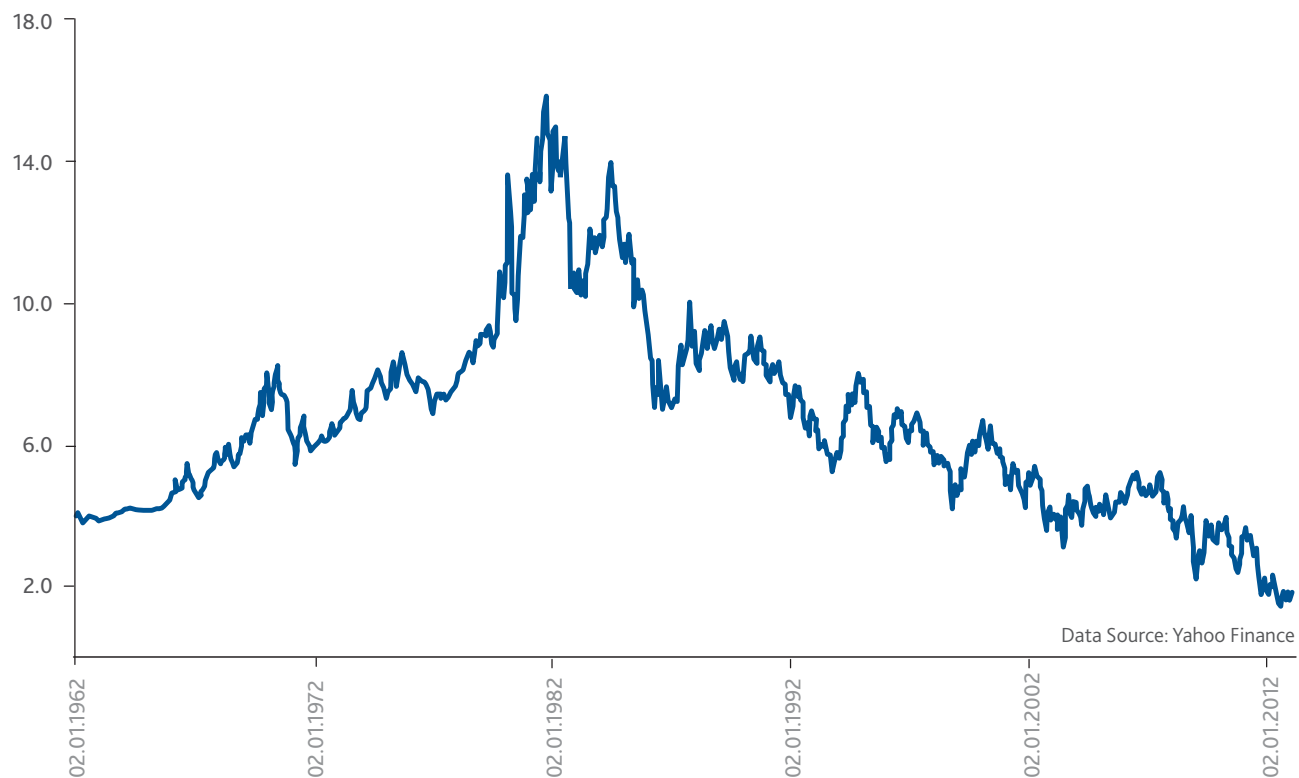


## 10 YEAR U.S. TREASURY BOND YIELDS (1962 - JANUARY 2013)



**DUNDEE CORPORATION**  
2012 Annual Report





Dear Fellow Shareholders,

My entitlement to be the writer of the annual message to the shareholders of Dundee Corporation arises from the fact that I am the founder, the Chief Executive Officer and the holder of the job that provides for twelve hour days of work that is an endless deluge of emails, phone calls and brain numbing instant messaging. The affliction comes with the necessity to make many decisions that are always needed yesterday while trying to put out fires you did not start.

As a result, when I read articles about the need for spiritually and conscious capitalism in the activity of business, it never really gets my attention. I know that I am not alone with this affliction. I am sure that there are many millions of managers on a global basis who have a similar problem. Somehow we seem to succeed without spending one day thinking too much about spirituality of business. My passion for spirituality is reserved for my family and friends, my wife, children and fifteen grandchildren. So I am sorry, dear shareholders, you are far down on the list for my spirituality but you are close to heart when it comes to conscious solutions and wealth creation within the capitalistic system to which I am a sincere subscriber.

I am a big fan of Milton Friedman who wrote the best book about capitalism, "Free to Choose"; a book which should be read by anyone interested in business and the capitalistic system as it aligns with living a successful life. In a 1970 article Friedman said that, "The social responsibility of business is to increase its profits. While I am a very strong admirer of Friedman, I do not totally agree with that statement because it requires a very short term outlook. I am a long term thinker and investor. Any business that is run with a short term bias is apt to slide towards the unethical behaviour that is often reported in the headlines of newspapers.

It is my belief in the first instance that our concern for businesses should always have the integrity to take good care of our customers, clients and other business relationships including employees. My philosophy is that if we do that part properly, the shareholders will win even bigger than any short term excitement which will likely soon fade away. Today good capitalism also needs a threshold of consciousness for the business at hand. There is an unmeasured cost of socially conscious capitalism.

As Patricia Aburham said, "The perfect convergence of social, political and economic forces compels us to examine the consequences of a financial doctrine that so emphasized the desirability of short term profit, that it fails to account for the moral or social costs of achieving it."

I have been the CEO of Dundee since its founding in October 1991 and have often faced shareholders who were unhappy with its share price, its multiple voting shares that I own, and its lack of a dividend along with the complexity of its corporate structure. Never on ever maintaining the integrity, the transparency, our corporate governance as well as our higher level of social and ethical standards.

I am more than pleased to present to our shareholders the following report prepared by the Clarkson Centre for Board effectiveness, an organization affiliated with the University of Toronto.

# Dundee Corporation

## Family Management and Ownership History

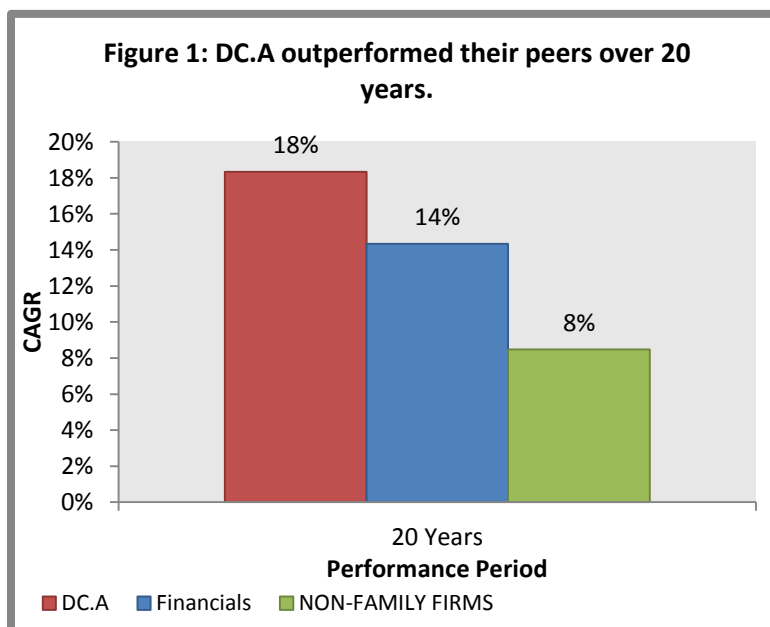
Ned Goodman founded Dundee Bancorp Incorporated (Dundee), an independent asset management firm, in 1991 and began trading on the Toronto Stock Exchange by year end. The asset management services are carried out through Goodman Investment Counsel Incorporated, a wholly owned subsidiary of Dundee. Furthermore, Dundee manages assets and offers capital markets and personal investment advisory services through several wholly owned subsidiaries.

Ned Goodman is the current President & CEO of Dundee and has been since he founded it in 1991. Previously Ned also served as Chair of the board from 1991 to 2001 when he was succeeded by current Chair, Harold (Sonny) Gordon, a non-family member. Goodman's sons Jonathan and David Goodman have served on the Dundee board from 1996 and 2009, respectively. David was the President & CEO of Dundee Wealth, which was a wholly owned Dundee subsidiary until 2010. Jonathan is the current President & CEO of Dundee Precious Metals, a wholly owned Dundee subsidiary.

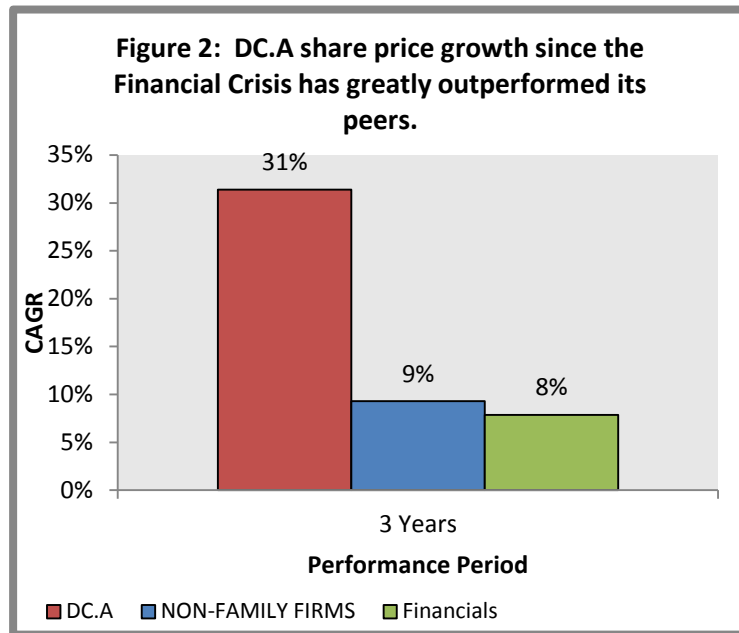
As of the latest Dundee Management Information Circular, Ned Goodman owns 99% of the Common Shares and 5% of the Subordinate Voting Shares. The Common Shares are a super voting class that is entitled to 100 votes per share while the Subordinate Voting shares have the right to one vote per share. Goodman controls Dundee with 86% of all votes and 10% of the equity owned in the firm.

## Share Price Performance History

Dundee's share price growth has outperformed Non-Family firms over 20 years. The Non-Family firms' share price CAGR from 1993-2012 was 8% compared to 18% for Dundee (Figure 1). Dundee also outperformed their Financials sector peers. Over that period, Dundee's share price grew from \$1.05 cents at the start of 1993 to \$30.65 at the end of 2012.



Dundee's closing price at the end of 2012 was \$30.65, the highest closing price in company history. Furthermore, in the last 3 years Dundee's share price greatly outperformed Non-Family firms and its industry peers with a 31% CAGR (Figure 2). Despite being hit hard by the Financial Crisis and suffering a 68% decline in share price during fiscal 2008, Dundee's share price has quickly rebounded to reach new historical highs in 2012.



For those of you who have read the previous Annual Report messages of our company you will know that I have been concerned about a global currency war outbreak for some time. But in particular, my reference to James Rickards and his book, "Currency Wars", in last year's review. Well today, one year later, we remain living in the biggest debt bubble in the history of the world and the evidence of currency wars is beginning to be very globally evident. The use of excessive monetary stimuli and artificial ultra low interest rates are creating the ultimate "bubble" in money itself. Central banks – while quietly increasing their gold holdings – are also creating the money bubble. We now are in the biggest debt bubble in history. Country leaders know that each time that they face deflationary forces they require offsetting inflationary forces (monetary stimulus of some form); and they are required to become even more aggressive. The necessary avoidance of the deflationary waves that the world is facing is causing the incubation of the coming wave of future inflation. Most conventional economists do not really accept the lack of "global demand pull" and the yet inflationary moves that will likely be felt.

As a confirmed skeptic about almost everything I accept the fact that I may not always have all of the necessary information. We skeptics may not know much but what we do know we seriously rely upon. We know for example, as Jim Grant once said: "markets can do anything they want and will". Markets can also make opinions for its participants. The actual pricing for financial assets of all kinds, including real estate, does not occur in a vacuum, without the application of some well known investment analysis, technique and strategy and must operate within the world of the real economy which always resembles a hall of mirrors." Facts affect perception and perception affects facts. If the attainment of equity capital can come essentially free, smart people will always help themselves to it. When capital is free or cheap, people tend to use too much of it, creating redundant investments which can lead to excess, easy to achieve productive capacity which leads to – as Grant said – "instantaneous levitation they present as revealed truth".

There are always new eras, times when precedent does not apply because someone believes that it shouldn't, while aberrations do appear in the financial markets and while they last they do feel good, but eventually they must pass the test of supply and demand. New eras tend to be eventually cut short by the very financial condition and behaviour that they create. The current era of yield and capital gains that are created by an understated inflation calculation along with zero interest rates, will soon come to an end.

The cover for this, the 21<sup>st</sup> Annual Report of Dundee Corporation, carries a chart showing the yield history of the ten year US Treasury Bonds from 1962 until the end of 2012. I have chosen to display this chart for several reasons. Firstly, I was attracted to it because it marks the entire of my career as an investment counsel, security analyst and portfolio manager.

This chart follows the years of my career almost to the day, and I did have my own words to describe this 50-year chart of ten year US bond yields from 1961 to 2012, but Don Coxe topped mine in his recent and last "Basic Points" which he called "The Final problem". His words were:

"If capitalism were in a hospital and this chart were at the end of its bed, visitors would be ordering flowers for the widow. The long term performance of the long Treasuries documents a record in economic history. Long-term non-callable, high quality bonds have, on a cumulative basis, outperformed US stocks over 31 years. Under free-market economic theory, that is supposedly impossible. The basic math of capitalism – it's Law of Gravity – states that Risk Assets, such as stocks and real estate, over the long term, deliver higher returns than risk free assets." However, thirteen years of cumulative zero

returns is enough to induce financial triskaidekaphobia". Is that why you decided to take an early retirement Don? We will miss your special remarks; stay well and keep in touch.

When I started my investment career in 1962, the US 10-year Treasury bond traded at 4%. By September 1981 the same bond was trading at a 15.8% rate and I learned not to be involved in bonds during a rising interest rate market. In the last 31 years to recent days this same bond traded down from 15.8% to less than 2% - a thirty year bull market for the bond price and the "no-brainer" way to make money. My current view is that the US Treasury bull market is over and the next "no-brainer" will be based on a long period of inflation and higher interest rates.

The investment environment today makes it easy for one to belatedly agree with Alan Greenspan, the former US Federal Reserve head who told us in August 2010 that: "the problem we now face is the most extraordinary financial crisis that I have even seen or read about."

The magnitude of the loss of wealth that occurred from late 2007 to early 2009 (even with a stock market index that appears to have fully recovered) may take a full generation to be totally recovered. The forces to be unleashed to positively affect the wealth decline will in the end cause a serious inflationary event on a global basis.

The thing to do as an investment professional at times such as now is to look towards what's going to happen in 2013. This is something that has been required of me since the early 1960s and 1970s and must tell you that the degree of difficulty in trying to predict the short term or one year outlook is higher today than it has ever been.

The global economic outlook today is very unusually influenced today by all of those political decisions that have yet to be made in Europe, the United States and, yes, even China and their new governing leaders. These decisions relate to exactly how the European sovereign debt and continuing banking crisis will be handled, as well as what Barack Obama will do with his new found power.

One thing is certain, we are living within a world that has too much debt overhang – the US, Europe and Japan – and it creates balance sheet recessions. The ongoing deleveraging that has been required, and continues so, means that things are not normal and there is not likely to be a normal cyclical recovery. Deleveraging after a financial crisis like this, historically has lasted for 5 to 10 years and longer.

The economies have grown, but asset prices of almost everything have risen faster and debts outstanding have risen even faster. Creditors who are waiting and counting on their debts to be repaid will be disappointed. The debts will have to be either passed on to other governments or not yet known institutions or result in outright default. We are facing a period not unlike the end of the gold standard of the 1930s and the end of Bretton Woods and fixed exchange rates in 1971. I lived through and prospered in those early days of my career – 1962-82 by being properly invested in inflation resistant assets and especially gold, through owning shares of companies that produce gold.

Our business at Dundee, generally called a holding company, merchant banker, private equity, and brokerage or private wealth management and capital market activity, is based on a fourfold plan of operations:

1. I can best describe our company as a business that undertakes classical merchant banking and private equity opportunities. We strive to invest ours and other people's money if under our management, in mostly hard asset businesses that will prosper from inflation and where we can

create significant increased value from as early as a start up or rehabilitation of a broken existent business. We like to feel that we can bring some expertise to the business plan, along with our money. Our tools are intelligence, hard work and money. Our culture is that of a happy family. Our values are based on the code of conduct that emanates from a happy family. Our vision can be best described that our preferred future is long term growth of capital and wealth in a manner that we are proud of our achievements.

2. Through our new Dundee Goodman Private Wealth, we manage investment accounts for third party wealthy clients. This is done through a brokerage force of over 50 highly experienced and registered portfolio management advisors in Toronto, Montreal, Calgary and Vancouver. Our group of advisors is well trained and mature and they oversee \$4 billion of third party investment assets. Our other subsidiary, Goodman and Company Investment Counsel, provides this group with market strategy and individual company research such that they are enabled to look after their clients with excellence. Our private wealth research covers all acceptable investment ideas that are carefully analyzed and chosen.
3. Capital Market and Investment banking activities are carried out through a different group of individuals whose efforts are divided between “corporate finance”, research and sales and trading, operating under the name Dundee Capital Markets. Goodman and Company Investment Counsel is not active in their area other than as a client from time to time.

