the Republic of Mining assigned some animals to the mining industry. He said we are either an ostrich or a slow moving brontosaurus while those of the environmental movement are more like a barracuda or keen predator, like the fast raptors we saw in the movie, Jurassic Park. Personally, I like to think of myself as the hedgehog that Jim Collins suggests can take us from good to great by transcending the curse of competence. Isaac Berlin divided the world between the hedgehog and the fox. He opined that the fox knows many things, but the hedgehog knows one big thing. The fox is a cunning creature, able to devise a myriad of complex strategies for sneak attacks upon the hedgehog. Fast, sleek, beautiful, fleet of foot and crafty – the fox looks like the sure winner. The hedgehog, on the other hand, is a dowdier creature (just look at me) looking like a genetic mix up between a porcupine and an armadillo. The hedgehog waddles along going about his/her simple day searching for lunch but basically more concerned about taking care of his home.

It does not matter how complex the world is, we hedgehogs reduce all challenges and dilemmas into one overall concept or unifying vision. We look for a basic principle or concept that unifies and guides everything. It doesn't matter how complex the world is for a hedgehog, anything that does not somehow relate to the hedgehog's idea has no relevance.

I am proud to be a hedgehog, along with my former partners on the stage tonight, Seymour and Pierre.

After almost 50 years in the resource and investment industry I know that it runs on brains, nerve and ambition with very few times to do something from the heart. We are just in the process of purchasing a cattle ranch in British Columbia and as such I have been reading about ranching and cowboy ethics.

James Owen, an asset manager much like myself, found his source of inspiration of dealing from the heart by exploring the life and code of the working cowboy and discovered the principles of what he called Cowboy Ethics. Seymour and I have been operating with cowboy ethics for our entire careers, but James Owen has provided some documentation of what it is all about. These principles go beyond all the regulatory nonsense that we all have to deal with on a day to day basis. The cowboy ethics are a culture that I live by with very similar principles.

First of all, I am a fairly constant optimist – Seymour once told me he never met a rich pessimist and I believe him. But if you think about it, it would be hard to be a cowboy without being an optimist. I

have often been called a cowboy, and I accept it without shame. Our problem is that we have confused regulations and rules with cultural principles. Rules can always be bent, but principles are forever. The code of the cowboy is based on the reality of life and is almost biblical. Cowboys and cowgirls live a rugged but clean life – a difficult but simple life.

Living by the Code of Cowboy Ethics is very simple and is taken from the single principle that endures most of our religions: treat thy neighbour as thyself – The Golden Rule – and knowing right from wrong. Loving yourself and being willing to work hard on the Golden rule will easily get you there.

Principles of Cowboy Ethics (taken from James Owen):

1. Live each day with courage – "Real courage is being scared to death and saddling up anyway.
2. Take pride in your work –work doesn't build character – it reveals it.
3. Always finish what you start. When you are riding through hell, keep riding and never give up.
4. Do what has to be done – The true test of a man's honour is how much he would risk to make it happen. It's not always easy to do the right thing, but nobody ever said it would be.
5. Be tough, but fair. The Golden Rule is nothing less than the key to survival. And to quote John Wayne in his last film, the Shootist (1976): "I won't be wronged, I won't be insulted, and I won't be laid a hand on; I don't do these things to other people and I require the same from them."
6. When you make a promise, keep it. A man is only as good as his word. To take this to Bay and Wall Streets you only need two things from those in those streets:
   a. Someone you can trust
   b. Someone you can count on
7. True cowboys ride for the brand. A poem written about this by cowboy Red Steagall tells about an old cowpoke named Jake who is "schooling" a new kid. "Son", he said, "a man's brand is his own special mark; it says: this is mine, leave it alone. You hire out to a man, you ride for his brand. And protect it like it was your own."
   He carved him this ranch out of blood, sweat and guts, so be proud that you ride for his brand".
   To take this to the investment industry, make no mistake where your loyalties should lie. The client comes first, not when it's convenient, not when you feel like it, but always.
   The cowboy's greatest devotion is to his calling and his way of life.
8. Talk less and say more. To the cowboy, "the bigger the mouth the better it looks shut." To quote Owen, that's why the cowboy ranked lawyers and other windbags not much higher than cattle rustlers. "When there is nothing to say, don't be saying it". But when words are scarce, the ones you do say become all the more important. In my world: keep it simple; keep it true.

