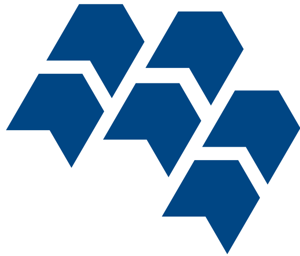


DUNDEE CORPORATION

2010 ANNUAL REPORT

Chairman's Report

"It is not the strongest of the species that survives, nor the most intelligent. It is the one that is most adaptable to change."

Charles Darwin

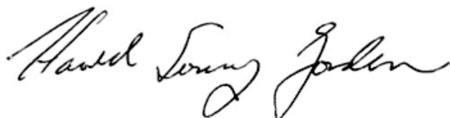
Fellow shareholder:

2010 was a special year for Dundee Corporation. The highlights include record breaking financial results and, on November 22, 2010, an agreement to sell our shares in DundeeWealth Inc. to the Bank of Nova Scotia. This transaction was closed on February 1, 2011. The outstanding financial results were generated principally by the efforts of a dedicated and resourceful team of people from Dundee Resources Limited, Dundee Realty Corporation and DundeeWealth Inc. In all cases, expectations were exceeded. Most of our other subsidiaries and affiliates made excellent progress.

The greatest impact was the transformative sale of the shares in DundeeWealth. This transaction initially involved a small team of people at Dundee Corporation, assisted by investment bankers and legal counsel, lead by the determination, smarts and vision of Ned Goodman. The rationale for this transaction and how it will affect the future of Dundee Corporation is discussed in Ned's report to shareholders that follows.

To the dedicated and talented individuals who helped make 2010 special, my profound thanks. To our Board of Directors I thank you for your invaluable counsel, availability on short notice, patience and understanding.

Sincerely



Harold P. Gordon, Q.C.

Dear Fellow Shareholders,

This is the twentieth time that I have written a message for the Annual Report of Dundee Corporation. Unlike most other companies, I actually personally write these messages. In recent years I have even made it a point of not allowing anyone who I know would try to change the message read it in advance. Lucie Presot, our CFO, checks the words to ensure that the facts and numbers are correct.

Unlike Warren Buffett or Bill Gross, I live in the luxury of relative anonymity, and my words have the same effect on markets as they might on my wife dozing off at a Rolling Stones concert with the air filled with fumes from the marijuana smokers. While it's not commonly understood or appreciated, it is a fact that it is quite often possible to see into the depth of things after there are marijuana fumes in the air. If what follows in the pages ahead doesn't catch your interest, you are excused, but let me give you an easy semi-frivolous answer to the first question to which I refer below:

> *He said, "Son, I've made a life out of readin' people's faces*
> *And knowin' what their cards were by the way they held their eyes*
> *So if you don't mind my sayin', I can see you're out of aces*
> *… Said if you're gonna play the game, boy, ya gotta learn to play it right.*
> *You gotta know when to hold 'em, know when to fold 'em*
> *Know when to walk away and know when to run*
> *You never count your money when you're sittin' at the table*
> *There'll be time enough for countin' when the dealin's done*."

"The Gambler", the song that made Kenny Rogers famous, has been used by Warren Buffett when he suggested we need temperament, emotional stability, and a keen understanding of both human and institutional behavior which are vital to long-term investment success. His mentor, Benjamin Graham, said if you don't have an intimate knowledge of the chronic behavioral anomalies of "Mr. Market", the imaginary manic depressive who personifies the emotional impetus behind the actions of the "crowd", you're doomed to mediocrity or worse. Even if you can bring all your intuitive capacities into play today, our investing world means that you must read the faces around the table and at the same time, the cards in your hand, in order to draw an inference on the basis of insufficient possibly misstated and misleading data as to whether it's time to hold 'em or fold 'em. We are in a global economic and domestic mutual fund investment business environment where "hold 'em or fold 'em" has become much more important.

We live next door to the richest country in the world and the most democratic, as established by its constitution. But if you search through economic history books you will never find another instance similar to the United States currently, with their dollars serving as the world's reserve currency while backed solely by the paper on which it is written and which tells you "In God We Trust". In addition, in today's environment we have a new "country" – Europe – with its own currency also with very limited backing other than the paper which can be printed, and it is being printed. The British are mostly just confused about it all.

At the same time, China is collecting US dollars and gold on a daily basis, while the US is undergoing a deepening and almost matching deficit.

And all of this is happening at the same time that our neighbours to the south cannot get their politicians together to decide whether or not it is possible to run continuous deficits (trade and fiscal) while building debt to stratospheric levels, all of which is financed by the issuances of familiar looking dollar bills created at no cost, other than the printing.

Dundee's vision is to build increasing value in everything we do. We are asset managers and providers of capital for real estate, resources and infrastructure for our own account as well as third party partners and clients; we are investment bankers to a growing list of important clients. Our overall culture has family values. We think of ourselves as a business family, not a family business. We operate in a manner that is protective of people, the environment and our reputation. We are profitable, as well as socially responsible. We are guided by overall core values which have served us well for many years. We behave like owners. We strive for excellence and continued improvement. We respond with urgency when required but we regard thorough due diligence more important than urgency.

I am writing this letter amidst the global and Mid-East chaos and violence as well as problematic economic and financial news emanating from the United States, Europe and the United Kingdom. Our world is screwy and without any certainty or reason for optimism or confidence of investors, yet the stock markets of the world appear to be blind to the news of the day. Nevertheless, I have not been more concerned of the future for overall investment at any time in my entire investment career of 49 years. While I definitely remain an optimist by nature, there are times when rationality takes over my psyche and questions optimism. Commodity prices are making new highs and the price of gold is doing likewise. Nonetheless, I remain positive towards investments that retain inflation protection like infrastructure and real estate and other hard assets, such as gold and commodities.

Because I intend to mention the term "Black Swan" throughout this message, let me describe how Nassim Taleb, who invented the term, defines it.