Our Dundee Capital Market bankers assist corporations in two ways. They raise money, known as “financing” and they provide advice on “deals” which usually fall under the rubric of mergers and acquisitions. We sometimes do both at the same time as when advice is provided on an acquisition and financing is arranged to complete the transaction. The money raised by our investment bankers generally comes from third parties, mutual funds, hedge funds, pension accounts, insurance companies and individuals. The industry of investment banking means that financing revenue can come from the efforts of anything from merger advice and initial or otherwise public offerings of equity or bonds. The process by which we represent a company as investment bankers means that we find those investors who will buy the particular security offering. The process is called “underwriting”. This term often means that if we fail to find buyers for the entire issue we might be obliged to take up the issue for our own account, but this is not necessarily so on every under-written issue as we often operate on a “best efforts” basis.

4. The sales and trading franchise is mostly focused on buying and selling the securities of the companies that we cover as investment bankers and for the corporate finance function. There is often tension that results from the byplay of sales and trading and the corporate finance business in that the respective customers often have inconsistent objectives – issuers want the highest possible price and investors want the lowest fair price.

Essentially, as investment bankers we are middlemen – agents between the parties on two sides of a transaction. For the investment banking part of our business the two most profitable products are when we provide Merger and Acquisition advice and being chosen as the lead underwriter on an Initial Public Offering or any Secondary Public Offering. Our investment banking research focus is on resources, real estate, agriculture, and infrastructure. Often this allows our people to have access to critical industry information. Individually, our bankers and



research analysts usually focus on one area of our interest and thus accumulate a great amount of industry specific knowledge. In addition, by staying close to our sales and trading operation, the banker can stay on top of important assessments by investors regarding a company that may be interested in using our investment banking services.

As investment bankers we strive to be much more than mere industry traffickers relying on market gossip. We try to address the fundamental need that derives from the usual fact that a CEO has a very lonely job, surrounded by a plethora of people each of whom has his or her own axe to grind, or product to sell, or position to protect. We know that most CEOs have to find their way around the self-serving requests, biased advice, and unbelievable flattery. We try to be advisors who honestly and honourably provide a fair synthesis of the relevant information, while using consistent sound judgment and strategy.

Our company is at a stage where we have a decision to make. We have the opportunity to grow much faster, get much bigger. But I prefer to focus on having a company that is admired and respected in our areas of expertise such that our competitors and harshest critics even like us.

I hope for a size where it is still possible for any of us to be acquainted with everyone else in the organization. Where it is still possible for me as the CEO to meet and know the new people, and where it is still possible for each of them to feel closely connected to the rest of the company.

We are a business family, not a family business. That sense of community and family rests on three pillars or three legs of a stool:

- |    |                 |   |
|----|-----------------|---|
| 1. | INTEGRITY       | Making sure that the company is what it appears and claims to be - no false images. |
| 2. | PROFESSIONALISM | We do what we say we can do.  |
| 3. | CARE OF CLIENT  | The customer always comes first.  |

The first task of any business is to have its management be able to define the real purpose of the business and how its achievement is to be measured and tracked. The purpose must, virtually by definition, looking to the long term not to day-to-day or month to month progress. Managers can do their real jobs as custodians of the welfare of the enterprise they have been chosen to manage. Long term future managing is complex, but easy from a broader perspective. It involves picking a target, figuring out the steps required to reach that target, motivating people to work effectively toward it, measuring progress towards the goal and making appropriate corrections along the way to ensure the target is actually reached. Figuring out the target is a key first step.

There is at least one other constituency whose position must be assessed as being even more critical – our customers. Every company has one or more set of customers who are actually key to its survival. In fact, a company cannot exist without its customers. In many instances it is virtually impossible for a company to exploit most of its workers or its equity to pamper a favoured but important few.

## 2013 Outlook

Unemployment in the US is still out of sight very high. The numbers are “toyed with” to come out as 7% plus, but the actual number of people not working full time in the US is closer to 15% or 16%.

The US President’s budget is still sending scary messages of the future debt and deficits of the country and the impact of the budget’s sequestration period has had a factor of making unemployment even worse.

It is still April, but it is probably the time to begin to think seriously about the old adage: “Sell in May and go away”. This dogma has always been based on the fact that the months between October and May have usually been the time of the year that most gains are made in the stock market with the five months between May and September being flatlined or negative.

It is more likely with the stock market at levels developed by the Federal Reserve’s massive stimulus and with the preaching by Ben Bernanke that he is “considering” that the stimulus might soon be withdrawn, the idea of selling in May and going away looks like a great idea. We doubt that the US can afford to drop stimulus.

There are some really bad economic statistics emanating from the Eurozone. GDP is very weak; unemployment remains high – higher than the US. Italy has not yet been able to form a government. Cyprus is still trying to achieve a bailout and is selling all their gold. Service and manufacturing numbers coming from most of the Euro are incredibly weak.

The main US stock market concern, however, still remains that it is being driven by the excess cash being pumped into the banking system. The true evidence to this is the extra large size stock market margin debt. The markets are being powered by money created out of thin air by the Federal Reserve.

It’s now Friday, April 12<sup>th</sup>, and my inbox has a note from the International Monetary Fund who are saying that they have lowered their forecast for US growth because of their automatic budget cuts which are beginning to take hold. They have the US growth at 1.7 percent of the GDP which is down from their previous expectation of 2.0 percent.

They also expect that the 17 nation euro area will actually contract its growth by 0.2 percent, which they call an uncertain number because Euro policy maker challenges of the Europe debt crisis. They said, “The road to recovery in the advanced economies will remain bumpy. The weak ending to economic activity in 2012 and the sluggish beginning in 2013 highlight that important brakes remain in place.”

The IMF is of the belief that the two biggest threats to the global economy – a euro area breakup and a sharp fiscal contraction in the US – have been “successfully diffused” over the past six months. If this is so, it may cause part of the explanation for the stronger stock market.

The IMF document echoed the recent comments of their managing director, Christine Lagarde, who warned that the US budget impasse would prevent the world economy from gaining much traction this year. “This risks throwing away needed growth, especially at a time when people are still out of work.” She went on to say that the US budget was “imposing deep cuts in many vital programs – including those that help the most vulnerable – while leaving untouched the key drivers of long term spending.”

She did not notice that the most recent US budget was released last week and it’s quite clear that the US cannot have a balanced budget. The expenses called “mandatory” are much larger than the incoming cash is likely to be for many years.

The following statement came from the CFA Institute not the regular “gold nut” – “Swap paper for Gold”. In 1971 the US broke the final link between national currencies and gold, which had been around for millennia. The many years since have provided continuous inflation and a series of larger and larger financial bubbles. The current situation is best described as a “debt binge.”

Why gold? “The price of gold is the reciprocal of the world’s faith in the deeds and words of the likes of Ben Bernanke”. As the global Central bankers increase their supply of paper currency, we should all be losing faith in their promises and move to the historical form of money that just cannot be created out of thin air or by the push of an electronic button.

Why gold? According to James Rickard there will soon be a re-linking of gold to money at a significantly higher price; i.e. an across-the-board devaluation of the world’s major currencies which will create the inflation that the central banking policymakers really want. It then allows nations to repay debt at par with currency that is worth considerably less because it was recently printed. Mr. Bernanke does this every day when he prints new currency to buy old bonds. He is reducing the debt load of the country with devalued currency.

It is important to remember that, “In a currency war nobody wins”; we see a lot of wealth destruction unless we own hard assets that systematically increase as inflation takes place. Gold is the historical favourite.

Mountains of debt will be an insurmountable obstacle to any country’s previously loved higher standards of living. The growing gap between what the government attests to and what it spends will always threaten its financial solvency. And this, today, is a global problem – not only one for the United States. The pending economic situation is all about debt, deficits, and inflation.

Rising and unsustainable debts or deficits will potentially sooner or later lead to potentially catastrophic consequences. At the top of the list has usually been severe inflation in the future.

The whole situation mirrors the late 1960s, during a period that led up to the “Nixon Shock.” Back then, the world was on the Bretton Woods System – an attempt on the part of Western central bankers to pin the dollar to gold at a fixed rate, while still allowing the metal to trade privately as a commodity. This led to a gap between the market price of gold as a commodity and the official price available from the Treasury.

As the true value of gold separated further and further from its official rate, the world began to realize the system was unsustainable, and many suspected the US was not serious about maintaining a strong dollar. West Germany moved first on these fears by redeeming its dollar reserves for gold, followed by France, Switzerland, and others. This eventually culminated in President Nixon “closing the gold window” in 1971 by ending any link between the dollar and gold. This “Nixon Shock” spurred chronic inflation throughout the ’70s and a concurrent rally in gold.

Perhaps the entire international community is thinking back to the ’60s, because Germany isn’t the only country maneuvering away from the dollar today. The Netherlands and Azerbaijan are also discussing repatriating their foreign gold holdings. And every month, we hear about central banks increasing gold reserves. The latest are Russia and Kazakhstan, but in the last year, countries from Brazil to Turkey have been adding to their gold holdings in order to diversify away from fiat currency reserves.

And don't forget China. Once the biggest purchaser of US bonds, it is now a net seller of Treasuries, while simultaneously gobbling up gold. Some sources even claim that China has unofficially surpassed Germany as the second largest holder of gold in the world.

Unlike the '60s, today there is no official gold window to close. There will be no reported "shock" indicator of a dollar flight. This demand by Germany may be the closest indicator we're going to get. Placing blame where it's due, let's call it the "Bernanke Shock."

The above words are part of the explanation as to why I think that our shareholder values since 1991 as well as during the financial crisis as mentioned in the Clarkson report herein have done so well. I am a very proud and much richer shareholder just as those of you who have been with me for all of those years. In fact, some of you who have been around for only part of those years have also done well. I thank you all for your support and for remaining with us as shareholders.

Let me warn my readers if you decide to read through the full length of this report you will continue to read that I am more bullish on the price of gold than ever and that I am expecting a future global inflationary scene. The warning is that you should know that I am well aware that the price of gold currently is down by more than 15%, the biggest drop since 1980, and according to most "street" players does not look so good for the future. The last six months has been the worst stretch for the gold price since the early 1980s but also from which time the price of gold is still up by over 500%, after twelve years of rising prices.

Clearly the number of obvious fundamentals working for a higher gold price is in decline other than several of my personal favourites. The mania of fear about global money printing and the continuous purchase of gold by central bankers, especially from China, is very much still intact. The herd of every day investors who got on the band wagon in the bear market of 2007 is probably lightening up as the fear of shorter term gold price is worse than the Armageddon than has been in place. The real gold players are still intact as can be seen in that in this same recent fourth quarter of 2012 central bankers bought 145 tons of gold bullion. The first quarter of 2013 is not published as yet, but expect to see more buying of gold by central bankers. The purchase of 145 tons in Q4 was only eclipsed by central bank buying in the second quarter of 2012, when they bought 161 tons, the largest sized purchase by central bankers in any previous quarter of a year. The recent fourth quarter purchase of 145 tons is the second largest purchase of central bankers, ever. I ask you to consider that in my view the central bankers of the world are the only people who have full access to inside information and whose job description demands that they use it for their quest to keep the economy, as seen by others, to look very stable. And today the world does not look very stable.

We have trouble in the Eurozone and of course, today, Cyprus; the US GDP in the fourth quarter of 2012 "grew" at an annualized rate of 0.4% which was deemed positive as most thought that there would be a 0.1% negative figure. This "show" of better numbers than expected of course has a negative effect for the US gold odd lotters who use the GLD ETF. In addition, the Federal Reserve in the US managed to somehow, since the end of 2012, move the value of the US dollar up by 4%. Obviously because gold is priced in those reserve currency dollars that automatically causes the price to go down. However, a 4% increase in the dollar is a move that looks very anomalous as compared to previous dollar valuation. Fortunately, for Mr. Bernanke his job is made easier by the "currency war" that actually is in place, notwithstanding the many denials.

As a result, while some central bankers are major buyers of gold, there is at least one in Washington who needs the gold price to remain quiet, or down, to achieve his country's needs for stability.

However, there is a bigger picture and the two largest buyer nations, Russia and China, have recently had a very friendly tête-à-tête meeting of the Presidents. Newly elected President Xi Jinping of China used the term “international strategic partners” to describe the new Russian-Chinese relationship.

Stay tuned on the gold price, the true buyers of gold would rather see a lower price. The central bankers outside of the United States may have a different vision than the US central bankers who are entrapped by the Keynesian view as they try to dismiss gold as having any value from a self serving logic to keep the reserve currency of the world stable. And besides, once Goldman Sachs covers their short position they will probably falsely seduce as much gold buying as they did on the announcement of their short sale on April 10.

It's now April 11<sup>th</sup>, 2013 and we have just finished our last board meeting to approve the “Plan of Arrangement” that will allow the tax free “spin off” of 50% of Dundee Realty (DREAM) to the shareholders of Dundee Corporation and I have finally had time to complete the writing of this annual message to shareholders.

With an opening in my schedule I was able to read the March 22 issue of Grant's Interest Rate Observer and could not keep from repeating his second and third paragraphs as part of my 2012 message. He wrote under the title: “The hardy flower of trust”:

“Ideas are hard to contain. A governmental skimming of bank deposits, imposed from afar on a Saturday morning and presented to the victims as a “stability levy,” will, we think, be impossible to contain. The event will fade but the fact that it happened is indelible.

Perhaps the fact will instill some salutary apprehension in our central-bank sedated markets. Supposedly, confidence is hard to gain but easy to lose. On the incomplete evidence of 21<sup>st</sup> century monetary affairs, confidence is next to impossible to lose. Try as the central banks might to undermine faith in the currencies they print, and investors, depositors and economists – especially economists – persist in believing.”

Goodness knows the central bankers try. They pretend to know the future when their actions belie it. They even pretend to know the past.

A few paragraphs later, Jim said: “Herewith the riddle of our time. Central Bankers cry out to be mistrusted.” He then asks his readers not to turn a “deaf ear” to their cry. I hear what he hears and totally agree and suggest my readers take heart.

Going on with catching up with my reading, I caught a note quoting an old associate, Sam Zell, probably one of the brightest real estate entrepreneurs that I ever met. He was an early ten percent shareholder of Dundee Realty and Michael and I got to know him well. He said, on April 11<sup>th</sup>, that the current stock market rally reminds him of the housing market in 2006. “Everybody feels they can't afford to miss it”. Every single day the market goes up. Every day in 2006 the housing market went up.” Sam went on to say, “I just think that we're suffering through another irrational exuberance.” Going with that he too thinks that global currencies are being debased because of the Federal Reserve's and the world's easy money policy and that it will lead to inflation.

To quote Sam, once again, because he is singing my song, “What we're seeing here is like a giant tsunami of liquidity, but I don't know that that necessarily means that things are better. I think the level of uncertainty may in fact reach a point where people are just throwing money, because they don't

know what else to do with it.” of course, just as he is singing my song the stock markets in the US reached new record highs even while I am writing these words.

### **DUNDEE REALTY**

The directors of Dundee Corporation have approved to arrange for a Plan of Arrangement whereby approximately 70% of its 70% interest in Dundee Realty (the company) can be dividable to its Class A and Class B shareholders on a tax free basis allowing the individual shareholders of Dundee Corporation to achieve a 50% holding of the shares of DREAM while keeping 20% of Dundee Realty to continue to be held by Dundee Corporation directly.

Through this complicated but tax effective Plan of Arrangement, Dundee’s 70% ownership of Dream will be partially distributed to its shareholders in a manner such that the shareholders of Dundee will own shares of the Real Estate company with a share structure that mirrors that of Dundee Corporation. Dundee itself will retain a 20% ownership and Michael Cooper will retain his 30% ownership and Michael will be President and CEO. Ned Goodman will receive a class of multiple voting shares and remain Chairman of the new company which will take on a new name as a public company – DREAM. The transaction is subject to shareholder approval and a court order.

While to some it may appear that we are departing from the real estate business because of our divestiture of a portion of Dundee Realty to our shareholders, this is far from the actual. The Plan of Arrangement that has been created is designed to allow our shareholders to receive an identical but more visible group of assets managed by the same continuing management team and unlock its more positive share trading value. It’s a good event for all shareholders. The transition leaves shareholders with the exact same ownership interest in the assets of Dundee Realty on a tax free basis and unleashes significant existent but more visible shareholder value.

The following message about the operations of Dundee Realty was prepared by Michael Cooper. The continuing President and CEO:

The year 2012 was better for our real estate business than any prior year. In fact, no prior year comes close. Following are some of our accomplishments:

- Dundee REIT acquired \$2.6 billion of assets, including a 2/3rds interest in Scotia Plaza, sold its industrial portfolio and other non-strategic assets, and became a pure play office REIT.
- Dundee International REIT overcame its setbacks from the initial portfolio and began to grow with acquisitions, and completed three new equity issues.
- Dundee Industrial REIT was launched and was extremely well received. The size of the business was doubled within the first 7 weeks of its existence and is now Canada’s largest industrial REIT.
- The asset management business has established a brand that is well regarded in the financial markets, with assets under management in excess of \$12 billion, up more than \$4 billion over the prior year, and with three listed funds that raised in aggregate \$1.7 billion of permanent capital.
- DRC had its most successful year financially with pre-tax profits of over \$138 million, beating the prior record in 2007 by over \$20 million.
- The land bank has grown to the extent that we own sufficient supply for an ongoing market share, in excess of 50%, of the housing lots in Saskatoon and Regina for at least the next 30 years. Our inventory in Calgary, owned and under contract, exceeds 9,000 acres for the first time and will keep us in production for more than 20 years.