9. Remember that some things are not for sale. There is no amount of money that is enough to make a cowboy cheapen and dishonour the way of life he has chosen.
   To a cowboy, the best things in life are not things.
   We all think we are smart, but some of us often do not realize that it is foolish to forget to value our reputation above all else.

10. Know where to draw the line. There is right and there is wrong; and nothing in between. Just because something is not illegal doesn't mean it is right.

11. We should all have an undaunted curiosity to find answers to questions to which we do not know the answer.

When you think with a culture that encompasses the principles of the cowboy's Code of Ethics, you will find that doing the right thing is surprisingly clear. When the issue is particularly thorny, difficult or personal, your discussion would quickly lead to the questions: What is fair? What is right? What are we unwilling to compromise? These questions will quickly lead to the proper resolution and what must be done.

At Dundee, we expect brain power and hard work to be the given baseline. But we do put personal integrity, character and culture at the top of the list. We are all family. And we use straightforward language, not cover-your-ass legalese, when we describe the expectation that our clients should have of us.

We humans are born with an extraordinary ability to care about things with other people, and in the process to bind ourselves into teams that can pursue larger and complicated projects. That's what culture is all about. And with a few adjustments it's what our business is all about as well. People can be divided by politics and/or religion and that's not why some are considered good and others not so. Instead the explanation I like is that our minds were designed with more intuitive reasoning that drives our personal actions. The next time you have a problem of agreeing about very basic things with someone, remember these words: We're all stuck here for a while, so let's try to work it out so that it's good for all of us.

Challenges come and challenges go, but our solution to them is handled by the well known prayer:

> *"God, give us the grace to accept with serenity the things that cannot be changed, courage to change the things which must be changed, and the wisdom to distinguish one from the other."*

In addition to the Cowboy Ethics we do have business principles that we regard with serious intensity:

- Clients always come first
- Our goal is to achieve superior investment returns for our clients and our shareholders
- We stress innovation, imagination and creativity and are proud of the fact that we have pioneered many of the things today taken for granted by the investment industry
- We only hire the best and stress the best teamwork
- Integrity, honesty and cowboy ethics drive the culture of our company

As I look forward to the sixth decade of my investment career, I believe that there is more reason to be concerned and I am less than optimistic than in any of my previous years of experience.

The outlook may be gloomy, but there is a push as to whether we face deflation or inflation. My experience of the 1970s tells me that any optimism that I should have is towards those areas of investment that will react well to an inflationary environment, and that's why we are specialists in that area.

Sales is the most important part of our business. We are a service business but we think with a product manufacturer's business model.

The theme of the 21st Century is Bottom Up. We live today in an upside down world where intelligence is more collective; innovation is more appreciated; work is more specialized; and our leisure is more diversified. We at Dundee have the tools to thrive in this environment.

Our job as investment advisors and investment bankers is not like the get-rich-quick books we see in the bookstores. Our business and work is probably best described by the following guide to investment success provided by Bernard Baruch. (Colleagues should take notice)

"If you are ready and able to give up everything else, to study the whole history and background of the market and all the principal companies whose stocks are on the board as carefully as a medical student studies anatomy, to glue your nose at the tape at the opening every day of the year and never take it off until night; if you can do all that and, in addition, you have the cool nerves of a great gambler, the sixth sense of a kind of clairvoyant, and the courage of a lion, you have a chance."

Let me end with a few words from Benjamin Franklin:

> "This currency, as we manage it, is a wonderful machine. It performs its office when we issue it, it pays and clothes our troops, and provides victual and ammunition, and when we are obliged to issue a quantitative excessive, it pays itself off by depreciation". This was said after the time of the US Revolutionary War when he was addressing the legitimacy of money management by government in a time of war. Nothing about monetary or currency problems has changed."

Sincerely,

Ned Goodman, CFA
President and CEO

Written over the period from March 15th to May 16th, 2012.

DUNDEE CORPORATION

Dundee Place
1 Adelaide Street East, 21st Floor
Toronto, Ontario M5C 2V9

www.dundeecorporation.com

Stock Exchange Listing:
The Toronto Stock Exchange

Stock Symbol:
DC.A