In learning to expect the unexpected, Taleb says that, "a Black Swan is an outlier, an event that lies beyond the realm of normal expectations – by definition, a Black Swan is a negative surprise because most people expect all swans to be white based on their experience from former learning. The fact is that the state of the heart is what governs people's actions, not facts, because not many are concerned about facts".

After putting up with many good-natured jokes about the number of times I have mentioned my concern about global inflation in these messages, forgive me for a little braggadocio. The Wall Street Journal, on October 10, 2010, printed an article titled, "Inflation Drives A Shift in Markets". To quote the article, "After being pushed and pulled this year by tumult in the Middle East and quake in Japan, the world's financial markets have been shaken about economic fundamentals about inflation and interest rates." …. "gold hit a new record and posted its biggest gain in a year".

The writing of this annual message to shareholders is usually a daunting task and this year has not been very different other than the fact that on February 1 of this year (2011) we sold our industry-leading, prized asset – Dynamic Funds – to the Bank of Nova Scotia. On that basis I have determined that this report to shareholders must dwell on two questions:

1. Why did we sell? and
2. What are we going to do now?

I intend to take a longer and more indirect approach which should give more than the gist of what was, and is, my thinking on those two questions. My apologies if it is too long and confusing.

The sale of DundeeWealth is the sale of a company that contains all of the past efforts of myself, my family and all of the former and recently current, colleagues and partners who were there with me since 1967 and who were definitely part of the creation of the building blocks and development of Dynamic. I acknowledge and thank them, and you all know who you are. DundeeWealth was a company that was born out of the continuing success of a mutual fund that became many funds, only to grow further and ultimately become a family of funds, investment advisors, capital markets and for a brief period of time, a full Schedule 1 bank.

For me the sale of our "baby" created bittersweet emotions and provided many good memories going back over fifty years. The sale was solely my decision; it was not unanimous in my family's thinking, but it was approved by the independent board members of the company. I personally did the negotiations with the help of great financial and legal advice from Kevin Sullivan of GMP Securities and Marvin Yontef of Stikeman Elliott and their staff as well as backup from all my fellow soldiers that work for our company. Thank you all. My Dynamic journey was blessed with a great corporate culture carried forward not just by meeting expectations but always striving to surpass them for our fellow workers and our clients.

The negotiations to sell our company and those many requests from the bank to buy our company go back to the fall of 2007, when we signed a Shareholder Agreement that allowed Scotiabank to receive "rights of first offer" and "rights to match" were we to sell the company. Rick Waugh and other bank officers and I have been in good faith negotiations ever since. It was a battle between two dedicated value investors and we both won. In the end, it was decided between Rick and myself in the instant that he finally responded positively to my offer. Contrary to newspaper reports, we did not have to pay any break fee.

I intended to achieve a sale to a buyer who would respect the family culture that David and I have built into our company. (I say our company because the same culture also remains in Dundee Corporation, Dundee Realty, Dundee Precious and Dundee Capital Markets). While it has only been several months, it is clear that Scotiabank has bought into the Goodman culture; with David Goodman as the continuing responsible CEO, the company has not lost a beat on its quest to be a leader in performance and growth in the mutual fund and investment management business. The growth profile remains unchanged and with the enhanced distribution that should come from the bank across Canada and the world, there will not be any look back or seller's remorse, just pride of creation. Ownership or not, my heart is still with Dynamic and as its continuing non-executive Chairman, I pledge to do everything I can to ensure that its culture and growth profile remain intact.

In the chapter labeled "We Just Can't Predict" in Nassim Taleb's book The Black Swan, he wrote: "I find it scandalous that in spite of the empirical record we continue to project into the future as if we were good at it, using tools and methods that exclude rare events. Prediction is firmly institutionalized in our

world. We are suckers for those who help us navigate uncertainty whether the fortune teller of the "well published" (dull) academics or civil servants using phony mathematics."

"The great baseball coach Yogi Berra has a saying, "It is tough to make predictions, especially about the future". While he did not produce the winnings that would allow him to be considered a philosopher, in spite of the wisdom and intellectual abilities, Berra can claim to know something about randomness. He was a practitioner of uncertainty, and, as a baseball player and coach, regularly faced random outcomes, and had to face their results deep into his bones. "

"In fact, Yogi Berra is not the only thinker who thought about how much of the future lies beyond our abilities. Many less popular, less pithy, but not less competent thinkers than he have examined our inherent limitations in this regard, from the philosophers Jacques Hadamard and Henri Poincaré (commonly described as mathematicians), to the philosopher Friedrich von Hayek (commonly known as a philosopher). We can safely call this the Berra-Hadamard-Poincaré-Hayek-Popper conjecture, which puts structural, built-in limits to the enterprise of predicting. "

"The future ain't what it used to be", Berra later said. He seems to have been right: the gains in our ability to model (and predict) the world may be dwarfed by the increases in its complexity – implying a greater and greater role for the unpredicted. The larger the role of the Black Swan, the harder it will be for us to predict. Sorry. ***Taken from Nassim Nicholas Taleb: The Black Swan; The Impact of the Highly Improbable".***

Allow me to reproduce an article by Jonathan Chevreau of the Financial Post describing the Dynamic Fund team that is now part of the Bank of Nova Scotia, the message of which gives honour to all former and current Dynamic portfolio managers:

> ***Dynamic Funds leave index-hugging rivals behind.***
> ***Jonathan Chevreau of the Financial Post – column on December 10, 2010***
> ***Many financial columnists, including yours truly, have imbibed the Kool Aid of passive indexing and exchange-traded funds (ETFs). Many popular books refute the idea actively managed mutual funds can beat the indexes and recoup their fees.***
>
> ***So, I admit being shocked by last week's Morningstar Canadian Investment Awards, when Dynamic funds swept the event with 10 wins, including seven in key categories such as US and international equity, Canadian large- and small- cap and dividends. It was chosen Fund Company of the Year by both fund analysts and advisors and, to cap it all, won the Marketing award. All the winners are rated four or five stars by Morningstar Canada.***
>
> ***Dynamic has always had its share of winners since the awards began in 1995. It was Fund Company of the Year then, too, although a decade passed before it repeated the feat.***
>
> ***Comfortable in my indexing world view, I assumed its winning funds beat their peers – similar funds from rival fund companies – but had not beaten the underlying indexes. So, I was surprised to discover they had trounced the indexes going back 10 years. As fund analyst Dan Hallett put it, " They have generally been benchmark and peer outperformers."***

Unitholders have done well, despite hefty MERs ranging from 1.52% for Dynamic Dividend to 4.2% for the Far East and Resource Funds. (Published performance numbers are net of fees, including performance fees for the latter two funds).