- A retail division has been created to develop retail on our lands and a multifamily division has also been created so that we can build multifamily projects on our lands. Each division should commence its first projects this year.

The amazing thing about the accomplishments in 2012, is that they are not one-year accomplishments. The creation of a well-known real estate asset manager has already paid off in 2013 with Dundee International raising \$253 million in one bought deal that will be used to fund the \$580 million acquisition of office properties in Germany. Dundee Industrial has issued \$115 million in equity that will be used to acquire another portfolio and some individual properties. Dundee REIT has about \$400 million of properties in the pipeline. Altogether, we are working on about \$1.3 billion of acquisitions in the first quarter. With each quarter that passes, the REIT's demonstrate that they are in better and better shape. We are proud of the businesses and performance that each is offering the public.

In 2012, only about 3% of our land was utilized to produce the record profits. Our land development future looks better as a result of the investments and approvals that were received in 2012 and prior. The single most significant change may be the progress that was made on the building side. We are ramping up our home building capacity in Saskatchewan from 200 per year to be 500 per year within a few years and we are targeting to build out 25% of our retail and multi-family sites to increase our profitability from the lands we own.

Our expectation is that the record-breaking results achieved in 2012 will not remain a record for long.

### **Canadian Land and Development**

We are combining our urban development group in Toronto with our land and housing group in western Canada and creating a Canadian Land and Development division. The combination reflects the new reality that all of our community development people are working together regardless of where the land is located. The main driver behind this change is the desire to maximize profits by doing more of the development on our own lands.

Land activity generated \$26 million of net income in the fourth quarter and \$73 million for the year, a 14% drop for the quarter and a 13% increase for the year. Weather had an impact on our results in 2012, preventing us from completing the servicing of 200 lots in Saskatoon. These sales will be booked in the first quarter of 2013.

Our housing division produced a \$10.6 million profit in the year compared to \$11.5 million last year, the difference being the completion of our housing participation in the Vaughn lands. Excluding the effect of the Vaughn project, our housing profits in Saskatchewan increased from \$9.1 million to 10.3 million, based on 242 home sales versus 218 in the prior year.

Our condominium business produced a \$12.3 million profit this year compared to a loss of \$1.9 million last year, driven primarily by the completion of Clear Spirits at the Distillery. Many projects will be finishing over the next few years and we expect to continue generating meaningful profits from current condo projects through to 2017. Our loss last year is from expenses related to current projects that will become profits when the condominiums are sold. In addition, our Colorado project had a loss of \$1.6 million in 2012 compared to \$1 million in the prior year. This painful development is likely to be behind us soon as only 12 units remain from the original 64 units. As you may recall, these units were pre-sold, but due to the financial crises, we have had to resell them at a massive discount. The laws in Colorado are very favourable for the purchaser compared to the laws in Ontario.

We have begun our retail development process. Two of our colleagues attended the International Council of Shopping Centres (ICSC) conference in Whistler, introducing Dundee to major retail tenants that operate in Canada. Generally, they were all surprised to see how big our operation is and were pleased to establish a connection with us so that they can position themselves for exposure to some of our markets. We have chosen a 9 acre site in Edmonton to be our first development. We are currently working with development consultants to define all of the technical requirements of each tenant and the pricing for construction as well as negotiating long term leases with some tenants.

2012 was a very busy year for land acquisitions. We acquired 300 acres in east Saskatoon as part of the Holmewood community, which will house 72,000 people on the 2,500 acres that we own. We have also acquired a further 400 acres just west of Harbor Landing in Regina. In Calgary, we bought 1,262 acres in Providence so we now own about 1,800 acres in this area or almost 50% of the entire community. In Edmonton, we bought 150 acres south of the city. We are trying to assemble a new community and will continue to grow our holdings in Colchester and Leduc.

In addition to the lands acquired in 2012, we also have almost 2,000 acres of land under contract in Saskatchewan. We have 450 acres under contract in northwest and east Saskatoon and just over 1,500 acres in Regina, split between the area west of Harbour Landing and in the northwest section of the City.

Altogether, at year-end we owned, or had under contract, 9,300 acres of land, which secures our future as a real estate developer. Since December of 2009, land acquisitions have totaled over \$400 million, of which about \$300 million was paid in cash from operations and the remaining \$100 million will be paid over the next three years, again out of our operations.

The most significant change in the fourth quarter was the creation of Dundee Industrial REIT. Dundee REIT became a pure play office REIT once it sold its industrial portfolio for about \$575.5 million to the new REIT. Dundee Industrial also bought about \$90 million of partnership interests from ROI. There was an exceptional level of interest in the IPO and so once it was completed, we immediately entered into a contract to acquire \$500 million of properties from KingSett. To finance the acquisition, we raised \$200 million in equity and convertible debentures and issued \$50 million of securities to KingSett. We grew from the initial portfolio of about \$650 million to \$1.3 billion in very short order. Dundee Industrial REIT has traded very well and is now Canada's largest industrial REIT. As a result, Dundee Realty has now created and manages three REIT's, each of which provides a distinct market leading exposure to a different type of real estate: Canada's largest office REIT, Canada's largest industrial REIT, and Canada's only non-North American REIT, which is also about to become Germany's largest office REIT.

The Pan Am Games Athletes' Village is proceeding on schedule and on budget and we anticipate being Games' ready in the beginning of 2015. The Games commence in August of 2015 and then we will need to finish the conversion to the legacy residential use when the properties will all be turned over to their owners.

Dundee is responsible for the marketing and sale of two market buildings. The first building, consisting of 369 units, was launched in June and we have sold 208 units. We have another 50 units that will be part of a program where the government helps first time buyers to acquire units. As a result, we have about 100 units left to sell in this building. The next building, which is about the same size, is very well located and will be offered next year. The perception of the area is continually improving and, as construction progresses, we believe that demand for the units will be more than adequate to sell all of the market units prior to occupancy.



We have \$15 million invested in this project and have provided \$41 million in letters of credit. The project will generate a reasonable return as we will receive our investment back plus another \$50 million in profit.

For perspective, taking into consideration the capital that is tied up, the profit and the rate of return on this project is lower than at least ten different parcels of land that we have acquired in western Canada over the last two years and the Pan Am Village has taken much more management time and effort than development in western Canada.

By the way, the Canary District (our name for the Pan Am Village) won urban community of the year at the National Homebuilding Association Conference in Las Vegas in February.

### **Asset Management**

Our asset management business has thrived in 2012. We have grown our assets under management to \$13 billion, of which about \$11 billion is subject to the long term REIT contracts.

In total, we generated \$44 million of revenue with \$9 million of expenses for a total profit of \$35 million. In 2013, we have budgeted similar profits based on acquiring half as many in assets. Acquisitions drive the base fee and the acquisition fee so the acquisition volume is a very important driver of profitability for the manager. If we acquire more than the \$2 billion budgeted, we will continue to grow the profitability of the asset manager. If we assume \$2 billion of new acquisitions a year, our earnings would be flat in 2013 and would then start growing by about \$ 5.5 million a year depending on the mix of assets acquired in Europe because they have a higher management fee.

The success of the asset management business is providing value to our shareholders. Dundee REIT generated a return of about 20% in 2012 and is reasonably priced today so we believe that 2013 is likely going to be another good year for Dundee REIT.

Dundee International is executing on its strategy. It returned about 17% in 2012 and is likely to have a good year this year as well. Dundee Industrial had a great start in the fourth quarter, generating more than a 10% return in its first 90 days; however, it is too early to know how accepted it will become.

We have set up increasingly independent dedicated management teams for each REIT to ensure that investors know that each listed fund is getting the appropriate attention. We need to market the businesses more in 2013. We are concerned that we do not dilute our brand. Dundee REIT has not raised money since last May. I thought that this break would be good for the stock price but it hasn't really helped at all. I think people are concerned that we are not as interested in the office REIT now that we have the industrial REIT.

The REIT's are all trading reasonably well compared to net asset value, and are in the middle of the pack on many of the valuation parameters. I think that, for the most part, trading at asset value is the fairest way to build long term value for all of our shareholders because they get a fair deal when they buy in, we have to use our capital wisely and if we can manage above average growth, our long term returns will be very attractive.

### **Last Bit**

The overall economy is a bit worrying. The good news is that the rest of the world is doing better now, which should be positive for Canada. The inverse is that Canada is not outperforming as it has over the past few years.

The concerns with respect to the housing market and the potential correction continue to linger. We have been dealing with this sentiment for a long time, however, that doesn't mean that it's not going to happen. CMHC is calling for a reduction in housing starts next year, but when you drill into it, our markets are predicted to have very high housing starts although not quite as high as 2012. Our lands are in very attractive markets and are among the best in each market. Although there is always risk, having the best lands in growing communities is the best place to be. Our balance sheet is very strong and we are well positioned to manage our way through tough times, should they appear, and, at the same time, we are well positioned to benefit from continued strength in our four major markets.

Dundee Realty is very well positioned with recurring income way in excess of our overheads, excellent strategic land holdings in growing communities, a motivated team of real estate professionals and wonderful partnerships within the financial community and real estate community.

Over time, we expect that the value of our lands and our people will continue to generate very high risk adjusted returns.

## **Back to Ned**

### **DUNDEE, GOODMAN PRIVATE WEALTH**

We have necessarily rebranded our investment advisory and private client brokerage subsidiary of Dundee Securities Ltd. as Dundee Goodman Private Wealth because of the confusion with DundeeWealth's new ownership by the Bank of Nova Scotia. We embrace the style that built our long term reputation on portfolio management expertise. We know our clients as people – individuals with concerns and goals unique to them. Our vision and commitment is driven by our past career history where we strictly believe in providing expert professional advice to those who have entrusted us with their wealth. Our "Investor First" philosophy in building portfolios and managing money is what sets us apart. This approach is foremost about recognizing and respecting the needs of individuals who may rely on us for guidance, expertise and skill in helping to maintain and grow their savings and investments. Dundee Goodman Private Wealth will be home to licenced IIROC Broker Portfolio Managers and Investment Advisors who will deliver expertise to those clients who have accumulated enough savings and investments to appreciate and value the help of an expert. Our Dundee Goodman advisors serve individual Canadians across the country, through specialized teams or as individuals, and they have access to experts to help them champion strategies that meet the financial needs of our clients. Their portfolio strategy begins with our Goodman & Company Investment Counsel best-in-class research along with the specific industry research prepared by our Dundee Capital Markets division and a comprehensive investment selection, including large, mid and small cap equities encompassing all sectors of the marketplace including bonds and fixed income securities, as well as new issues and private placements. Goodman & Company Investment Counsel retains the same name and principles of investment that were able to build Dynamic Funds into the best performing mutual funds in Canada prior to the sale to the Bank of Nova Scotia. Whether it is investment planning, retirement and estate planning or insurance planning, the result is a portfolio best suited and tailored to each investor's individual needs. My personal reputation has been built on our historic ability to deliver consistent top-quality wealth solutions, without the bulkiness or bureaucracy of a large institution. We know that our clients come to us for our expertise, our integrity and our experience, and for our single-minded focus on them and the protection of their wealth.

From my personal perspective, we are clearly living today at a time where there does not seem to be a way out of the global monetary madness that seems to exist everywhere with continuous upping of the monetary ante by the gamble of the US Federal Reserve and other policies to revive the US economy. We may be heading in a direction that will not be totally comfortable. Ben Bernanke tries to operate on the basis that his job is really easy. The use of zero interest rates and now unlimited Quantitative Easing, while easily understood, has already failed to deliver a better economic time for the US.

By all measures we should expect to live with global slower growth and likely for a very long time. In a recent paper, "Debt Overhangs: Past and Present", authors and economists Carmen Reinhart, Vincent Reinhart and Kenneth Rogoff suggest that the US economy might not recover completely until 2030. The authors are working with the same background ideas that are our concern. The US and much of the rest of the developed world are now contending with unprecedented debt levels that have built up since the 1940's. They say that when "gross public debt" is excessive, as it is today, slower growth is existent for a "very long time". "Excessive debt" is when "gross public debt" is in excess of 90% of gross domestic product, which is the current position of the US and many other countries. As is usual, the Rogoff et al paper concluded by looking back in time, and has been severely questioned by others, but not us. But the current situation is likely to be in the average of 23 years, thus 2030 or later. To the extent that emerging markets are not weighed down by excessive debt baggage, emerging countries have the best likelihood of growing their economies and have better investment opportunities than developed countries.

Yet while central bank activism has been dramatic, it is hard to see why the central banks should be quite so confident in the powers of their toolkit. It is not as if they have an impressive track record. Few if any of them predicted the global financial crisis of 2008, a prime cause of which was central bankers' narrow focus on CPI inflation targeting and failure to understand the implications of rapid credit expansion, most particularly of securitised credit. Yet confident they increasingly are. At this point it is necessary to delve a little into some of the theoretical justification for unorthodox monetary policy or quantitative easing.

The purest theoretical justification for quantitative easing is that it is not pure monetisation because the central bank buys government bonds or other similar securities from private-sector investors in the secondary market. This is not deemed inflationary because the private sector has already used real resources to purchase those bonds in the first place. If this is true in theoretical terms, the argument clearly becomes increasingly tenuous the greater the percentage of government bonds owned by a central bank. For while the official central-bank line is that these bonds will either be sold back into the market or allowed to mature, the market consequences of such an exit strategy become ever more potentially explosive the greater the amount of government bonds outstanding owned by a central bank. This is why in the real world, where central bankers are increasingly susceptible to political pressures, the temptation will rise if economies do not recover sufficiently to move in the direction of starting to buy government bonds direct in the primary markets on an open-ended basis, as occurred in Weimar Germany, without the private sector giving up any claims on those bonds. That is clearly the path to inflation and perhaps hyperinflation.

The outright embrace of the eroding distance between monetary and fiscal policy is in this writer's view very dangerous, since it represents the classic "thin end of the wedge". But there is also no doubt that such theories will be very attractive to politicians because they provide a theoretical justification for what they will be tempted to do anyway. It is in this context that it is already possible to hear seemingly

serious observers advocate that central banks should simply cancel the government debt they own. This represents the ultimate erosion of the distinction between monetary and fiscal policy, where the integrity of the central bank's balance sheet is no longer viewed as important.

But nearly six years after the financial crisis began in the summer of 2007 it is important for us to understand that this is the direction in which policy is heading. Markets may be hoping for normalisation, but the reality is that central bankers are becoming ever more unconventional. Indeed, rather than contemplating exiting such policies, the central banks are moving further and further away from the exits.

Now, it is true, so far quantitative easing has not led to the inflationary outcome predicted by many of us bond bears in recent years, which is why the average G7 10-year government bond yield is still only 2.02%. This is clearly because of the continuing deleveraging process and the related monetary phenomenon of declining velocity.

I have learned from my early days of the 1970s that when "the boys", the central bankers, begin to have regular meetings with each other it becomes increasingly likely that they are up to something. They don't visit because they like each other's company. The fact that we hear of many of these discussions makes it more likely that they are concerned and that we are about to see the next instalment of money printing "while kicking the can" that started five years ago when the first monetary crisis took place. Clearly, "the boys" must be concerned about the currency changes taking place and Japan's successful inflationary binge in order to fight off deflation which has been pestering them for some time.

Something else I learned a long time ago is that central bankers are not required to tell the truth. They work with "insider information" and the necessity to tell us lies if that is what is required to keep their countries economically stable. Their words are not to be trusted, just as Jim Grant warned us.

It is also interesting and timely that while proofreading the above I received a copy of Christopher Woods' CLSA quarterly review which highlights his lead article within this report's properly entitled: "[The Conceit of Central Bankers](#)".

"As if a bell had rung, the New Year began with a surge of cyclical optimism among investors, most particularly towards the US economy. There was growing confidence that the American economy is "normalising", a view driven to a significant degree by increasing evidence of accelerating activity in the US housing market. This led to a growing consensus that, sooner or later, the American economy would achieve "escape velocity" – a central banker term.

If the above is a crude description of the sentiment which has been driving financial markets, the reality is that, while investors may be hoping for normalisation, the behaviour of central bankers remains anything but normal. The Federal Reserve continues to pursue open-ended quantitative easing at a pace of US\$85bn a month, and for now at least has given no clear indication that it is about to slow, let alone stop, its purchases of Treasury bonds and mortgage-backed securities.

If the phenomenon of "unconventional orthodoxy" as described is becoming ever more entrenched among the central bankers, it is also the case that they are increasingly confident that their unconventional policies will work. They are also becoming bolder in seeking to justify these policies in theoretical terms.

The growing self-confidence of activist central bankers in the pursuit of unconventional orthodoxy is important for investors because it will drive policy. It is also rather scary. For the reality is that G7 central banks are in the midst of a grandiose monetary experiment which, so far as this writer can tell, is unprecedented in recorded financial history. The experiment is still best reflected in the chart of expanding central bank balance sheets.”

Thank you, Christopher Wood.



## **DUNDEE ENERGY LIMITED**

Dundee Energy Limited Partnership (“**DELP**”), is a wholly-owned limited partnership of Dundee Energy, which itself is owned as to 57% by Dundee Corporation, “DELP” holds an approximate 90% working interest in 84,293 acres of onshore oil properties and an approximate 65% working interest in 904,036 acres of offshore gas properties, all located in and around Lake Erie in Ontario. The Corporation also holds a 100% ownership interest in an onshore drilling rig, and an approximate 65% ownership interest in certain other assets, including an offshore fleet of drilling and completion barges, and six gas plants/compressor stations that are located onshore and process offshore dry gas.

The majority of the DELP’s 10 MMcf of natural gas flows from offshore wells on Lake Erie that produce from Silurian age sandstone carbonates at a maximum depth of 550 metres. No oil or condensate is allowed to be produced from these wells. Natural gas is transported through a pipeline grid on the bottom of Lake Erie to one of six onshore processing facilities. The Corporation has entered into transportation agreements with pipeline companies and the majority of its natural gas is transferred to the Dawn Hub, which is conveniently located proximate to the Greater Toronto Area, at which point it is sold to third parties.

Approximately 700 bopd of sweet, light oil and condensate production is produced from Ordovician and Silurian ages carbonates in Ontario at a maximum geological depth of 850 metres. Oil and condensate is trucked from six oil batteries and several single well locations to Sarnia, Ontario and is subsequently sold to third parties.

The Corporation has received a technical report compliant with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (“NI 51-101”) by Deloitte LLP, an independent qualified reserve evaluator, dated February 11, 2013. The report estimates that the Corporation has proved and probable working interest reserves of 82,067 MMcf of natural gas and 2,681 Mbbl of oil and liquids, with a working interest reserve life index of 23.2 years on natural gas and 9.4 years for oil and liquids.

In 2013, the Corporation’s drilling activities in southern Ontario will focus on increasing light oil production and reserves from existing pools and drilling exploration wells to evaluate new horizons in southern Ontario that have geological potential yet are virtually untapped. The Corporation’s 2013 CAPEX program will include projects within its \$10.9 million approved budget and approximately \$10 million from a recent Rights Offering.

### **Dundee Energy and Castor Underground Gas Storage Project (Castor Project)**

The Castor Project is owned as to 25% by Dundee Energy and is a key component in the Spanish natural gas system, utilizing the abandoned Amposta oil field, located off the eastern Mediterranean coast of Spain. We were the drivers in the creation of a natural gas storage facility. The Castor Project remains of fundamental strategic importance to Spain, given that the country imports virtually all of its natural gas and of which the significant portion comes from North Africa. The Castor Project facilities include two offshore platforms including a wellhead platform for 13 wells and a processing platform for processing and other facilities; an onshore gas treatment plant located in the municipality of Vinaroz; and a 30-inch diameter pipeline linking the onshore facilities and offshore processing platform.

With a working gas capacity of 1.3 billion cubic meters, Castor will contribute approximately 25% of Spain's gas storage capacity. Importantly, its high rate of deliverability will be fundamental to ensuring supply continuity in the event of disruption of gas supplies, and in efficiently moderating seasonal and daily demand peaks.

#### **Ownership Structure**

The Castor Project is managed by ACS Servicios Comunicaciones y Energia S.L. ("ACS"), a large construction group in Spain and a 67% shareholder of Escal UGS S.L. ("Escal"), the owner of the Castor Project. Castor UGS Limited Partnership ("CLP"), the Corporation's 74% owned subsidiary, holds the remaining 33% interest in Escal, providing the Dundee Energy with an effective 25% interest.

The construction of the Castor Project is complete, and is now subject to testing and subsequent commissioning into the Spanish gas system. On July 5, 2012, Escal was granted the provisional commissioning certificate necessary to commence the injection of cushion gas into the Castor facilities. This key milestone signified that the facility is ready for service, subject to the injection of cushion gas and certain subsequent performance testing.

The injection of cushion gas was temporarily delayed as a result of certain regulatory changes introduced by the Spanish Government in April 2012, and which affected negatively the economic parameters of the Castor Project at a critical point when it was ready to go operational. In the intervening months Escal worked with the Spanish authorities to ensure the economic viability of the Castor Project. At the end of 2012, the Spanish authorities issued further regulatory changes, which were acceptable to the owners of the project and to the lenders.

In July 2010, Escal entered into a 10 year €1.3 billion project financing arrangement with a syndicate of banks to complete the construction of the Castor Project. In accordance with the agreements with ACS, during the construction phase, and until commissioning of the Castor Project and its formal inclusion into the Spanish gas system, ACS assumed all responsibility for all funding of the project, other than that provided directly by the project financing, as may be required. Notwithstanding any additional funding provided by ACS, CLP remains entitled to 33% of all distributions from Escal. Other than the pledging of its shares in Escal, CLP will not be required to provide any additional equity or debt funds or provide any warranties required by the project finance lenders. The 2010 agreement, while under a current update, remains with similar terms as related to Dundee Energy.

It's April 2013 and the economic soothsayers appear to have abandoned using the "Great Moderation" and the "Goldilocks Economy" as descriptive economic systems. Instead, the financial world seems to have accepted "Botox Economics". Botox, of course, is a toxin commonly used to improve a person's appearance. However, the affect is only temporary and with sometimes significant negative side effects. As the global financial and excess debt crisis continues to roll along, it does so with "Financial Botox" as a flood of money from central banks and governments covering up previous unresolved and, perhaps, very serious problems. One cannot forget the famous Will Rogers' statement: If stupidity got us into this mess, then why can't it get us out?"

Keeping the global debt bubble inflated is taking trillion dollar deficits which are now supplemented by open-ended central bank money printing on a global basis. We are watching the creation of the ultimate financial bubble in money itself. Each monetary stimulus, be it in Euros or dollars or whatever, must be even more aggressive than the last. This is not a sustainable position. As investors we should be, at the least, in preparation for an explosion in an inflationary manner and/or a major currency crisis of some kind.

While most of the obvious outlook for the year 2013 carries total uncertainty, there are three things of certainty for this writer:

1. Inflation will go higher
2. Yield of any kind will be the attraction and will be at higher and higher rates
3. The commodity super-cycle is not over

Inflation is a certainty because without any other reasons, and there are many, it is a political and financial tool that allows for deleveraging of debt and payment of deficits. In addition, politicians very seldom get elected by causing deflation. Almost everyone likes inflation. If you are a government and inflate prices, then you keep people struggling and working hard to keep pace with inflation. The poorer the people are, the more likely they can be kept under control. In addition, inflation for rich people is taxable and deflation is less so. No government ever has an incentive to deflate, but has incentive in fact to inflate. Voters prefer inflation to deflation.

From a global economic outlook, 2013 will be a pivotal year for the world. While an inflationary atmosphere could be overall positive there are many risks of unintended consequences such as a total fiscal stalemate of the Eurozone potential breakup along with the possibility of currency devaluation which could provide problems. The shifting global economic landscape could provide unique higher risk opportunities for investment, and the skies are not clear ahead. We may be living in the most psychologically critical time for the stock market since 2007 and in this writer's opinion we remain within the secular bear market that started in 2000 and may have six to eight years left to go.

In the last 40 years the world has seen that debt has been accumulating. Yes, the economy has grown, but costs and asset prices have risen faster and debts have risen even faster. Debtors - from home owners to companies to countries - have made promises to pay they will never be able to keep.

Cleaning up the mess, if at all, will take a long time. After forty years there could be many defaults, recoveries and false starts. The debts will have to be repaid by governments with inflated money or devalued currency or end in outright defaults. The global economy is under severe distress and in crisis - something different might have to occur to fix this problem, which might be greater in magnitude than the 1930s which caused FDR to seize all the gold from the US citizenry at \$20 and raise its price by 40%

to \$35. Today the gold price is \$1400; a 40% increase will not be enough but assuming a 50% increase gives us a gold price of ±\$2100 and maybe higher.

One thing is very clear as far as the stock market in general is concerned – US cyclically adjusted price earnings multiples is currently high at 22 times. This is the upper end of the 130 year range since 1881 which has averaged about 16 times adjusted earnings.

The thing to do at times such as now is to remember that the best and only time to plant a tree is twenty years ago.

Noted US investment counselor, Howard Marks, in his recent blog told us:

*"The world seems more uncertain today than any other time of my life."* That's a simple sentence but one with significant implications. And it's not just me. Here's what The New York Times said on August 12 in an article about John Bogle, the founder of Vanguard:

*"It's urgent that people wake up," he says. This is the worst time for investors that he has ever seen – and after 60 years in the business, that's saying a lot .... "The economy has clouds hovering over it," Mr. Bogle says. "And the financial system has been damaged. The risk of a black-swan event – of something unlikely by apocalyptic – is small, but it's real."*

*"There's a very human tendency to think things will stay as they are, and if they change, that they'll revert to what we're used to. Most people think of economic growth as the norm; after all, that's been the general rule during our lifetimes. In fact, the global economy has grown nicely for hundreds of years. That's something "everyone knows". But how many people think about where economic growth comes from, and whether it's naturally occurring and inevitable?"*

*But economic growth doesn't just happen. Its vigor depends on a combination of population gains, a conducive infrastructure, positive aspiration and profit motive, advances in technology and productivity, and benign exogenous developments. In many ways and to varying degrees, I think the future for these things in the US is less good than it was in the past. The birthrate is down; our infrastructure is out of date; it's uncertain whether technology can add as much to productivity in the future as it has in the recent past (but perhaps it always is); and mobility up the income curve has stagnated."*

In Dundee's last year's Annual Report (Page 19) we reported to shareholders that our asset management activities had "toyed with" the idea of creating a global resource fund with outside investors, and had rejected the plan because the potential buyers were not in tune with our investment theme that was and still is based on the expectation of a global inflationary environment. Our investment outlook looks forward for five to ten years and maybe more and the investors we met wanted the ability to redeem on demand. We saw this as too much like the mutual fund business that we had just sold because we are of the belief that it is almost impossible to get significant returns through an investment vehicle that must have liquidity for regular redemption of any kind. The success of my personal investment has been because I can take a long term holding periods and wait for better returns.

We said last year that, "our choice of vehicle for investing is going to be closed-end funds". We described closed end funds as a misunderstood tool for investors, because they are called funds, but really behave like individual stocks or companies and have a greater investment latitude than mutual funds.



We knew that our target market was the higher net worth accounts who would be prepared to accept the time span that our investment process would require. Highlighting the fact that, unlike mutual funds, we can be directors and advisors to our invested companies, i.e. watch closely and be fully informed of the action of the business managers. This latter part is a very significant necessity for successful investing.

Well, no sooner had we got prepared to move forward, the regulatory bureaucracy comes up with some more rules and policies, especially as related to “closed end funds”. And guess what? The new rules will have it that closed end funds are required to be investment managed in the exact same methodology as mutual funds. As things go, this was a serious disappointment for us, but part of the game we have to play in the special Canadian world of regulatory strangulation, a process that is likely to take on even more policies that are only acceptable to our strongly centralized banking establishment. The banks today own the stock exchanges, control the Investment Dealers Association and have tremendous clout with all of the regulators for investment brokering, banking and advisory as well as the Ontario Securities Commission.

Without giving too many other clues of what we intend to do about our asset management activities we are going back to the basics of how I started my career. We are capitalists and in order to be saved from regulatory strangulation we have to be smarter, rather than more powerful, than the cartel, and use innovation and successful investing to stay in the investment management business.

We are living in an economic environment where Canada looks absolutely great as compared to the US, Europe, the UK and many other countries. Our plans for investment remain slow and steady with a merchant banker’s outlook “where risks are taken by the entrepreneur in order to promulgate a new business or better business idea, and make it work.” Our main goal is to invest in those businesses that make money and to acquire them at prices that are less than they are worth. Our strategy includes – slow and steady, wins.

John Templeton always told us, “Do not tell me where the news is best – tell me where it is the worst”. Guess what? Today it is the worst in the mineral industry, especially in gold.

I continue to consider that gold and gold stocks are still in a long term secular bull market that began in late 1999 and early 2000, and today gold and gold stocks are recovering from their recent lows created by the Goldman Sachs “go-short warning” of April 10<sup>th</sup>, 2013.

At current prices, gold as a commodity looks historically inexpensive when compared to historical prices. Gold as an ETF is under siege today and maximum pessimism is being delivered in the midst of a very long term secular bull market for gold in bullion format. This is a very unique set of timing, not unlike the early days of the 1970s when gold at \$100 an ounce was a pure giveaway. Prices have been created by false and manufactured pessimism. Within a more secular bull market we can expect unbelievable opportunity for significant gains. The overall market for gold is still in a bull market but the current situation is acting like a bear market. As John Templeton said, “Buy at maximum pessimism”.

The US Federal Reserve led by Ben Bernanke is talking out of both sides of his mouth. In late February he said that due to signs of improvement in the economy (that only he saw) he might stop buying debt and printing money. Nonetheless, the \$85 billion of debt he buys each month continues like clockwork, even today, in May.

For what it’s worth, the view that we are continuing with is that gold and gold stocks are very cheap and our valuation techniques are flashing by. We cannot see how the Fed can stop printing dollars, and we

can see that the Euro will likewise be in print mode as is the Japanese yen. There is no need for the Central Banks of the world to start tightening. In fact, there remains significant need for the Europeans and the Americans to continue and perhaps even expand their printing. There is no real recovery in the US economy, it's all forms and shadows. Participation rate of US labour is at, or near, all time lows, at the same time that the true number of unemployed is near all time highs. The entire so-called US economic recovery we are witnessing is almost entirely driven by those ultra low interest rates they are enjoying. Let's not forget that, unlike you and I, the US Federal Reserve has an unlimited cheque book. The Fed has no need to get a job or find any way to earn the money it freely spends. In fact, the more the Fed spends, the more it earns, as the creation of the money it needs to buy bonds builds their balance sheet and gives them "through the click of a keyboard" the ability to provide the major banks with credit that they can invest or lend while the Fed receives the interest of those debt securities it purchases.

It is interesting that the FOMC minutes have many words of caution about the potential dangers of printing \$85 billion each month. Yes, we know that there are not really any paper bills being printed. The purchase provided to the accounts of the major banks of the US is credited with notes. Most economists will tell you that money created in this manner is money on steroids because this fictitious money when provided to the US banking system can then be leveraged up, providing even more money.

In mid-April 2013 the International Monetary Fund hosted a conference of some of the world's top macro economists in order to get an assessment as to how "the most intense crisis to have shaken the industrialized economies since the Great Depression of 1929" has changed the economists "collective understanding of how the world's economy works." The remarks ranged from- the recent crisis can be compared "to a cat stuck in a tree afraid to move" to "we don't have a sense of the final destination" to "where we end I really don't have much of a clue"; to "we are still very much navigating by sight" as to the "focus is required to be on inflation and the prevention of further bubbles".

The overall conclusion is "that the gap in knowledge is downright scary" - "Oh my God, the cat has been in the tree for five years, it's time to get the cat down out of the tree and figure out how to make sure the cat doesn't go up the tree again" - "We don't have a clue of what financial stability actually means".

One thing that they all seemed to agree upon is that any solutions that the central bankers say they have, are elusive and more than likely illusory and their words are really designed to make us all feel good.

To my mind, this kind of thinking is very natural to our psyche. Economists in general know that the 2008 financial crisis impended a consensus. They all thought that the only thing that was needed to run a prosperous economy was to keep inflation low, and strive for fiscal balance while eliminating regulation. However, in spite of all that, they and us find ourselves in a complex and very fragile world – a world where any kind of financial bubble is important to our wealth.

We are further finding out that low interest rates and low inflation (as recorded) are not giving us the capital flows and stimulus growth. Government spending is the only tool at work and its factor is slow but steady.

At the same time, we live in a world where total government debt is mostly stuck at around 100% of its combined economic gain in output and there is a broad personal feeling of likelihood that a death spiral awaits us as soon as interest rates turn around and when inflation goes a lot higher. We can see what

happened to many global economies when the crisis hit and they were only in debt as to 50% of GNP. What will happen in today's environment where many countries are approaching 100% debt to GDP.

Austerity this time is not working – inflation and stagflation are waiting to happen and we are not ready. At the same time, we are witnessing an around the world program of tighter positioning. Banks are obliged to raise capital at higher and higher levels and those larger “too big to fail” bankers are facing rules and regulations designed to be regulatory strangulation.

That previously mentioned IMF-invited group of economists, as well as others on the sidelines, had very few answers that make us feel good. “We don't have a clue of what financial stability actually means” said Oliver Blanchard, Chief Economist of the International Monetary Fund. If he doesn't, where do the mass of stock buyers today get their good news? The stock market has been known to be dangerous to your wealth from time to time – this might be one of those times. We know that the imbalances that have existed over the last 20 years must reverse themselves and we also know that imbalances can continue for many years.

But at some point, these imbalances will become unsustainable and the world will have to undergo a massive rebalancing. Large trade surpluses can decline because exports fall or decline because imports rise; but any policy that does not clearly result in a reversal of the global deep debt and capital imbalances of the last ten years is a policy that cannot be sustained.

Something has to change. Hopefully, the policy makers can find, design and implement the least painful way of getting there. They will try, but whether or not it happens in an orderly fashion or creates greater disorder is an unknown.