David Goodman, President and CEO of Dynamic's parent company, DundeeWealth, credits the firm's investment culture, which gives portfolio managers freedom to concentrate portfolios in 30 or 40 stocks and over- or underweight sectors as they see fit.

"To beat the benchmark, you can't be the benchmark". Thus, each position is meaningful: the top 10 holdings may make up more than half the fund, he says. Several Dynamic Funds have regulatory approval to engage in limited shorting of stocks, a trick used by hedge funds, although Mr. Goodman downplays this.

Another common criticism is survivorship bias: Fund companies terminate poor funds or merge them into winners, thereby expunging poor track records. But all Dynamic's winners have at least 10-year records (nine for Dynamic Power Global, which was only started in 2001). David Taylor's Dynamic Value Fund of Canada was created when Dynamic was founded in 1957.

Give this company credit for what it has accomplished. Many advisors believe in a "core and explore" approach where indexing is the core of a portfolio, but active management is used at the periphery in a bid to boost returns. Based on its long-term track record, you could do worse than using Dynamic for the explore portion, perhaps at the expense of its index-hugging active rivals.

In short, Dynamic is doing what I thought all mutual funds were supposed to be doing when I first invested in them, Hats off to them.

To move on to the answer of those two questions, I have to tell you that notwithstanding that I have been educated, trained and experienced in investment management, I have never parted from my geological background in developing my vision of what's going on in the world.

The planet Earth is a rock-coated metal ball hurtling at over 100,000 kilometers per hour. By itself, this is an unsettling thought, not made less so by the knowledge that the space we're careening through is far from empty. Like my car speeding through the congested Toronto city streets, our orbit around the sun takes us across the path of millions of potential crashes – everything from tiny pebbles to rocks the size of North America. Earth has been cruising through this galactic throughway for the last 4.5 billion years so it is not surprising that along the way it has taken a few bumps and even suffered the odd head-on collision. It turns out that such cosmic pile-ups lie at the very heart of the genesis of our planet. Encounters of the extraterrestrial kind have been a driving force for planetary change since Earth's very birth. It has been instrumental in making Earth habitable and giving us the ingredients for life – perhaps even life itself. Yet few of us looking to the heavens sense a planet whirling through celestial flak, with us anchored to it by the invisible tug of gravity. Under a starry sky with its familiar constellations, our little blue dot in space seems serenely isolated from the whizzes and bangs of a violent and capricious universe. But every so often, planetary violence does come to town. Yes, even the global spin and its trips around the sun is plagued with those same Black Swans that inhabit the world of finance and investment. But we do survive***. (Taken from National Geographic)***

To return to our real world, the world of commerce and finance, where the global environment existent today is facing the broadest and most impactful political risk that I have seen in my career. My period of time began when President Kennedy took us to the brink on the Bay of Pigs venture, the cold war of Ronald Reagan, the Iranian Revolution, the various worries over the supply of energy, the impetus of the inflation of the 1970s, the rise of China and India and most other developing and emerging countries, and much more.

The risks today, as the global economy spins through the mega dangers of political space, include widespread and now internationalized armed conflict in the Middle East and North Africa, along with an enormous catastrophe in Japan, plus a fiscal debt and banking crisis in Europe. Each of these events has longer term implications for many things and especially global energy ----. And all of this is taking place against a back drop of intense political bickering in an almost bankrupt United States as well as extreme global economic rebalancing from the developed to the developing world. Against all of this, geology and the historic path of the planet seems as least less risky because it has survived 4.5 billion years. So will our economic system but not without those few bumps and the odd head-on collision. I remain an optimist, but I am beginning to feel lonely.

To quote the perennial bear, Albert Edwards of Société Générale in London, with whom I often disagree: “The global economy is critically ill. The fact that it has just risen from its sick bed to perform a frenetic Irish jig is more a function of the financial morphine and steroids that have been pumped into its emaciated body than any miracle cure. You don’t have to be Dr. Doom to expect the patient to collapse back into a deep coma after the stimulus has worn off.”

Since 2005 when I first noticed the speculative activity of house and condo flipping by people who really could not afford the purchase, I have been railing about impending inflation in this annual message. Now the world is frightened about inflation. On your TV, front page in newspapers, the world has realized that inflation is actually a political phenomenon even more than a money phenomenon but the value of money is always the messenger that alerts us that we have problems.

I do know that we have been living through a period of disinflation for most of the last thirty years – since 1982. Nonetheless, on a gross basis the US government pays out 15% of its revenues in interest payments, and this during a period of lower than average interest rates of one or two percent. This is in comparison to a two hundred year average of almost 6% for US government bonds. So what happens to the US dollar crisis when interest rates return to the 200 year mean? It means that gross US government interest rates as a share of revenue should approach a greater than 30% number and even more as they increase their spending to provide for Obamacare etc.

The recent S&P rating agency report that puts in jeopardy the AAA credit rating of the United States brings forward the problem that the key metric they use is the ratio of net interest payments to government revenue. A report by Goldman Sachs found that all major reform plans of the government would still have that ratio increase to levels that rating agencies would probably still consider worrisome. To avoid the rating cut would require defence cuts, senior benefit cuts and/or significant tax

increases. Not stuff that can help President Obama get elected in 2012. Once again, an affair with the problem of unintended consequences which remain out there based on almost anything that may be done or even if nothing is done.