And it is likely to be totally the political considerations that determine the entire process. How it takes place will have a definite effect and will set the stage for the world's future growth or future stagnation. My guess is that we have now ended the first stage of the global crisis and the powers that be have identified the deepest problems. In 2013 we are beginning to see how the policy makers are responding but we are still without any real clues of what the future outlook is likely to be. We should be aware of:

1. How quickly economic growth adjusts
2. China's GDP growth
3. Japan's inflation
4. The late stages of a debt bubble will always bring forward frauds and scandals.
5. There will be much new debt in 2013 and there will also be inflation. The place to be is in hard assets – commodities, land, real estate, etc.

In the new world of economic competition and Third world conflicts, it will be less necessary for America's allies in Europe and Japan to continue supporting the dollar or financing the deficits. The result to be expected is a crisis sometime soon, a crisis of transition.

Imperial overreach and economic decline are not superficial problems that can be whisked away by a change in marginal tax rates. They involve incentives and relationships deeply imbedded in the political and economic system. Their cure will be measured in terms of generations. There is a great likelihood that the US can lose the world reserve currency privilege of the dollar and have to really borrow and print dollars.

## The Future of Asset Management

I have been a professional asset manager for over fifty years. Many years which included portfolios of publicly traded stocks and bonds for wealthy families, banking institutions, pension funds of major companies, mutual funds of diverse holdings as well as the creator and provider of “tax flow through” investment dollars to a hybrid of junior and senior Canadian resource companies.

I have come to realize that a lot has changed since 1962. In fact, a lot more has changed since 2002. According to the CFA Institute whom I quote herein: “In 2002 asset managers were still smarting from the fact that ‘Yahoo’ did not take over the world.” “Institutional investors were firing balanced managers and replacing them with “specialized ones” (whatever that is). ETFs were just coming out as a niche product which really did not look any different than an index fund or most similarly specialized mutual funds. Spreading risk through structured derivatized vehicles like collateral debt obligation was incorrectly thought to lower risk not to increase it. And so, said the CFA Institute, it was generally unrelievedly agreed that Alan Greenspan “was the wisest man in the world”. Of course, says the CFA Institute today, things look different now. It is safe to say that very few people projected those ten years from 2002 to 2012 as they turned out.

So how do they think it is now going to be for asset managers in the next ten years?:

- revenues are not going to grow as fast
- margins will be compressed
- there is a shift out of high margin to lower margin products
- profitability will be down
- competition will be increased
- the ETF market will continue to grow
- enhanced indexation or engineered beta (whatever that is) will take on market share
- along with a host of other negatives as related to asset management participants

Each day that goes by since the sale of our DundeeWealth Asset Management company to the Bank of Nova Scotia is beginning to feel better and better.

In the preparation for the year-end financials for our company I was not comfortable in calling us asset managers because of the manner we were required to present our company and express ourselves as a result of the many different companies in our privately owned portfolio. I quickly learned that the new IFRS accounting rules were created by really smart accountants that found a way to increase their fees not once but twice. The first time when you use IFRS and the next time when they will change it back to GAAP because it just does not make a lot of sense to use IFRS.

But for me it was like my old days as a geologist, discovering visible gold in the logging of drill core as a gold mining exploration procedure.

By chance I thought that our Dundee business style was more closely paralleled to Berkshire Hathaway than to any asset management company and I was able to convince our CFO and our auditor that I was correct. So if you are one of the shareholders who actually reads our financials, let me assure you they are as correct with IFRS as much as Berkshire Hathaway is with the old but smart US GAAP procedure.

But what did I learn from this very time consuming escapade that I say found visible gold for me? I learned that companies like Berkshire Hathaway as well as General electric and other pure banking and venture players are not really companies as I, as a Chartered Financial Analyst came to know companies.

They are really portfolios of diverse assets. In addition to being smart like Warren Buffett and Jack Welch the leader is essentially a portfolio manager, just like me but with complete access to all inside information and knowledge about their holdings as well as their potential purchases prior to purchase. When Google first went public at \$87 per share, the “Private Equity” venture company called Kleiner, Perkins was able to sell their shares of Google which had an original cost of 40 cents per share at time of purchase and they had full knowledge of Google as a private company with a business plan giving all necessary information in a better fashion than a prospectus.

### **Regulatory Strangulation**

Don Mosher, a business consultant with B&D Capital in Vancouver has given an interview to “Streetwise Reports” firm Petaluma California. Mosher’s views are very similar to mine, but as a member and until recently a shareholder of the Toronto Stock Exchange it was not appropriate to publicly share my personal views. So thank you, Don, for giving me this opportunity to say that I totally agree with your comments.

Don’s view is that the TSX Venture Exchange which used to be, when in Vancouver, the leading Canadian Exchange where entrepreneurs were able to float public issues of junior companies and take that advantage as to why stock exchanges were first invented – to create new companies and give them a place to raise money and hopefully become senior companies.

Don, however, correctly points out that there are today too many ridiculous regulatory barriers that are putting an end to the whole capital market process in Canada. The increase in regulation – in Don’s view and now mine as well – is that those great big and cartelized Canadian Chartered Banks have taken over the Toronto Stock Exchange, along with the Investment Dealers Association and by virtue of outright ownership they are monkeying with the regulatory necessities in a manner that leaves the typical start up junior Canadian company with nowhere to go. Banks as underwriters have no interest in junior companies in Canada or elsewhere.

To quote Don: “if regulators continue to put up all those barriers, venture money will go somewhere else”; which I can confirm is already happening. “They’ll create new avenues to fund money. Take crowd-funding – it’s a relatively new creation, but it has taken off like crazy. Why? It’s an easier way to raise money as a startup. Private funding has become much more prevalent in the oil and gas industry, for example.” Well Don, I can tell you that it is also becoming more prevalent in the total resource sector. As a Private Equity Finance company we prefer to deal with private companies because as I have written elsewhere in this report, for private companies you are entitled to all the information necessary to provide capital without watching the company spending the first several million dollars on lawyers, accountants, 43101 reports and endless meetings and discussions with a bevy of regulators. The whole process is akin to “regulatory strangulation” and in order to breathe you need a bevy of lawyers and advisors who quickly chew up the capital being raised.

The fact that there were some 500 mining companies at the recent Prospectors and Developers Convention in Toronto with almost half of them listed and trading for less than 20 cents per share and with less than \$200,000 in their treasury tells only a part of the story.

Where the shovel hits the ditch as far as we (Dundee) are concerned, we were thinking hard about our plans to be asset managers of closed end funds such as the Goodman Gold Trust and the CMP and CDR flow through share trusts. Instead, we are moving to the Private Equity platform where we can operate

with our own regulatory policies and with information that we can garner on our own. When our investee company is ready to go public to arrange for future development capital we will then have the option of any stock exchange in the world and any banking establishment to speak to about senior financing.

## **INVESTMENT IN UNION GROUP**

Early in 2013, we made a strategic investment in Union Group International Holdings (“Union Group”) – acquiring a 25% stake in one of the fastest-growing resource, agriculture and real-asset focused companies in Latin America.

Union Group is a holding company with business interests that span right across the Real asset spectrum in emerging Latin-American countries. Founded by Uruguayan entrepreneur Juan Sartori in 2007, the Group has expanded from its initial focus in agriculture into mining, oil and gas, power generation, real estate and infrastructure - managing companies worth in excess of US\$1 billion.

Much like Dundee, Union Group’s strategy involves owning businesses whose fundamentals are underpinned by tangible, inflation-protected assets; the only significant difference being Union Group’s exclusive focus on emerging Latin American countries - which we contend, is very beneficial to Dundee, as we have that interest in being involved with dynamic and strategic partners in the region.

The core portfolio companies’ that Union Group manages and/or controls include:

- Union Agriculture Group – UAG is currently the flagship asset of the Group. This diversified agribusiness owns and operates over 90,000 hectares of agricultural land in Uruguay. The operations are focused on agricultural products for global export including: Grains (wheat, rice, soybeans); Livestock (bull sales, dairy, beef and sheep), and Apiculture (bees and honey sales).
- Union Minerals Group – UMG is a portfolio of six mineral exploration companies/projects in varying stages of early exploration and development. The Rivera Minerales Iron ore project in the north-east of Uruguay is the flagship project and has a contingent resource of ~3.4 billion tonnes with 34.2% iron grade. UMG is also exploring for a whole suite of minerals (gold, diamonds, titanium and chrome) in Uruguay and Peru. UMG also runs a fee-for-service unit that provides mineral exploration services to the group and third-party companies.
- Union Energy Group – UEG controls a portfolio of hydro-power projects in Latin America which will have a total installed capacity of ~800MW. Key developments include a portfolio of projects in Peru representing close to 10% of the country’s current installed capacity, three of which are scheduled to commence construction this year.
- Union Forestry Group – UFG develops and manages timber assets in Uruguay. The long-term strategy is to develop and consolidate a portfolio of Eucalyptus plantations throughout Uruguay and produce feedstock for the paper & pulp, sawmill, and biomass industries.
- Union Properties Group – UPG invests, develops, manages and owns real estate assets in Latin America. The company is building a diversified portfolio of commercial, industrial and residential assets in key growth markets in Latin America.

- UCG International Corp (Investments) is the FSA-regulated investment management and advisory services platform of the Group. The team manages two private-equity Latin American opportunity Funds.

Union Group has built its business interests on a number of fundamental pillars - a strong local presence through its offices in Peru (covering Andean and Central American countries) and Uruguay (covering the southern core of Latin America); an internalized operational expertise with technical teams and operators ready to be deployed across sectors to take direct management of assets; and lastly a capital markets credibility created by having raised in excess of US\$500 million from institutional investors over the last 5 years.

Union Group companies' are growing and consolidating high-quality resource assets in countries that are just beginning to receive international investment flows and realize their full potential.

For us at Dundee, Union Group acts as a bridge between the global investment community and Latin American opportunities - guaranteeing transparency, governance as well as a good mix of on-field execution and management expertise.

Dundee now has the ability to actively participate in the growth and equity-value creation of Union Group companies' as an investor, advisor and partner. By becoming a strategic shareholder in Union Group, we immediately have unparalleled access to Latin-American opportunities and information. The Partnership also provides Dundee and our affiliates with a stronger presence on the ground, which puts us in a position to generate boundless synergies in due diligence, market intelligence and access to a formidable investment/deal pipeline as well as capital markets opportunities.

We believe Latin America is in the early throes of an extraordinary export-driven cycle of hard and soft commodities - flowing to China and other resource-consuming nations. The combination of Dundee and Union Group is duly set-up to take advantage of this boom. We will work together to enhance value creation for the Partnership by identifying, acquiring, financing best-in-class assets and developing business relationships in key resource-rich Latin-American countries.

## **THE GLOBAL MONETARY SYSTEM**

The global monetary system rests on a fragile foundation of trust. Thanks to the action of central banks, pressure on the system is growing and is likely to keep growing.

Paper US dollars sit at the heart of the global monetary system. These dollars are liabilities of the US Federal Reserve where they act as collateral for the debt of those US dollars that are outstanding. But the central banks' balance sheet is a self reinforcing feedback loop.

Government bonds are the collateral for the dollar liabilities and bonds act as those streams of future expected dollar payments; which means that the US dollar is fully backed by the promise of the US Federal Reserve to create more dollars - a promise they have been living up to vigorously. It's also a promise that Mario Draghi made when he said about the Euro – "We will do whatever is necessary to protect the euro".

As more dollars and euros are created, it is inevitable and natural that the value of the currency should fall – much like any commodity that is in oversupply.

As the dollar falls, the Federal Reserve response is to create even more, forever using weak and “made up” excuses, trying to diminish the concerns about higher prices. They have the ability to blame almost anything and everything other than the fact that they are printing currency causing, firstly, the monetization of the country’s debt and, secondly, the future lesser value of the currency’s purchasing power. They can use emerging markets, the weather, geopolitics, China, as among but usually not true causes and get away with it without any concern for the financial press that the words of Ben Bernanke and the Federal Reserve do not make any economic sense.

Now let’s re-introduce ZIRP or Zero Interest Rates into the picture and Dr. Bernanke’s vow to keep ZIRP in place until the unemployment situation in the US is resolved. That date might never be reached.

The US Federal Reserve and central banks around the world are doing exactly what Mario Draghi said – anything they can or must do to save the monetary system of the world. Truly they have undertaken a huge gamble and they are relying on the unintelligent trust of the savers of the world.

My ex young associate and colleague, still at Dynamic Funds as a Senior Portfolio Manager, Adam Donsky, had some good words for me to share from his yearend report and I am proud to repeat them here. Well done, Adam.

“We are witnessing the largest policy experiment of our lifetime and we continue to think the prevailing long-term trend will be inflationary rather than deflationary. The Fed made it clear in September that its policy goals have shifted toward lowering unemployment, even if that means tolerating a higher inflation rate. In other words, the Fed is now moving purposefully to generate higher inflation in the belief that this will increase employment. While the likely effectiveness of the Fed’s methods for achieving its economic goals can be debated (and in the end only time will tell), the investment implications are clear enough. The Fed wants higher inflation in the years ahead. Investors should be moving away from investments that will suffer from higher inflation and into investments that will benefit from or at least maintain their value under increasing rates of inflation. We see this as the biggest risk today and one that few seem to be paying much attention to. We aim to protect our funds against these increased inflationary pressures by continuing to own precious metals and businesses that have pricing power. Our holdings in gold equities continued to disappoint us in 2012 and as a result we increased our position in physical gold while reducing our gold equities. We intend to stay that way until the management teams of these companies act like owners of a business, stop pursuing unprofitable projects, and instead return the excess cash to the shareholders. “

### **IS IT AN UPSIDE DOWN WORLD?**

The world is awash with contradiction with stocks rising to new highs as interest rates reflect a slowing economy. The stock market rally is not believable and is unloved by those of us who are deemed to be pro. In 2009 when I was being bullish and stating that the US Fed and Monetary policy could return the US to growth as well as inflation there was much skepticism. The reverse is now true. Other than me, equity investors seem to have a very high degree of faith that the central bankers can pull all off those variables which they thought were not possible in 2009. My view – the faith in the US Fed is totally



misplaced. After four years of extreme monetary policy the Fed (Bernanke) has failed to create real economic growth.

Today, even China has too much debt. They are likewise addicted to debt to achieve growth, but they at least are smart enough to be ridding themselves of US Treasury Bills.

Nothing is normal. Not the economy. Not the financial system. Not the financial markets. And not the political system.

The economy and the solvency crisis of the last 7 years really continues since the downleg in the market in 2007 and the collapse of 2008 and 2009. We have had a period of economic stagnation that likely has begun to turn down again during the end of 2012 and early 2013.

The official recovery in the US economy during the last quarter of 2012 was a statistical illusion generated by the release of understated and false CPI in the calculation of statistical economics, according to the Shadow Government Statistics.

Ben Bernanke said that in order to identify signs of true economic health, the US Fed will discount unemployment declines that result from diminishing labor participation rates. It is widely known that a good portion of unemployment declines since 2009 have resulted from the many millions of formerly employed Americans who have dropped out of the workforce. But like many other economists, Dr. Bernanke failed to identify where he thinks "real" employment is now after factoring out these workers. So how far down will the unemployment number have to drift before the Fed's triggering mechanism is tripped? No one knows, and that is exactly how the Fed wants it. President Obama needed it for the election.

A similarly very loosey goosey criterion exists for the Fed's other major goalpost - inflation. Bernanke stated that he will look past current inflation statistics and look primarily at "core inflation expectations." In other words, he is not interested in data that can be demonstrably shown but only interested in the views of those many other economists who have likely drunk the Fed's Kool-Aid. He also made clear that rising food or energy prices will never fall into the Fed's radar screen of inflation dangers.

For as long as I can remember the US Federal Reserve has stripped out "volatile" increases in food and energy, preferring the "core" inflation readings. But in the overwhelming majority of cases, the headline numbers are significantly higher than the core. In other words, Dr. Bernanke simply prefers to look at lower numbers. In his press conference, he made it clear that the Fed will avoid looking at price changes in "globally traded commodities," that are all highly influenced by inflation.

These subjective and attenuated criteria give him far too much leeway to ignore the guidelines that they are putting into place. If the Fed will not react to what inflation is, but rather to what it expects it to be, what will happen if their expectations turn out to be wrong? After all, their track record in forecasting the events of the last decade has been anything but stellar.

The Fed officials repeatedly assured us that there was no housing bubble, even after it burst. Then they assured us the problem was contained to subprime mortgages. Then they assured us that a slowdown in housing would not impact the broader economy. It could go on, but my point is if the Fed is as spectacularly wrong about inflation as it has been about almost everything else, will they be able to slam

on the brakes in time to prevent inflation from running out of control? And if so, at what cost to the overall economy?

The Fed is committing to more than a \$1 trillion annual expansion in its balance sheet, an amount greater than the total size of its balance sheet as late as 2008. Many attempting forecasters like me believe that the Fed will have \$4 trillion worth of assets on its books by the end of 2013, and perhaps more than \$5 trillion by the end of 2014. If conditions arise that require the Fed to withdraw liquidity, the size of the sales that would be required will be massive. Who exactly does the Fed believe will have pockets deep enough to take the other side of the trade?

As the biggest buyer of Treasuries, it is almost impossible for the US Fed to turn around and sell without chances of collapsing the market. Surely any other holders of treasuries would want to front-run the Fed, and what buyer would be foolish enough to get in front of the Fed freight train? The bottom line is that it is impossible for the Fed to fight inflation, which is precisely why it's my view that they will never acknowledge the existence of any inflation to fight.

Without the Fed's buying, it would be impossible for the US Treasury to finance its new debt at rates it can afford. That is precisely why Dr. Bernanke has chosen to monetize the debt. Of course, officially acknowledging that fact would make his job that much harder. Without the monetization safety valve, the government would have to make massive immediate cuts in all entitlements and national defense, plus add big tax increases on the middle class, or any class.

Clearly, it would appear that Dr. Bernanke has no real exit strategy, other than his personal exit. If the Fed actually raised rates as a result of one of its movable goal posts being hit, the result could be a much greater financial crisis than the one we lived through in 2008. The bond bubble would burst, interest rates and unemployment would soar, housing prices would collapse, banks would fail, borrowers would default, budget deficits would swell, and there would be no way to finance another round of bailouts for anyone, including the Federal Government itself. It's not really safe out there.

In order to generate phony economic growth and to "pay" the US debts in the most dishonest manner possible, it appears that the Federal Reserve is leading the world to the destruction of the dollar. Anyone with wealth in the U.S. dollar should be concerned that the economic leadership is firmly in the hands of bureaucrats who are committed to an ivory tower version of reality that bears no resemblance to the world as it really is. And the Chinese and the Russians are aware and do have that very concern.

There is no exit strategy for the monetization of debt. Any increase in interest rates would blow away the monetary policy of the United States and will likely undo the reserve currency privilege of the dollar.

## NICHROMET EXTRACTION

In 1887, three Scottish chemists – John S. MacArthur, and Robert W and William Forrest – invented a commercially viable cyanide process for extracting gold from low grade ore concentrates. The process is what built the wealth of South Africa in that time as it was very applicable to the vast goldfields discovered at about the same time in South Africa. The output of gold in Africa went from zero in 1886 to 23% of total output by 1896, and to more than 40 percent of total world output during the years 1900 to 1925.

The application of the cyanide process for mining gold has roots in the global monetary developments of eliminating silver as a backing of currency and the introduction of the gold standard by Germany who had exacted a huge indemnity from France at the end of the Franco-Prussian War in 1873. At that time the US was still on the paper standard that it had adopted not long after its Civil War. But the Coinage Act of 1873 allowed both silver and gold as a dollar backing with the ratio of 16 ounces of silver being equal to one ounce of gold, giving gold a price of approximately \$20 an ounce and the US dollar was backed by either gold or silver.

At the time of the US Civil War, the US dropped the metal backing and went with the Greenback backing of paper only, but later adopted the gold backing and the US Treasury began accumulating gold and by 1889 the gold stockpile in the US was 20 percent of the world's gold. Even more dramatic, the increase in the stockpile from 1879 to 1889 exceeded the total increase of the global increase in gold, purchasing much gold from the rest of the world.

Nichromet Extraction Inc. is a private research and development company that we have been supporting with financial and business assistance since 2009. After spending \$14.6 million we have a 76% interest in the company which has recently made two significant potential breakthroughs that will be game changers for the gold mining industry. The company has developed a process that can extract gold from a mine's gold ore concentrate without the use of cyanide. Cyanide has been banned for usage by most countries and there are many gold ore bodies that are lying idle for lack of a process that can extract the gold without cyanide. The company has retained Hatch, a consulting company to the mining industry to confirm their positive results. The Hatch study was completed on March 15, 2013 and their Conclusion and Recommendation reads as follows:

“This study supports Nichromet's claim of having operated a pilot plant showing a Gold extraction yield higher than 90% using a closed-circuit Br-assisted chlorination process.

The estimates by this review agree with Nichromet's claim that the operational expenditures linked to the demonstration plant can be covered by the revenue generated by the sales of the product (excluding cost of capital and certain other items). However, the reviewed cost values are slightly higher than Nichromet's estimates. These agreements are specific to the Metanor Barry ore concentrate and the Century Mining Lamaque ore represented by the Nichromet pilot plant test results. Any differences in Nichromet and Hatch values were discussed and reconciled by both parties.

Improvements can be achieved regarding the pregnant brine analysis. Also, based on literature available on the subject, a few items could be tested to improve the gold extraction yield from the pregnant solution:

- Contrary to cyanine absorption, the extraction of gold from the Nichromet chlorination solution is enhanced with temperature. This should be quantified, and the additional CAPEX/OPEX

compared to savings in carbon purchase. At an industrial scale, the heat from the carbon combustion can be used to warm up the extraction columns.

- Since gold is deposited primarily on superficial sites and not internally, it may not be necessary to use expensive activated carbon to achieve reasonable loading. Finely ground coking coal or locally ground activated carbon may be reasonably efficient, at a fraction of the cost.

It is recommended as part of the Demo plant planning to prepare a comprehensive Environmental Design Criteria, which would review in detail the range of regulatory water and residue discharging limits. Also, more testing should be done on the solids residue to have a better idea of the rules and regulations it may need to follow. As per the leachability test information provided by Nichromet with regards to the hazardous material regulation in Québec, the solids residue is not hazardous material.

Considering that in a number of countries and regions the more traditional cyanide process has been banned due to environmental concerns, the Nichromet chlorination process is an alternative candidate.”

## **HYPERINFLATION**

According to John Williams of the Shadow Government Statistics (SGS): “Despite the headlines of contracting monthly inflation and low annual inflation, inflation remains the primary economic and financial threat to the United States, going forward”.

“The Federal Government understates actual consumer inflation by 3 to 7 percentage points. The US is locked into a fiscal and monetary crisis from which there are no politically expedient or feasible escapes, other than higher inflation.”

Nassim Taleb’s Black Swan book added a new strategy for us to be aware – that is that we should look to bet on the unintended consequence that may come from those governmental efforts that try to pump money into economies around the world. Our bet today is that it is not likely to prevent deflation but is more likely to actually result in inflation becoming hyperinflation.

And John Williams of SGS has recently stated his view that the US will face hyperinflation before the end of 2014. Taleb has previously told us that “policy makers around the world really do not have much control over the eventual outcomes of their actions. The airplane they are flying will either hit the mountain, which is hyperinflation, or crash in the ocean which is deflation. There is some chance of the pilot hitting the runway; but if he is not skilled, it is for less than he thinks”. Taleb has also proven to us that “history is littered with many rare high impact events” which are not usually priced into the markets. His book title tells it all – “The Black Swan: The Impact of the Highly Impossible”. For most of us, hyperinflation is “highly impossible” but Williams disagrees and might be correct.

Foreign currencies are only converted into dollars after the dollar has found the price that equalizes the two sides. Once again it takes “government magic” to make the balance occur. So if US total trade, by “hook or by crook” is always balanced, what happens to a trade deficit if it occurs? It’s really simple. Foreign governments end up owning US dollars to match the equivalent foreign currency that the US owns.

The important feature that can create a financial crisis is hooked in the fact that financial assets can be easily moved around and can be imported back to the home country, something that boxes of clothing from China and/or oil from the Middle East cannot accomplish.

“The sheer size and power of this global process is what may be the cause of the currency war we have been worried about and which puts us into the picture of worrying about a major financial crisis. The global equalizer of economies is usually only achieved through currency exchange rates. Normalization is only available if forces can eventually lower the dollar and/or increase the value of other global currencies. The whole process is being forestalled for the time being by all countries being fair but there is room for the eventual end of the good times and be very bad for global economies. The “bad” will slow up in a currency war which may already be underway and could lead to a new world financial crisis. This potential crisis is one more likely event that could eliminate the US dollar as the world’s reserve currency and may lead to the backing of some currency by a hard asset like gold.”

In 1971 when President Nixon gave up the US dollars link to gold and created the dollar standard that exists today, he essentially caused the creation of the global financial system that was dependent on and subject to the good behaviour of the United States. President Nixon created a world with no alternative reserve currency and his de facto use of the US dollar did not have the necessity to make good on any of its obligations. America was literally licenced to print international currency. It could exchange green pieces of paper bearing pictures of Presidents for whatever it wishes to buy. America was able to obtain anything it wanted without having to consider the value of what it was getting against what it was giving. And unless we go into abstract thinking, the fact is it has not yet given anything of value and the US was given an uncollateralized IOU. As such, there is no discipline or real obligation involved and the US trade accounts have become “accounting artifacts”.

Other countries were required to count their reserves and fund wages to earn dollars in order to procure necessities from other international suppliers. In fact, President Nixon was smart enough to “arrange” with the Saudis that the price of oil was to always be quoted in US dollars. And so followed the pace of virtually every other commodity that the world produced and traded. America since 1971 only had to run their printing presses and can buy whatever they wanted. The policy was sold to the world because as the US was actually buying more than was required and became the engine of growth for the world, with the rest of the world actually saving heavily and consuming very little.

The world required an engine of growth and in 1971 President Nixon provided the United States along with their printing press. The overriding cocky attitude of US citizenry as to their position in the world is definitely not their birthright, nor was it ever inevitable. There are many signs and good reason that we may be today looking at the early days of the end of the era of the US dollar as the world’s reserve currency. So far the dollar has not lost its global primacy despite a significant cumulative decline during my working career of the past fifty years. Even the staunch US booster and my value investor hero, Warren Buffett, has been known to comment that the US trade deficit has grown so large that the country’s net worth is being transferred abroad at such a rapid rate that the value of dollar based assets may be at risk.

To demonstrate his concerns Buffett has described economic developments on two side by side islands equal in every way except in lifestyles of their inhabitants, which he captures in the names he gave to each island – Squanderville and Thriftville. He outlines that land is the only asset on these islands and the inhabitants need only food, of which enough for the needs of all can be produced by each individual working eight hours each day. For a long time, things go along smoothly and pleasantly as everyone works for his or her eight hours and each group is contently self sufficient. But then Thriftville is seized by an extraordinary work ethic and all start working 16 hours each day, exporting their excess food to Squanderville where the citizens are content to quit working altogether and enjoy life while living off the

food supplied by their Thrifty neighbours. Even better, the Thrifties are prepared to supply all this food in return for more pieces of paper, Squanderbonds which are denominated in Squanderbucks.

After a while the Thrifties have a lot of these Squanderbonds which are essential claim checks on Squanderville's future output. A few Squanderpundits become nervous because they foresee that to pay off their growing debt the Squandervillians will, at some point, not only go back to work but will likely have to work more than eight hours a day. But these pundits are dismissed and accused of being unpatriotic and not having sufficient faith that Squanderville's best days are still yet to come. But a lot of Thrifties are also getting worried because they begin to have doubt that the Squanderers will ever be able to pay off any of that Squanderdebt. In fact, they often hear about the talk in Squanderville about actually printing more Squanderbucks so as to create inflation and thereby dilute the value of both their bucks and their bonds so that it will be much easier to repay their debts.

This talk leads to the Thrifties getting worried and considering that they should become sellers of the Squanderbucks with which they start buying Squanderland. After a while the Squanderers are forced to wake up to reality. The party was great while it lasted, but now they have to work eight hours a day to provide their own food plus extra hours to cover the rent on the land that they were required to sell to the Thrifties.

In today's global economy one consumer, the US, has accumulated a huge trade deficit by having bought a lot more than it produced using money that was borrowed from the rest of the world, especially China. China like most of the rest of the world, exists by consuming less than they produce and holding those US Treasury bills received in repayment. Today China is using those Treasury Bills to acquire gold and other hard assets on a global basis.

The US household debt today is at all time highs as compared to household income, and most credit cards and home equity lines are maxed out. To increase consumption, earnings must rise and unemployment has to be reduced. Further, the lack of domestic savings and an aging population with more and more retirees would actually mean less consumption and growth over the near term and at current debt levels, as well as deleveraging on a global basis. There is likely insufficient even global savings to fund the American's Squanderville even though the Federal Reserve in the US continues to issue Squanderbonds and creating pieces of paper, causing many foreigners of Thriftville to grow uneasy about the long-term value of the American Squanderbonds that are continuing to be created.

From "When Money Dies", a book that outlines the nightmare of deficit spending, devaluation and hyperinflation in Weimar, Germany, I wish to quote the author, Adam Ferguson: "Just before the First World War in 1913, the German Mark, the British Shilling, the French Franc and the Italian Lira were all worth about the same, and four or five of any were worth about one US dollar. At the end of 1923, it would have been possible to exchange a shilling, a franc, or a lira, for up to 1,000,000,000,000 Marks, although in practice by then no one was willing to take Marks in return for anything. The Mark was dead, one million-millionth of its former self. It had taken only about ten years for it to die.

As Adam Ferguson said, "The year 1923 was one of galloping inflation when a kind of madness gripped Germany's financial authorities and economic disaster overwhelmed millions of people. It was the year of astronomical figures, of "wheelbarrow inflation", of financial phenomena that had never been observed before." "The inflation of 1923 was so preposterous, and both its beginning and its end so sudden, that the story has tended to be posited off more as an historical curiosity than as a culmination of a chain of economic, social and political circumstances of permanent significance."

Without any suggestion that I expect a repetition of the Weimer Republic problem, I think that it is important to remember how severe inflation can actually affect a nation, its government, its people, its officials and its society. “The process of collapse of the recognized, traditionally trusted medium of exchange, the currency by which all values are measured, by which social status is guaranteed, upon which security depends, and in which the fruits of labour are stored, unleashes such greed, violence, unhappiness and hatred, largely bred from fear, as no society can survive uncrippled and unchanged.”

So the German currency was destroyed and the country went into terrible disrepair allowing political devastation and the world eventually had to put up with World War II and the holocaust that saw millions of my people purposely killed.

But, in June of 1921 – only two years before the 1923 inflationary collapse of Germany - none other than John Maynard Keynes, even then known as a prominent and famous economist, was heard to prophesy that the German Mark would only fall by an average of a point a day against the British Pound for the next two or three years. For the previous nine months prior to Keynes forecast and for the next two or three years the Mark had risen and fallen within 15 points on either side of 250 to the Pound. July 1921 was the last month of even relative stability which the old Mark was ever to experience. Doesn't this also sound familiar to the comments from today's economic so-called experts telling us to relax, trust the Fed, and invest in stocks and bonds?

No one knows for certain what will happen, but clearly the global financial markets could implode very quickly. Former Federal Reserve Chairman Paul Volcker recently said that there is a 75 percent chance of a dollar crash within the next five years. This is George Soros's publicly stated great fear as well.

There is a general belief that markets are self correcting and best left alone. George Soros called this “A dangerous siren song”. Far from being self-correcting, he emphasized, markets tend to excess and they overshoot. Anyone with any experience of markets knows this. When markets are going down, all the weaknesses get concentrated, and you need intervention at the right time to stop things from getting out of control. If the dollar started to melt, the results could be really nasty. A 1930s-style global depression should not be out of the question.

From my personal point of view, the lack of an alternative to the dollar is the only reason it hasn't taken a big fall already. But now those alternatives are emerging. The euro, though not a perfect substitute, is gaining attraction, the Renminbi is waiting and the International Monetary Fund stands ready. For the IMF's position, read my annual report message of two years ago.

There are three ways for this situation to work itself out. 1. Americans could consume less and save and invest more. The fastest way to do this would be to cut the federal budget deficit. There are two problems. If Americans take all the adjustment, it would entail a big reduction of GDP. Since no political leader could survive that, it is not going to happen voluntarily. Nor is the federal deficit likely to be cut. If anything, it will increase as the baby boomers retire and cause a dramatic rise in social security and Medicare payments. 2. The second option would be for Asia and the rest of the world to cut saving and increase consumption. That will undoubtedly occur over the long run, but in the short run it would slow up the growth that is the *raison d'être* of these regimes, especially China's. Moreover, if it did occur, the reduction of the flow of Asian savings to US financial markets would cause the US dollar to fall. 3) Based on the not likely acceptance of 1 and 2 above, the dollar fall is the most likely.

The impact of 3 billion new emerging market capitalists on the economy of the United States, along with America's potential abuse of the dollar and its soaring public and private debt, has made many foreign central bankers and finance ministers very nervous. They are all in a global game of financial chicken. If foreigners dumped a large portion of their dollar holdings, the dollar would fall dramatically and that alone could cause a recession or even a depression in the United States. A US depression could be devastating to the rest of the world's economies. Dumping dollars could precipitate global stock and bond market crashes that would bring huge losses to, among others, those doing the dumping. Americans are holding the world's financiers hostage. On the other hand, should things fall apart, the first player who gets out of dollars will take the smallest loss. Thus any hint of significant dollar dumping is likely to cause a chain reaction – fast. It truly is a game of “chicken”.

The US economy is a bit like the Potemkin village of Russia which had an impressive facade designed to hide undesirable facts of its condition. GDP growth is high, unemployment appears to be low, and household wealth appears to be increasing. But a closer look reveals a more sobering reality. America's growth is in large part borrowed from the future. It's like a company striving to make its annual sales projections by offering a special incentive to its accounts to stock up now, before the year closes, instead of waiting to resupply at the normal time. US consumers are consuming, but with borrowed money, as they have mortgaged their homes to maintain a tax deductible living standard.

Many economists are remaining sanguine because they see the US economy growing slightly faster and, as well, as more rapidly increasing productivity than any other economy. Thus they think it can continue to be the most attractive place for foreigners to invest their money. This would apply but only if the dollar can remain the global reserve currency, which is in serious question today amongst the Chinese, Russians and others.