Milton Freidman, the most famous monetarist, taught us that inflation or deflation can all be boiled down to the fact that when the Federal Reserve (or the Central Bank in other countries) prints money the economy gets a boost. If they print too much money, then inflation occurs. In his words, inflation is nothing more than "too much money chasing too few goods". We live today in an environment where productivity has boosted the supply of goods and services at the same time that there has been a boost in demand for US dollars from international buyers. Dollars are today being used worldwide as a supposed currency safety net and to price most globally used commodities. As a result, what appear to be rapid increases in money supply by the Federal Reserve are muted by the increase in supply of goods and services. However, this only works on how the central banks report inflation, not on how consumers find the prices comparable to the past. Inflationary expectation, and its attendant lack of confidence, is rising on a worldwide basis. And that's why gold and commodities and almost everything we eat and need really does cost more. And that's why last year's message was all about the fact that we have built Dundee Corporation to withstand those inflationary efforts.

Today, we have financial markets worldwide now worried about inflation, deficits and the Federal Reserve's suppression of interest rates such that on a "real" basis US interest rates are negative. But you find very little written or spoken about the fact that the value of virtually everything is usually based on a discounted present value of future cash flow. At current suppressed interest rates the equity markets can be said to be undervalued or fairly valued, but what will happen when the inevitability of higher interest means that the calculation of discounted present values are lower and maybe much lower?

In early 1947, the US Treasury yields were a little more than 2% and when this rate rose and then eventually collided with, pre Volcker, near 20% inflation rates we had the "buy of a generation" in the stock market. Nineteen hundred and seventy three and four are when Warren Buffett was fortunate enough and smart enough to be a buyer and that's really what created his genius, because that collision with Volcker's drastic corrective tax set the stage for that twenty year "stock market of a generation" which ended in 2000. Since then over the next ten years stock market investors in most of the world were fortunate if they were able to achieve a positive return and when achieved, for the little inflation that was in existence at that time, real ten year index returns were negative.

Sidney Homer's book "A History of Interest Rates" showed us that ebbs and flows of prices and years had generational lengths. He showed that interest rates fell from 1870-1899; rose from 1899-1920; fell from 1920 to 1946 and rose again from 1946 to 1981. From 1981 to almost today or yesterday, interest rates have fallen and we have lived through a no-brainer for bond market enthusiasts. Interestingly, Jim Grant has noticed that a McKinsey Report actually found that the principal force behind the post 1981 fall in interest rates was not based on the work of Paul Volcker, but was rather a 20-year spell in which global investment averaged "$700 billion per year less than it would have been had the investment rate of the 1970s persisted – a cumulative sum of $20 trillion."

For most of the last year I have increasingly been convinced that the world is becoming more and more screwed up and that there are potentially many of Nassib Taleb's Black Swans out there waiting for us. The world has become fractured and frankly as a totality it is not governable. The United Nations is outdated and has become a joke; the G20 has become – in the words of Nouriel Roubini – a G-Zero. We live today in a world of chaotic struggles between nations, governments, international organizations, non-governmental organizations and, yes, even corporations and prominent individuals. All of us are competing on an unknown sized and multinational playing field, each with our own self interests solely at stake.

The world, as a totality, is unable to achieve a useful coordination of actions and policies. Or as Roubini and Bremmer say in their Atlantic Monthly piece about the G-Zero world, "the driver's seat is empty and has really been so for at least the last forty years". During that time the major powers of the world have not been able to agree "on how to build and maintain an effective non-proliferation regime that can halt the spread of --- dangerous weapons and technologies". Witness Iran, North Korea, and unknown others.

Yes, globalization and its trade can be of use to all players; "but the divergence of economic interests in the wake of the financial crisis has undermined global economic cooperation" which is beginning to undermine the benefits of globalization. Today we have an environment where global food prices are raging, energy prices are out of control, and everything seems to cost more, while the Federal Reserve in the US is so-called "fighting deflation". It is my belief that the Fed and all Central banks of the world are following a plan to keep interest rates low in order to keep the global economy sound. The use of easy money is a strong worldwide trend, but how can that continue? Like it has done every other time in global economic history, the tide will turn, we just do not know when and neither do we know the consequences of that Black Swan anymore than we know the consequences of any Black Swan.

We are all well versed in the fact that demand from almost all over the world for agricultural commodities has been pushing steadily higher. Since 2008 world usage of corn, wheat and soybeans has increased by more than two-fold. I ask the question that a commodity trader, quoted elsewhere, asks in trying to be a logical economic person: "How can the world in the 21st Century operate like this indefinitely without an accident?" China in particular is coping with the shortage of grain by destocking from inventory. To quote that global commodities trader again, "they need their pitching staff to throw perfect games in both halves of the day-night doubleheader. Good Luck".

By tradition, I always have a quote taken from Warren Buffett's Annual Report and here is another one from his recent report:

"A normal year of course is not something that Charlie Munger ---- or I can predict with anything like precision. But for the purpose of estimating our current earning power, we are envisioning a year free of a mega-catastrophe in insurance and possessing a general business climate somewhat better than 2010 but weaker than that of 2005 and 2006."

The earthquake and tsunami in Japan and US floods and typhoons have already proven his first call incorrect and if we look at the average of 2005 and 2006, Berkshire's book value gained 12.5% and in

2010 gained 13.0%. Better than 2010 and weaker than 2005/06 is not a number that makes sense mathematically. Maybe Warren is getting old or he needs Lucie Presot, my CFO, who would never allow me to make that kind of mistake. But even an old Warren is better than most at picking the time and place to invest his money; but he is usually a happier buyer during very negative and stressful periods.

As the printing of US currency continues with devaluation, the weaker dollar promises to shift the burden of central control and rebalancing from the US, the traditional leader, to a very shaky Europe and a now struggling Japan. China will assume more global power. The world is spinning upside down and global stability is very hard to predict.