Since the year 2000 the US and the world have gone through abnormal periods of record low interest rates, exploding budget deficits, record high consumer debt, and the housing bubble and its mortgage backdrop, at the same time having to face the worst recession on a global basis since the Great Depression of the 1930s.

To all of that, if we add the growing trade deficit and the governments' budget deficit, known collectively by economists as “current account deficit” we should be taking heed of the remarks that were made by Arthur Burns during his stay as the head of the Federal Reserve: “It should be emphasized that any excessive current account deficit will need to adjust eventually. What cannot last will not last. The crucial issue is whether the adjustment will be orderly or involving a large and disruptive change in key economic variables. Such a disorderly adjustment would affect not only the rest of the world but, in particular, the deficit community itself. There are a number of factors which may increase the risk of disorderly adjustment.” I am not alone in my thinking that Central Bankers around the world, including the US, are trying to lead people on by having them believe that they have solutions to the global problems in their toolbox. It is a Potemkin Village.

We, fortunately or unfortunately, are headed into a transitional movement of a new monetary system which will be required for essential expenditures on energy, food, agriculture and personal and household care as well as defence. Ultimately, the world will require a new reserve currency to replace the US dollar in order to eliminate what will likely be an inflationary/deflationary crisis. This essentially refers to the rise in price of almost everything in conventional money and a simultaneous fall of the dollar in terms of gold.



Keeping the global debt bubble inflated is taking trillion dollar deficits, which are now supplemented by open-ended central bank money creation, not only in the US but in most other developed countries as well. We are watching the potential creation of the ultimate financial bubble in money itself. Each monetary stimulus, be it in Euros or dollars or whatever, must be even more aggressive than the last. This is not a sustainable position.

While most of the obvious outlook for the year 2013 carries total uncertainty, there are three things of certainty for this writer:

1. Inflation will go higher
2. Yield of any kind will be the attraction and will be at higher and higher rates
3. The commodity super-cycle is not over

Inflation is a certainty because without any other reasons, and there are many, it is a political and financial tool that allows for deleveraging of debt and payment of deficits. In addition, politicians very seldom get elected by causing deflation. Almost everyone likes inflation. If you are a government and inflate prices, then you keep people struggling and working hard to keep pace with inflation. The poorer the people are, the more likely they can be kept under control. In addition, inflation for rich people is taxable and deflation is less so. No government ever has an incentive to deflate, but has incentive in fact to inflate. Voters prefer inflation to deflation

From a global economic outlook, 2013 will be a pivotal year for the world. While an inflationary atmosphere could be overall positive there are many risks of unintended consequences such as a total fiscal stalemate of the Eurozone potential breakup along with the possibility of currency devaluation which definitely will provide problems. The shifting global economic landscape will surely provide us with unique higher risk/return opportunities for investment, but the skies are not clear ahead. We may be living in the most psychologically critical time for the stock market since 2007 and in this writer's opinion we remain in the secular bear market that started in 2000 and may have six to eight years left.

Let me bring back gold and tell you why I am a totally convinced gold nut. The story of gold has no ending but I was impressed by a fellow Canadian by the name of Robert Mundell who – in December 1999 – won the Nobel Economics prize and said as he accepted the prize, “The main thing we miss today is universal money, a standard of value. The link between the past and the future and the current linking remote parts of the human race to one another”. He went on to remind his audience that gold had filled that role from the time of Augustus until 1914 and that the absence of gold as an intrinsic part of our monetary system today “makes our twentieth century unique in several thousand years”. It now seems that in 44BC all roads led to Rome, In 1944 all paths led to the USA and today and 2014 all roads lead to gold.

Goldman Sachs' Jeffrey Currie created gold's biggest collapse since 1980 after the recent April 10<sup>th</sup> because he recognized two very essential technical points. Firstly, presumably, without his assistance the price chart of gold had just gone through the technical point called “The Death Cross”. Secondly, he had the power of Goldman Sachs behind his negative thrust. As such, the price of gold as measured by the ETF traded down as GLD broke down after twelve straight years of a rising price. However, while the public at large was selling their ETF as a follow up to Goldman, the central bankers of the world used the price drop to bulk up their purchases of gold bullion and China for one was a significant buyer of the metal as well. When it comes to gold, the central bankers have more power than Goldman and we are treating the drop in price as a Goldman Sachs' profit ploy and expect that it will take some time to overcome the technical damage with the likelihood of more bottom testing to come. We are more impressed by the response of the physical buyers of gold bullion in Asia and the US where there was a rush to buy physical gold at the Goldman-created lower price. There are indications that some Indian

gold retailers were actually paying a premium of \$8 to \$10 per ounce over the derivative ETF price in order to meet immediate customer demand. They have paid premiums before but these numbers are four or five times the previous premiums to satisfy Indian retail demand. And to top it off, the China Gold Association has reported that Chinese retail purchases of bullion tripled across China on the 15<sup>th</sup> and 16<sup>th</sup> of April following the Goldman inspired price collapse. Further, according to CLSA, it was reported that trading of gold on the Shanghai Gold Exchange, a proxy for gold demand in China surged to a record 43.3 tonnes on April 22 and is averaging 36 tonnes per day of buying as compared to a daily average of less than 10 tonnes per day for the first quarter of 2013 and according to CLSA again, “Hong Kong jewellers have said that they have effectively run out of gold holdings”. And in the US, the mint said that they have suspended sales of its smallest one-tenth ounce gold bullion coins as “surging demand ran down government inventories”.

To quote CLSA once again, “It is interesting to note how the technical breakdown in bullion seems to have been triggered by massive selling of paper gold, in what increasingly looks like a classic “bear raid”. This is all part of a process where ownership of gold is passing from weak hands to strong hands. That is long term bullish”.

We agree with the CLSA comments and congratulate Goldman Sachs for achieving a profitable “bear raid”; not their first and highly likely, not their last.

My personal gut feeling is that we are heading towards a seismic move for the price of gold – a seismic move upwards – just to make it clear. It will happen because governments and central bankers are more likely to step-up fiscal and monetary actions as the economic growth outlook continues to deteriorate.

We are on the threshold of a new gold standard being formed. The world is moving step by step towards a de facto gold standard or a new facto gold standard take over by the International Monetary Fund.

### **Dundee Precious Metals**

Dundee Precious Metals is a gold mining company that was founded by the undersigned in 1984 as a closed end investment company. In partnership with N. M. Rothschild of London we raised \$50 million for investment in precious metal securities. In 2009 The company was changed from a closed end fund into an operating gold mining company.

Today, the company is listed on the Toronto Stock Exchange, has a market capitalization of close to \$1 billion and Dundee Corporation owns a little more than 30% of the company.

The company is Canadian based and operates two polymetallic mines - Chelopech in Bulgaria and Deno in Armenia – and is permitting the Krumovgrad project in Bulgaria. Dundee also owns and operates the Tsumeb smelter in Namibia and holds more than 20% equity positions in Sabina, Avala and Dunav.

In February 2013, DPM provided midpoint annual guidance for Au/Cu production of 162koz/47MMlbs at by-product costs of \$210-\$240/oz. Over the past two years, DPM has delivered costs below the low end of guidance and gold production above the high end of guidance for its flagship Chelopech asset (66% of NAV). At current spot gold and forward-curve base metals prices, our in-line 2013 forecasts outline an increase in EBITDA of 32% from 2012 results. Given that no major projects are expected to be delivered in 2013, lower operating risk exists and, once again, DPM has the opportunity to deliver on expectations. At its smelter in Namibia, with environmental initiatives and further efficiencies in progress, NCS’s

financial capabilities have the potential to become more evident as contract pricing begins to improve full capacity is restored. In March 2013, DPM announced dismissal of its final appeals against its Krumovgrad project in Bulgaria. Krumovgrad is a low capital intensity, high margin asset with an open pit 780,000 ounces reserve at a grade of 3.4 g/t. Development may now advance, resulting in spending at the high end of DPM's outlined range for \$275-\$345MM in 2013. With \$150MM of debt raised in January, the company is well positioned to execute on its development plans. Commencing development of Krumovgrad will be an important milestone. At Deno Gold in Armenia, an initial open pit resource is expected to be announced in 2013, while an initial underground resource is also expected mid-2013. The stock market continues to ascribe limited value to Deno or its expansion potential.

And Warren Buffett does not believe in gold?

There is no doubt that I believe in the ownership of gold but I am also a long time follower and believer of the Ben Graham and Warren Buffett philosophy of "value" investing. Buffett has said, and I certainly agree, that the best philosophy for successful investing is to buy something for a lot less than it is really worth.

And, like Buffett, I follow the process of trying to know the discounted present value of future after tax cash flow that the asset under consideration for investment can create. And gold, of course, does not have any future cash flow unless you sell it off piecemeal and deplete the amount of gold in existence as time goes by. On the other hand, Warren Buffett has correctly and often said that if you own 100 acres of farmland and keep it for 50 years, 50 years later you will still own it and you will have had after tax cash flow from the agricultural products that have been produced over those 50 years – and you will still have the land.

And that's why in addition to gold in our hard asset portfolio we own a little more than 1 million acres of farmland on which Blue Goose Cattle Company, our 80% subsidiary currently keeps 12,000 head of cattle with room for more than 30,000 more cattle over time.

In addition, through our upcoming 20% interest in Dundee Realty there are significant acreage positions. As our 25% interest in Union Agriculture Group in Uruguay and our 7.5% in Skyline brings even more. Warren, in case you were worried about your long time follower, I think we have it covered.

**DUNDEE AGRICULTURAL CORPORATION**

Growing population pressure and diminishing arable land resources will likely threaten food security as soon as the coming decade, making the means of producing food and other basic necessities increasingly valuable.

It might be hard to imagine something as simple as food being as appealing to investors as the allure of gold - but we argue that since 'the Fed and other Central Bankers are powerless to impact the impending demographic and population realities'– we take the issue of food security and the opportunities that lie in Agriculture very seriously.

On that basis, we created Dundee Agricultural Corporation, a PRIVATE wholly-owned subsidiary of Dundee Corporation, to focus on sustainable agriculture opportunities across Canada and globally. Our team diligently seeks out opportunities across the entire spectrum of the Agriculture value chain where

there is either under-investment, high growth potential and/or under-supply – critical elements for sustainable returns.

In carrying out this mandate, we have taken the proverbial ‘bull by its horns’ by acquiring a significant stake in Blue Goose Capital Corporation (“Blue Goose”).

Following a platform investment in the Blue Goose Cattle Company in December 2011, Blue Goose has made more than twenty acquisitions and now operates vertically-integrated operations for the production of organic beef, chicken and fish. Blue Goose is the largest organic beef operator in North America, with operations in British Columbia, Ontario and Colorado and approximately 1.1 million acres of predominately certified farm land under management.

In less than thirteen months, the Blue Goose cattle herd has grown from approximately 2000 head to approximately 13,000 head at the present. In addition to certified Black Angus, at the end of last year Blue Goose added an award-winning herd of 100% pure Wagyu beef to its product line. The addition of this premium product fits with the company’s strategy to create a luxury brand of proteins targeted at high end, health-conscious consumers. Blue Goose’ branded beef is sold to major grocery retailers and to luxury restaurants and hotels in Canada and the U.S. The acquisition of suitable capital grazing land to date gives Blue Goose the ability to handle up to 45,000 heads of cattle.

Last May, Blue Goose expanded its focus beyond beef and acquired a large rainbow trout fish farm on Manitoulin Island. With this acquisition, Blue Goose now has a live-weight production of two million pounds which will move to nearly five million pounds in 2014. As the world’s largest freshwater island, Manitoulin is an excellent environment for aquaculture and has a skilled labor pool to draw on as the company expands production.

Recently, Blue Goose has launched organic poultry and rolling out branded product lines for several major Canadian grocery retailers. Around the same time, Blue Goose’s new facility for the production of organic fertilizer will be up and running and will round out our vertically integrated operations.

Blue Goose is building a strong operating platform backed by valuable real estate that will leverage three critical factors: the burgeoning global population, the limited availability of arable land and the trend towards healthy, safe, clean food. The opportunity to build a premium brand of protein that connects with customers has never been better. Customers want to know where their food comes from. They want to know that the animals were treated with the highest standards of animal husbandry and the greatest of care. They want products that they can trust are clean, pure and free from hormones, steroids and chemicals. When the package says beef, it cannot contain horse meat.

Blue Goose has built a team that is second to none in the industry – led by Kevin Reed (President and CEO) and Douglas Sinclair (founder of the Blue Goose Cattle Company). Every person, (from the cowboy or cowgirl herding livestock to the aquaculture manager on the docks) is an important part of Team Blue Goose and is focused on the company’s mission to become the world’s largest producer of organic protein.

These are exciting times for Blue Goose. The organic livestock industry is one that has not changed in a hundred years, however, to quote Bob Dylan “these times are a changin’” and Blue Goose together with its partners are at the forefront of the revolution.

With an investment in Blue Goose, Dundee Agricultural Corporation has exposure to a stable, high-quality, income-producing real asset with the potential to dominate the organic protein marketplace.

Take a trip to the meat counter at the Whole Foods in downtown Vancouver to understand the potential of the Blue Goose opportunity.

## **RESOURCES**

The McKinsey Global Institute was mentioned in our last annual Report but it is worth remembering a 210 page study entitled “Resource Revolution; meeting the World’s Energy, materials, Food and Water Needs”. The major conclusion of their 210 pages of study was that – 3 billion more people of middle class are expected to become consumers in the global economy over the next 15 to 20 years and at least \$1 trillion (US) and perhaps as much as \$3 trillion more investment in the resource system is needed each year over these years in order to meet the future demands of land, food, energy and materials. New sources of supply and extracting them is becoming increasingly challenging and expensive. We are living through a world that is not ready to accept 2 to 3 billion more middle class capitalists.

The McKinsey Report offered insights into how the demand for resources is evolving and how we are going to see it grow over the next 15 to 20 years. The report examines what policy makers and the private sector are required to do in order to overcome significant resource constraints as we go forward. Part of their conclusion is that “expanding capacity in order to add the necessary supply of materials will likely run into logistical and political difficulties, making the adding of supply even more costly. In short they are saying that demand is soaring at a time when finding new measurable participants in the global economy is in decline.

It is my belief that it is time to fertilize investment portfolios with those companies that produce the “stuff” that those consumers in emerging markets, who are clamoring for the developed world’s “good lifestyle” that is kept on conspicuous display, will require. The world’s population, mostly in China and India, is growing by more than 75 million people per year.

To my fellow Dundonians:

As the controlling shareholder of our company, the buck for leadership always lands on my desk. I regard my job as working to create a sustainable momentum. My job is to oversee ABM and keep it on track. ABM is a nonsensical term used by one of my sons to instruct new young drivers of a car – it means “Always Be Moving”. Keeping the organization on track and moving is very important to our success. I intend to remain in that position.

I have used the word “focus” for many aspects of my career as a money manager and I think we have to bring it back to Dundee. We have to understand our turf and focus in that direction. We must describe our product and understand how to sell it. My view is that we must consider ourselves in the same manner as clients look on our product. In capital markets our product is selling solutions to companies when money or advice is what they require to grow, build, sell or manage their company. We must treat these companies in the same manner as General Motors sells cars. First, we have to build a relationship so that the company allows us to call them our product and then we must provide for them the brain power and selling ability that they need.

To get there we have to convince others that we are best at what we do and that we do love what we do, as well as show that we can create value for our customer. Our business often calls for us to think outside the box, an area that I have often been accused of doing. However we cannot – as a company – think outside the box until we are absolutely sure that we:

- a) Have a box
- b) Have great understanding of what is inside the box, i.e. we have to master the basics of the business of our box
- c) Employ people who passionately drive the mission and culture
- d) Serve a diverse base where customers are made to feel like partners
- e) See their business as a lifelong asset, not a line on a resume

Many companies equate innovation and growth with risk taking. But getting to the future first is not simply a matter of taking more risk. We do not make risky heroic investments. We make long-term innovative and strategic decisions where we have the capability of using our existing internal resources to de-risk our lofty ambitions. But to be in our business we must remain aware that everyday has some risk.

Throughout our Company, we foster cohesiveness and encourage innovators to motivate their colleagues both to use their initiative to spawn new ideas as well as collaborate in their use. My sons and I, during our DundeeWealth days, enjoyed corporate independence and full freedom to innovate and use all talents to create better investment performance.

Nevertheless, getting continuous results from a large and larger company is not an easy task. We work hard to capture Steven Covey’s 8th Habit in the recognition that people are whole people – “body, mind, heart and spirit.” The concept of using the voice and culture of a business family allows our key people to make the necessary choices that expand their own influence by inspiring others to likewise find their voice. The freedom and power of choice not only creates enough comfort to reduce concern about a mistake, but also allows the freedom to solve those unexpected challenges that do arise from time to time.

Covey told us that the pathway to enlarging that potential and capacity is to magnify each of those recognized gifts and talents that are inherent in our people. He then says that “almost like a flower blooming in the spring, additional gifts and talents are given or opened up to us, and our ‘hardwired’ capacities in all areas are unleashed to lead a balanced, integrated, powerful life. Great organizations, like successful families, are only sustainable when they serve each other’s human needs.” Covey goes on to say that, “Service above self ----- is the true DNA of success.” It is not about “what’s in it for me?” but about “what can I contribute?” It only works if everyone is on the same bus going in the same direction. It’s my responsibility to make sure that the right people are on the bus, set the direction, and be ready to change it if necessary.

We know that the only way to sustain good investment performance is to act in the best long-term interest of the Company and all of its stakeholders – our employees, our private wealth advisors, their clients and our shareholders.

The worldwide and, to a lesser extent, the Canadian investment industry and the scope of its products, services, players, partnerships and especially ideas and thrust have become better at image, performance and price. In this high pressure arena, we have discovered that our previous ultra-cautious and/or a “me too” industry strategy augured for an uphill struggle. If our potential clients and customers cannot easily see what makes our organization and products and services unique, special, and different from the mass of competitors that we face, we will not succeed in achieving my mission and vision to be different, better, unique and richer – a position which, I think, requires us to “Change to Strange”.

Our customers are continually raising the bar on what they expect. They are demanding excellence, speed, more of, sooner than, better than and, yes, less fees. The most ominous part of all this is that if we cannot satisfy our customers with their “unreasonable” demands, they can get them met elsewhere with a broad choice of our competition who are constantly bombarding them with newly created enticements and highly competitive pricing.

To survive and thrive in these circumstances means that we must be special and unique enough to separate ourselves from the noise of the mob. And, as the future unfolds, these trends will accelerate. Our future earnings – both for all of us personally and Dundee, corporately – are totally dependent on our ability to orient our culture, our model and our ways of doing business in order to better capitalize on what is happening in almost all industrial and service sectors – let alone ours specifically. In other words, we must embrace a significant entrepreneurial approach in order to distinguish Dundee from our competitors.

Entrepreneurism has been a way of my life that I know requires an unreasonable commitment and conviction to succeed, knowingly, even if based on inadequate information. Dr. Henry Mintzberg of McGill said it better: “It is collaboration, teamwork and collective entrepreneurship that generate business success.” As Mintzberg says, “As flawed as the concept of strategic planning is, it is the execution of it that is worse”. The concept of entrepreneurship and collaboration can be contrasted, in most instances, to enterprises that are directed by “strategic plans”.

It is my view, as well as Mintzberg’s, that’s strategic planning is a dangerous process. The thinking came to me from a McKinsey staffer who was prescient. (Fred Gluck in 1985). He said, and I agree: “Management by remoteness, by numbers, and management by exception are dead”. He said, “WE NEED MANAGEMENT BY INVOLVEMENT”. What involvement highlights is that the only rule that thrives on success is innovation and how good we are at it. Innovation should not only come from any one plan, not offered through a few people sitting in top management roles or from outside consultants.

Innovation is an all hands on, every day effort regardless of whether the boss is around or not. A culture of innovation occurs only when every person on the payroll transcends their current role in order to pretend to the role of leader.

As the leader of this company I, along with others, must be able to discern when a strategy, a business model, system or process has outlived its usefulness or when it is operating as originally designed but is today contrary to the overall purpose for which it was either established, does not meet the current direction of the organization.

I tend to be sensitive to peoples' needs, their desires, their expectations, culture, gender, race, education – almost everything and anything. But with the most importance I know that we must have that feeling of being different, while knowing that we need to be needed, appreciated and recognized for our good efforts.

I ask each of you to ask yourself the question: who are we?

1. Who is our customer?
2. Who else is trying to serve our customer?
3. What do we do that is different? That is strange? What positive outcomes are we willing to pursue – even those that our competitors would classify as dumb?
4. What risks are we willing to take that other businesses think are not worth taking?
5. What three to four pieces of evidence or trends would allow us to claim “we are winning and are doing it our way”?

It is my belief that acting and operating just like our competitors is not only risky but frankly, not even that smart. When no one is laughing at us it means that we are probably pursuing those opportunities that are only just fairly valued by the market place and that others do not want. We must pursue those opportunities that our customers really like and are undervalued by our competitors and will be profitable for us.

I want our company to be one which our ignorant competitors will watch what we do and say, “That’s stupid” and our smart competitors to say, “We would never do that”. Not because they wouldn’t or really think it’s stupid, but because they would not want to admit they missed it themselves. A great organization needs a workforce and a culture that will impress its customers and competitors deeply and profoundly.

Let’s play our own game; a “game” where we should be strange enough so that not everyone will want to work with us because we are obsessed with the unique value that we can deliver based on our company culture. Besides, what is competitive about being just like everyone else?

All great organizations always possess a sustained competitive advantage which they get by creating and delivering something to the market that is valuable, rare and hard to imitate. Creating and delivering this value demands the disciplined obsession of a “Strange Workplace”. The way to build and focus a strange workforce is by using strategic measurements and “strange” workforce architecture. Be strange – be very strange; “out of the ordinary; unusual or striking; differing from the normal. How can you get to be irreplaceable when you are not different?



I want our organization to stand out to our competitors and our customers as being valuable, and one that our competitors will fear and cannot duplicate, not because we are strange, but because our customer will be happy with our service.

WE MUST CATAPULT OUR CULTURE AND STRATEGY OVER CONVENTIONAL WISDOM AND CONVENTIONAL PRACTICE, WITH BETTER THAN CONVENTIONAL INTEGRITY.

We must challenge those sacred cows of our industry against new and better. But we must always remember that winners do not do different things – we merely do the same things differently and much better.

A leader without that culture, mission and vision - or one who cannot take control of it - will become a crisis manager. I do not wish any of us to be in crisis management. Unfortunately, crisis management is what most CEO's usually have to do, and it controls their lives, leaving no time for that very important innovative thinking. My solution to hopefully eliminate crisis as a management style is somewhat similar to the quarterback who calls an audible in the middle of play and changes the play to suit the moment. So be prepared for an "audible" at all times.

A recent landmark study from Harvard University has determined that the most important quality of successful people is their ability to think long term. Successful people think in long segments of time and have those powers of successful vision which provide the required discipline. In case you have not heard this from me before - I think long term and I think profits.

And a company's Vision is the clearest possible picture of a future desired result. It is what you want the results of your leadership or life to look like when you are done. It is important to know where you are going and state it clearly and concisely – then, of course, add the passion and innovation that helps to make it happen. That is the Vision. It's where I hope we are heading with the passionate desire to get there; where we will be proud, happy and profitable along with a good reputation in spite of being strange.

Short term commission revenue sales and banking stuff should not be the primary goal of our business or in fact for any business, and I can make the same statement about the short term price of Dundee publicly traded shares. I know that most CEO's would tell you that the most important people for them are shareholders and that the CEO's primary purpose is to strive to continually increase shareholder value as priced in the market. But I have learned from my long term thinking that the most important business aspiration is to get and keep customers. Peter Drucker has argued for years that the only justification for an organization's existence is the extent to which it can service the needs of a particular constituency in society called customers. In other words, though it sounds foolish, the primary allegiance of any organization ought to be to that constituency, not to shareholders, not to owners, not to managers, not to employees. Time has proven that those organizations that look after their customers well are those that prosper and are those where their managers and employees are very well paid. And the performance of the Dundee stock price over the last twenty years would tell you that we must have been doing something right before we met the securities industry.

Nonetheless, profit and the need to re-invest it for the purpose of improving the company must be a crucial goal for anyone in business. Success also demands cost and debt control, positive cash flow and capital. Astute financial management is an absolute necessity for the success of any organization. Dramatic breakthroughs in innovation, quality of product, service and, especially, teamwork, are the real top priority after wrapping ourselves around the customers and clients.

When the collective objectives of a company become personal compensation only, the people of such companies become emotionally and analytically detached from the business, because if you are really good and personal short term money is your only driver and commitment, you will likely be lured away by any other lesser company that thinks likewise. That company that will likely be one where nobody cares – management is only concerned about numbers, dollars, cents and nobody speaks culture, vision, passion or being the best at what you do. The excitement and enthusiasm and joy of coming to work is usually gone because you are always competing more with your in-house family to continue to make more money yourself.

I want us to work in a culture that has electricity and passion and that will make us all proud. A culture that binds us to each other and to the company. I want to feel that we are doing something important. That our investment-banking financing of companies and our investment advice, portfolio management and private equity acquisitions, will allow our clients and us to grow with profits and increased wealth as well as make us all proud and, yes, richer, but pride for helping others must always be there as well.

However, there is often a problem that comes from the focus on money as individuals. It is that we become obsessed with short term personal numbers and very much less concerned about reputation and profits of the firm. When customers are put on the backburner and investing clients are only there to generate short term fees or commissions, our reputation will become a problem and so will I.

To be truly entrepreneurial and innovative we must continually be looking for those events and work habits that we can use to create a game changer for our business.

We must have a hunger to succeed. To survive in our business we have to be significantly better than our competition – being equal is not enough. We have to be significantly better in order to get attention and win clients. Revolution is a better tactic than to wait for evolution. Complacency in companies comes from their success. We do have an advantage in that we have not yet had the kind of success where we should be complacent.

Game changing is always about strategic discomfort and, believe me, it is my personal intention to keep myself, and our company, in a strategically-based discomfort zone at Dundee. Strategic discomfort is a well-known leadership concept.

How can we – working in a dynamic and rapidly changing business - stay focused, stay hungry and embrace a culture of being different? I would like our competition to think that we are, in fact, strange. In two words, it's strategic discomfort.

Steve Jobs was a genius in the application of technology in everyday things, but he was also a visionary in his leadership style in that all of his subordinates were kept on edge and were in a space that was not always comfortable, but they were also not complacent. They were always over-prepared and ready with answers for any difficulty.

Yes, he had a reputation of blowing up and firing people on the spot and was not well liked by his colleagues. This last part is not my style of culture; families do not act that way. There is a scale where the two opposite polar ends are evolutionary (most companies) and disruptive technologies (revolutionary companies) and in between is where I want to be – innovative in an incremental way. We must know what issues to keep sacred (reputation) and what must change with competitive forces.

With incremental innovation, let's care for each other and work towards our reputation and profits being a sustainable model and what we hope to achieve when coping with the competition and the many rapid changes in our industry.

I want to be a company that has a strategic culture of being a game changer, who gets to dominate their industry by maintaining a strategic discomfort over a long period of time. Let's make a commitment to be rid of those barriers that always seem to get in the way of new ideas.

Our challenge is to be and do something different. We have to find new value creating ideas before our competitors. But most importantly, let's not be those that throw up barriers to new ideas because we will be different - Let's just be different, polite and legal.

We will be a winning organization if we can generate the greatest number of interesting ideas, take them up with haste and then provide feedback to everyone here so we can get other new ideas generated from them. Let's grow our knowledge and intelligence and be collectively creative. Our future earnings are based on our ability to generate and use good ideas from any sources – and I mean any.

My personal culture has five basic principles that I believe work for how those ideas we need in order to be informative and which we spread everywhere with ease.

1. Everyone must have access to real information, strategy, financial statements, sales data, status of customers and partners. The quicker this is spread, the more innovative we will be. Information is power and the power must be properly spread to be truly powerful.
2. Let's get rid of sacred cows in our industry. There should be no sacred cows other than the most fundamental of corporate mission, values, a family culture and the great reputation of our company. Change should be our bread and butter. Always:
  - a. Ask why
  - b. Shed old goals and set extraordinary ones
  - c. Be liberated to take action; be enabled to get out of the way if necessary
  - d. Help all you can when necessary
  - e. Learn the fundamentals of our business
  - f. Challenge those silly sacred cows
3. I want us to be a permeable organization – permeability is how things flow; we must minimize boundaries – vertical ceilings, fictional walls. Information must spread easily.
4. Include curiosity in your culture. We should encourage curious employees and keep them curious. Then support them and reward those who are willing to ask, experiment, stretch boundaries and share learning. We all have to cultivate the curiosity so that we can make sure that “fail” is never a four letter word for us. We should be proud of mistakes because when we recognize them we will never make them again, but can use them as a competitive advantage.
5. We must all be on a program of perpetual learning. Don't wait for someone else to hand you education – go and get it yourself. It will make us a better company and will allow you freedom and better paydays.

Our company must undo any culture sanctions, secrecy, distrust and closed door decision making. You all should take notice of the 22nd floor boardroom which is symbolically only glassed in. We need to create a culture with family values, marked by candor and straight talk.

I want to have a company of people where when – even if I don't know what they are doing – I still have comfort because I work face to face with them and often as a coach. As such I can accept and feel that whatever it is that they are doing is exactly what I would want them to be doing. My hope is to create a family culture where we each treat the other as we would a loving family member. We do not sanction secrecy, distrust and closed door decision making. We want to increase our knowledge. We want to eliminate barriers to the flow of knowledge and ideas and the spreading of information.

Let me end with a short statement of the “rules of the game”. You should know that I believe that good leadership always provides the rules of the game and then gets out of the way.

As the leader of our company, I work to break my leadership into three well-known basic functions or activities of pathfinding, aligning and empowering

Pathfinding deals with the future. It requires the embedding of a culture imbued with a tremendous, exciting future by meeting the needs of our customers and stakeholders.

Aligning consists of ensuring that our company's structure systems and operating processes all contribute to allow us to achieve our mission and the vision of meeting those customers and stakeholder needs.

Empowering encompasses the fact that while we have – or should have – in this company, enormous talent, ingenuity, intelligence and creativity; unfortunately, most of it usually lies dormant. Empowerment is to wake all that up to get a true alignment towards our common Vision and Mission so that we can co-mission together. Our individual purpose and mission must be comingled with the overall mission of our company. The overlapping of all this will create great synergy that will lead to much better success. We have everything we need – empowerment puts it together to all of our benefit.

Let me add to, this missive about “Change to Strange” and rules, “Rule No. 6”.

Two prime ministers are sitting in a room discussing affairs of state. Suddenly a man bursts in, apoplectic with fury, shouting and stamping and banging his fist on the desk. The resident prime minister admonishes him: “Peter,” he says, “kindly remember Rule Number 6,” whereupon Peter is instantly restored to complete calm, apologizes, and withdraws. The politicians return to their conversation, only to be interrupted yet again twenty minutes later by an hysterical woman gesticulating wildly, her hair flying. Again the intruder is greeted with the words: “Marie, please remember Rule Number 6.” Complete calm descends once more, and she too withdraws with a bow and an apology. When the scene is repeated for the third time, the visiting prime minister addresses his colleague: “My dear friend, I've seen many things in my life, but never anything as remarkable as this. Would you be willing to share with me the secret of Rule Number 6?” “Very simple,” replies the resident prime minister. “Rule Number 6 is ‘Don't take yourself so g--damn seriously.’” “Ah,” says his visitor, “that is a fine rule.” After a moment of pondering, he inquires, “And what, may I ask, are the other rules?”

“There aren't any.”

For those readers who may think that I have gone over the edge by suggesting that inflation is very highly likely, let me give you the source of my reasoning background.

As I said earlier, I have been a big fan of economist Milton Friedman, and have read many of his writings. The book that is most recent in my reading is Money Mischief – Episodes in Monetary History where Friedman tells us that “Money is much too serious a matter to be left to central bankers”. He is famous for his comment that “inflation is always and everywhere a monetary phenomenon”. That proposition has been known by scholars, including Ben Bernanke, for thousands of years. Yet it has not prevented governmental authority from yielding to temptation to “mulct” their subjects by debasing their money – taxation without representation – while vigorously denying that they are doing anything of the kind and attributing inflation to all sorts of devils incarnate. Nor is this ancient history; I personally have lived through that environment in the 1970s. To quote Milton Friedman, one more time, “Rapid increases in the quantity of money produce inflation”.

### Conclusion

I would like to end these remarks by quoting Albert Einstein who said: “The most beautiful experience we can have is the mysterious. It is the fundamental emotion which stands at the cradle of true art and true science. Whoever does not know it and can no longer wonder, no longer marvel, is as good as dead, and his eyes are dimmed. It is the experience of mystery – even if mixed with fear – that engendered religion. His knowledge of the existence of something we cannot penetrate, our perception of the most profound reason and most radiant beauty, which only in their most primitive forms are accessible to our minds. It is this sense and in this alone I am a deeply religious man.” Einstein also said that his pursuit of knowledge was “for its own sake and that an almost fanatical love of justice and the desire for personal independence – these are the features of the Jewish tradition, which make me thank my stars that I belong to it.”

Sincerely,

A handwritten signature in black ink, appearing to read 'Ned Goodman', with a stylized, cursive script.

Ned Goodman  
(written between April 1 and May 20<sup>th</sup>, 2013)

*“How wonderful it is that nobody need wait a single moment before starting to improve the world”*

Anne Frank



# Corporate Directory

## Board of Directors

Normand Beauchamp  
Michael Cooper  
David Goodman  
Jonathan Goodman  
Ned Goodman  
Harold (Sonny) Gordon  
Ellis Jacob  
Dr. Frederick H. Lowy  
Garth A.C. MacRae  
Robert McLeish  
K. Barry Sparks  
A. Murray Sinclair

### Executive Office

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dundeecapitalmarkets.com  
dundeegoodmanprivatewealth.com

### Registrar and Transfer Agent

Computershare Investor Services Inc.  
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Toronto, Ontario M5J 2Y1

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service@computershare.com

### Stock Listing

The Toronto Stock Exchange

### Stock Symbol

DC.A

## Officers

Harold (Sonny) Gordon  
*Chairman*

Ned Goodman  
*President & Chief Executive Officer*

Mark Goodman  
*Executive Vice President*

Lucie Presot  
*Vice President & Chief Financial Officer*

Sivan Fox  
*Vice President, Legal*

Kevin Ng  
*Vice President, Taxation*

Perina Montesano  
*Vice President, Internal Audit*

Lili Mance  
*Corporate Secretary*