I think I am making some points in answering the first question but let me add at least one more Swan that is swimming out there that I think may be more black than white. I am concerned about several major structural trends in the world's political realm. These include the tremendous rise in state capitalism which imposes itself by sovereign wealth funds, state owned companies and companies run privately or publicly but which are set up with golden shares that give the state final automatic powers. In the last ten years, and likely to continue in the Obama term, the US has been all about government expansion and state owned enterprise. Countries of the world are increasingly becoming the dominant economic practitioners and they are using the "market" primarily for local or global political purposes. Just watch Fox TV to learn how President Obama is doing just that.

As far as money management is concerned, today's complex financial system requires a more interpolated macro approach in both top down and bottom up dynamic expression, rather than the traditional siloed approach to asset classes and investment styles. Investment should be conducted to make money in every legal way possible, not to outperform an index or have a particular style or be in only one specific area.

Let me add that mutual funds as an investment vehicle do have some drawbacks. These can start with the unbelievable increase in compliance rules and regulations which all claim to offer investors some positive results and are time consuming and have potentially reputational risk. And of course the age old problem of open end versus closed end fund packages. It tremendously ties the hands of managers of daily redeemable mutual funds, by always being faced with the fact that money rolls in at a time when it is least attractive to invest and rolls out when you should bet the bank, but the public still compares performance against the indices that have no ins and outs but just poke along based on the mood and the trend of the day.

To continue with the trend of the day, it is my view that stock markets in general will be range bound and flattened for the near future and that overall index returns will probably be negative on a real basis. The macroeconomics of the developing world and the growth plan, inherent in China, India and other emerging or developing countries, along with the increase in the global population of typical middle class families, will all bode well for the resource products which are blessed with Milton Freidman's too much money chasing too few goods.

The trauma of those many months of a falling market during 2008/09 on a worldwide basis being reported in an overpowering unbelievable fashion made it feel even worse than it was. We all were impressed with the fact that there were so many disruptions that upended our normal lives all at once.

We know today that millions of Americans still remain unemployed with no reason to believe that there is any cure to that problem. We know that every state in the US faces a budget shortfall and they cannot print currency to fix it (as do Ontario and Quebec). We know that many hundreds of smaller US banks have closed their doors. We know that almost worldwide we are not producing the jobs and lifestyle that young people know about and are demanding. These, along with many other worrisome events that are current, have created a worldwide time of flux, anxiety, unrest and in some instances, revolutions.

At the same time we are told that the North American economy has begun a slow and stuttering recovery. A recovery that is called reflation. Some commentators are even saying reflation from those lows is new growth. Real economic growth is not yet imminent; the vast changes that came out of the financial crisis of 2008 and 2009 are likely to reverberate for many years. The reverberation noises and consequences, like most things in the future are not predictable as to whether we will have positive or negative consequences. The memory of 2008 will last a long time.

What is economic reality today? My own view, as is Warren Buffett's, is that "many economic statistics are politically motivated and transparently false, that much of what passes for market price discovery is political theater, and that the current investment landscape is little more than a reflection in a funhouse mirror in which all relevant information is savagely distorted."

But our biggest problem with the inflation hedge thesis is that it takes our eye off the ball. The critical question today is not whether we face deflation or inflation, but whether and when we face a global monetary collapse. There was a time when just saying that would clear a room of decent, conservative investment citizens. We gold bugs keep this sort of talk to ourselves. Today, however, a growing chorus of Johnny-Come-Lately's is saying the very same thing, albeit in "suit-speak". It's hard to figure out the players and their statements.

The fact is that Mr. Bernanke knows how and fully intends to create inflation in the US. "The US government can also reduce the value of a dollar in terms of goods and services which is equivalent to raising prices in dollars of those goods and services. We conclude that under a paper-money system, a determined government can always generate higher spending and hence positive inflation."

And Paul A. Volcker, former Chairman, Federal Reserve recently said: "The United States is absorbing about 80 percent of the net flow of international capital. And at some point, both central banks and private institutions will have their fill of dollars."

In any case, the optimist in me does see that the United States will probably experience some growth during 2011 coming from the rebound of the terrible days of 2008/09. There are some signs that the US consumer is starting to spend and the US consumer counts for 50% of the global consumer market. But, while some commentators believe that the reflation from the bad days of 2008 can be called growth, it is not true growth.

In the words of Warren Buffett, once again: “Legislators will correctly perceive that either raising taxes or cutting expenditures will threaten their re-election. To avoid this fate, they can opt for high rates of inflation, which never require a recorded vote and cannot be attributed to a specific action that any elected official takes. In fact, John Maynard Keynes long ago laid out a road map for political survival amid an economic disaster of just this sort: “by a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens…. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose”.

Many people query me about my view of investment going forward. I tell them that I am calling for a sideways or range bound stock market and that means there will be periods of up and periods of down, especially in those measuring tools called indexes, and especially in the US. My view is that this can exist for the next five years or more. Index investing will – in all probability – provide negative real rates of return. The world is no longer US-centric and is sufficiently complex and difficult to understand other than inflation is a surety and resource markets and real estate are the places to be.

The world today is centered on globalization and those emerging countries who are building cities, highways, bridges, rail lines, houses with indoor toilets, refrigerators and even buying cars. That’s the world that will add 2 billion people to our middle class population over the next 12 to 15 years. The demand for “stuff” – copper, steel, lumber, concrete, and a host of other commodities – is coming from China, India, Brazil, Russia, Korea, Indonesia, Vietnam and others.

The fact is that as far as the metals market goes, we do not have enough to meet that demand growth; and that’s my personal investment theme for the new Dundee – Resources and the rapid industrialization of the developing world. Not only is our country, Canada, rich in all those commodities mentioned, but The Toronto Stock Exchange has developed as the exchange of choice and Toronto has been the place to raise money. As the world grows and the people become richer and hungrier, the action for investment to take advantage of resource discoveries and the capex financing needed to achieve production is coming to Canada. We intend to be there as a source of funding and in depth information.

The balance of economic power has shifted away from the US to China and India et al, but the best way to take advantage is not by investing directly in those countries but to invest in Canada and resource opportunities from around the world. Investing in Canada is low risk compared to investing directly in the emerging economies on a direct basis.

Today, unless you catch on to what was happening in the emerging or developing markets and especially as related to the demographics of the world, and in particular China and India, it all seems unexplainable.

For the last ten or fifteen years, the eastern nations have been experiencing the same upward momentum of lifestyle, health and economic growth that North America, the UK and Europe had experienced during the 1800s. We called it The Industrial Revolution.

The years following the Industrial Revolution that built the Western economies and civilization were extremely bumpy and much money was made by all until it terminated with a burst in 1929-30, a time very similar to what we felt in 2008 and 2009. This market bottomed on March 6th, 2009 when the S&P500 traded at 666. The current market buoyancy is a rebound from terrible times. The memory of 2008 remains stuck in all of our minds and will be so for a while, but the next direction from flat and range bound will be up. The next several years will be opportunities for "value" buyers of inexpensive companies.

I do believe that stock markets in general will be flatlined and trendless and have been so really since the year 2000. This period is reminiscent of the very early years of my experience – a time from 1968 to 1982 when the market bounced between 600 and 1000 on the DJIA at least four or five times, and then went into 18 years of a generational bull market. Almost all trendless, range bound and sideways markets are the same. The main difference is how much inflation is there which might create a negative real return of a flat-lying market.

It is common for those who try to predict the overall stock market directions to refer to a secular (meaning long term) bear or bull market. Obviously, one goes down and the other goes up over a fairly long term. But there is a third kind of secular market – one that is trendless and either makes or loses returns based on the inflation rate during the secular period. The fifteen year secular market in which I began my career, (from 1965 to 1982) because of inflation, was considered to be a secular bear market. But as I said previously, that was the time (1973-75) when Warren Buffett made his best buys that he still brags about today.

It is my view that in the last 12 years we have come totally turned around in the circle of financial integrity of massive indebtedness in many economies. That turn today includes every major developed country – led by the US.

To quote Reinhart & Rogoff in their book ***This Time It's Different***, "Periods of heavy borrowing are often created during periods of a bubble and last for a surprisingly long time. But highly leveraged economies, especially those who have to live with a continued rollover of short term debt which is collateralized or just sustained by the confidence of relatively illiquid underlying assets, seldom survive forever, particularly if leverage continues to grow unchecked." This time may seem different, but all too often a deeper look shows it not to be.

The lesson of history as delved into by the authors of "***This Time It's Different***" have left their conclusions that even as institutions and policy makers improve there will always be a temptation to stretch the limits just as an individual could go bankrupt no matter how rich they are when they start out; a financial system can collapse under the pressures of greed, politics and profits no matter how well it may be regulated. The ability of governments and investors overall to have bouts of delusion can give rise to bouts of euphoria which in many instances cause an unhappy ending or result. It has happened over centuries in the past. Most learned people find themselves in shock and surprise about the ability of governments in the past to mesmerize themselves in their mismanagement of financial markets. This

is a key theme of Reinhart & Rogoff's study looking at financial crises over many years and in many countries.

China's 12th Five-Year Plan, just released, stands to be a major milestone on the road to its development and widening prosperity. It sets the stage for the long-awaited transformation of a production-led economy into one that provides greater sustenance for its 1.3 billion consumers. This is hardly a shocking outcome for any developing economy – let alone China. After all, there is a reason why this nation is called the People's Republic of China.

China's journey has hardly been simple or easy. But enormous momentum has been building for this decisive transformation. China has now achieved critical mass on many fronts: it has modernized its physical plant – factories, infrastructure, shelter, and offices. It has educated its people. It also built up an enormous reservoir of domestic savings and foreign exchange reserves. And it has broken the mold on poverty reduction and internal migration from the countryside to new cities.

Now it is time for China's next step – and it is a giant step with, once again, unknown consequences. A producer culture must become more attuned to the needs and aspirations of a consumer society and China has both the wherewithal and the will to pull off this daunting transition – but who knows?

That's not to say it will be easy. There will undoubtedly be bumps in the road. Once again, what the bumps may be: domestic inflation, external demand shocks, global rebalancing concerns, or some other unexpected development, remains to be seen. These are all problems that China can address and overcome. But it can only do so by using development and expertise that has served them so well over the past 30 years. The most important question is whether or not China's economy will abruptly slow down in this year. Their command economy heads have said they intend to achieve 7% or more growth this year and after 28 years of achieving what they predict I won't get in their way. But they will endure some inflation.

Europe faces a severe structural problem as Germany is intent on keeping the Euro and the common market alive. They are seeking a strong currency and high interest rates to combat inflation but they have many obstacles to overcome. Germany will continue to do well while experiencing their fastest growth in a generation; and the rest of Europe remains united in continuous recession. They are going to have to print many Euros to achieve their objectives. The European financial crisis is very far from over. In any case the United States will experience moderate growth during 2011 coming from the rebound of the terrible days of 2008/09. There are some signs that the US consumer is starting to spend.

We are living today in an economic atmosphere which used to be called a "beggar thy neighbour" currency program. Country after country is trying to devalue their currency in order to achieve a lower cost than the other developed nations. The process is taking place while the same country after country is facing rising fiscal deficits along with weak consumer demand and growth of their economy. Most countries are so weak that they require serious dramatic spending cuts and/or more taxation in order to reduce their fiscal deficits.

Reinhart and Rogoff have found that in the aftermath of a credit crisis induced recession, it takes at least six to eight years for a country to get back to a normal growth position. During those years from the beginning of the crisis, those countries are faced with slow growth, more volatility and frequent recessions.

The required solution, and this is what is currently happening on a global basis, is massive deleveraging by the country, its citizens, and its corporations to get their balance sheets in a respectable position. We are witnessing a US balance sheet recession which can only get resolved by reducing debt, increasing equity or actual stimulus spending.

To quote my old friend and associate, Martin Murenbeeld, a true economist:

“So let’s tackle the case of the US-China “currency war”; there is a massive trade and investment imbalance between the two countries. But the Renminbi is fixed to the US dollar. So how will the markets force a correction of the imbalance? As money flows from China, China must let inflation run rampant; as money leaves the US, the US must let deflation run rampant. Indeed, what we are seeing in China and the US today is exactly what the market requires: China is inflating, the US is deflating.”

“But here’s the rub: neither country wants to do what the market requires. China is fighting inflation and the US is fighting deflation. In fact, the US Federal Reserve is charged by Congress, i.e. the Fed’s Mandate, to fight deflation and maximize employment. The Fed cannot therefore allow market forces to push the US into deflation and depression; Congress has commanded the Fed to fight depression, and the US voter certainly doesn’t want a depression.”

But here is where Martin and I disagree – the unintended consequence and potential Black Swan exists in the possibility that the cure being used for US deflation will ultimately cause an inflationary bout that will lead to a long period of stagflation in the US.

I don’t think that I have ever written an annual message such as this without quoting the brilliance of my friend Donald Coxe, so let’s do it again --- “Just because stagflation of 70s proportions is only a remote possibility doesn’t mean that meaningful stagflation-style damage won’t be inflicted on bond portfolios – particularly those denominated in currencies of grossly indebted countries. We think the risk of a real stagflationary bond bear has now arrived, and have therefore reduced recommended bond durations. Unless the stagflation risk recedes, we shall be reducing those durations further in coming months. So should you.”

To stay on the expect-the-unexpected theme, let me repeat a poem that Don Coxe printed in his latest Basis Points edition:

“As each day we grow older
And totter towards the tomb
We find that we have lost all faith
That there could be another boom”

By slashing interest rates at the same time that prices are rising the Federal Reserve and the Bank of Canada have sowed those seeds of a new era of stagflation. That's a time when prices of goods we need in order to live, are going up faster than wages and new opportunities for employment. Ronald Reagan once described inflation as being "as violent as a mugger, as frightening as an armed robber, and as deadly as a hit man."

Until recently central bankers have believed that this thug had been locked up for life because core inflation as reported by authorities appeared to stay low. It quickly became more difficult for central bankers to hide the truth as they persist with monetary expansion. Inflation has not really been low and it's about to get problematic. We are headed into a 1970s type of stagflationary environment.

Both Don Coxe and I lived through stagflation during the 1970s and early 1980s and we more than survived. Stagflation is always triggered by excessive government spending monetized by a central bank that is either carefree or absolutely stymied. Ben Bernanke is today looking at a situation that he has never seen and will soon give him the perspective that it has reminiscences of 1929-30 and the 1970s. This is the subject of his Ph.D. thesis, but the problem that he is looking at is deeper than his expectation.

The warning signs of a stagflation scenario are always an increase in government spending as a percentage of GDP which we have had and about which even George Bush spoke about when he talked about stimulus and tax cuts. The result of government stimulus, a slow economy and a scary credit situation has caused the Fed to leave its restrictive policy and we are watching an excessive growth in monetary aggregates – an increase in money supply.

In this kind of stagflation environment where the economy is stagnant – recession – and costs are rising – the best thing, and perhaps the only thing, is to own hard assets. Investors will tend to flee from their rapidly decreasing currencies into the relatively safe harbor that things like gold, real estate and commodities ownership have always provided.

The United States with the benefit of the world's reserve currency is invoking the dilemma that Robert Triffin wrote about around 1957, now called the "Triffin Effect." To quote him in 1957, "the fundamental dilemma of international economic relations in this century lies in the inadequacy of national sovereignty as a framework for policy decisions and their implementation in an interdependent world".

Ever since the US Federal Reserve undertook quantitative easing through QE1 and more recently QE2, they entered into the endgame of the Triffin dilemma, an eventual day of reckoning of the world's reserve currency. As Triffin noted, the nation that runs the reserve currency gets a seemingly free benefit of being able to consume more than it produces since it must meet budget and trade deficits in order to create sufficient global currency liquidity. Triffin then said that it is inevitable that the value of the reserve currency (the US dollar) will fall and be devalued because foreigners end up holding more claims against the dollar than the economy of the United States can support. The result is the eventual erosion of the currency such that the dollar buys less or as the populace feels it – prices go up.

The Triffin dilemma can be managed by increasing interest rates at about the same rate that the foreign claims rise. The option of raising interest rates during a period of weak economic activity and massive unemployment and a population base that is suffering with wealth destruction from home ownership is highly unlikely as we go into a US election year in 2012. The result is that the US Federal Reserve must be able to manage the dollar's decline in a manner that it and the resulting inflation effect can keep pace with the increase of the foreign dollar claims. It is hard to see how that can be easily achieved in the current environment.

Faced with similar problems in 1933 and 1971, the United States was able to reflate their economy by reducing the dollar's reserve currency status against the price of gold. At this time we have to say "been there, done that and cannot pull that trick again" because the US is no longer on the gold standard. The result is that the US is facing such rapid debt deleveraging which might be so deflationary that the only answer is for the administration to install a massive reflationary push ASAP. This would create the likelihood of a global currency war where most major currencies race for the bottom and the only hope for the US dollar is that it rises by falling less fast. Each country in the world is working to build its own domestic security and prosperity. But each has its own unique political, economic, geographic and cultural agenda. The predominance of countries with state capitalism makes it even more difficult.

To quote Nouriel Roubini again: "It is why the process of creating a new international financial architecture is unlikely to create a structure that complies with any credible building code. And it is why the G-Zero era is more likely to produce protracted conflict than anything resembling a new Bretton Woods."

All trading positions in financial markets are almost always based on speculative assessments of future returns, probabilities and risks. As a result, notwithstanding some excellent previous results and success of operation, the speculative casinos of financial markets cannot be construed as evidence that one can forever foresee the future – the future is objectively open and Black Swans can provide unanticipated events.

When Britain had to give up being the world's reserve currency after World War II and allowed the US dollar to take over that role with one ounce of gold equivalent to $20 US, the United States began its reign as the leading country in the world - economic, political, military. But let's not forget that in 1933 Franklin Delano Roosevelt (a former US President who Barack Obama is trying to emulate) passed a law making it illegal for Americans to own gold and took in all US gold for $20 an ounce for the US treasury. Three months after that, the US raised the price of gold to $35 an ounce, maintaining its positions as a reserve currency but at a much revalued state from $20 to $35. The lower value of the US dollar is what allowed the Great Depression to finally begin its ending with the US gaining an economic global advantage because of "de facto" devaluation.

Soon after WWII when most of the world outside of the US was in a chaotic state, the Bretton Woods Agreement of 1944 was put in place in a manner that gave the US an enormous advantage over all countries in the world. Instead of an international economy where each nation was at the mercy of its store of gold, the Bretton Woods system made the dollar the centerpiece of the global structure. The new arrangement made the US the only nation with a currency that was freely convertible with gold at a

fixed rate - $35/ounce. All other countries were obligated to make their currencies convertible and compatible with US dollars and not gold. Just as Britain did prior to WWII, the United States was in effect functioning as a bank for the rest of the world.

However, on August 15, 1971, after several years of an inflationary economy and a resistance to counter it by monetary means or by raising interest rates for fear of a recession, President Richard Nixon – in a surprise move – slammed the gold window for US dollars shut. From that day forward, foreign governments or anybody could not redeem US dollars for gold. This move was indeed a complete breach of contract by the US government – a move only governments can do legally – a move which set in motion the worldwide credit bubble causing the price that Americans have had to pay for goods and services to rise dramatically and without a pause ever since, and it continues.

Since 1971, the US has led the world in globalized commerce and has led the world in building up deficits and debt. In 1987, near the end of the joyful days of Ronald Reagan's presidency, the US achieved the status of being the largest debtor nation in the world and remains so today.

The US Federal Reserve was set up in 1913 and an ounce of gold buys roughly the same amount of goods and services as an ounce did in 1913. The US dollar, however, has lost about 90-95% of its purchasing value and the rest is soon about to go. As an aside, if you don't hold me to the calculation, it is interesting that an ounce of gold probably roughly did the same job of purchasing at the time that Christ was born – 2011 years ago.

Back to 1971 – since that date, the US has added millions to the world's supply of dollars and credit and during the same time the world has added about 60,000 tons (m) of gold mined from new sources. When does the US dollar get marked to market?

We are currently witnessing the build out of a plan to devalue the US dollar vis-à-vis other world currencies. This is a grey swan that has a high probability to turn into a black swan at some point. We just don't know the eventual outcome and timing. Over the next one and a half years (20 months) President Obama will have to eliminate at least half of US unemployment or face being a one-term President. The only way he can create jobs is to produce things. In order to produce things at competitive prices is to have acceptable lower wages to increase productivity or to create an undervalued currency. Just as Richard Nixon closed the gold window 40 years ago in 1971 causing the price of gold to rise from $35 an ounce to today $1500 an ounce, Barack Obama will have to do something just as philosophically unexpected and dramatically different. I don't know what it will be but it is likely that over the next 12 months we will see a new world reserve currency and some kind of trade protection. The impact of either of these events has unknown consequences and as such, in my view, the proper investment strategy today is to stay optimistic but plan for the worst and hope for the best.

Ayn Rand, in her classic book, ***Atlas Shrugged*** said:-

"When you spend money in payment for your effort, you do so only on the conviction that you will exchange it for the effort of others. It is not the moochers or the looters who give value to money. Not

an ocean of fears nor all the guns in the world can transform those pieces of paper in your wallet into the bread you will need to survive tomorrow. Those pieces of paper, which should have been gold, are a token of honor – your claim upon the energy of the man who produces. Your wallet is your statement of hope that somewhere in the world around you are men who will not default on that moral principle which is the root of money." Ayn Rand would not believe that today, when you own gold you are fighting every central bank in the world.

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

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

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

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

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

There are 187 member countries in the IMF, including China, Russia, United Arab Emirates, Saudi Arabia, Brazil, India, Japan, Germany, France, the US, the UK and Canada.

China is the largest gold producing nation in the world and after India, China is the second largest importer of gold. China is building their own gold reserve pool which is likely understated to be only 1.7% of their total reserves.

There is no gold bubble – yet. As Ayn Rand made it clear, gold is money, and money is scarce and is being massively printed by countries that are creating mountains of debt; debt that is not repayable under our current global monetary system. There has to be a change. A change to a new and more respected fiat currency that has acceptable backing such that it can be used to settle accounts between

nations that are trading in our world of globalization. It has to happen before we fall into a global "crisis of credibility" of all currencies.

When one factors in that quantitative easing by the US, on two occasions, the last QE2 to end in June of this year, has led to significant debasement of the US dollar and that the world is currently in a "beggar thy neighbor" currency regime, makes one wonder just how long it will be before the International Monetary Fund becomes the only central banker to the world and the Special Drawing Rights becomes the globally acceptable currency of exchange between all of its members.

I can add one more "what if". What if the IMF currently exchanges SDRs on some valued basis for all the gold held by its member nations at some price that would be attractive (an SDR today is worth approximately 70% of a US dollar and gold trades at $1500). The exchange of the US gold hoard is currently worth $400 billion and if it can be traded for SDRs at today's price or more, the balance sheet of the US would look a lot stronger.

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

As we sit today it is highly likely that gold will reach $2011 an ounce in 2011, as suggested by John Ing of Maison Placement, and the US will have no choice but to raise interest rates and face even more unemployment. My view is that the new SDR reserve currency if and when put in place will need to have a backing of gold at a price somewhere in excess of $5000 per ounce to achieve the requirement that all gold in existence and gold being produced will be sold to the IMF to successfully back SDRs for many years to come.

Let me add some other thoughts to the above very out-of-the-box theoretical thinking:

The IMF themselves today are engaged in quantitative easing:

- They have created SDRs which are backed by nothing and have already issued $313 billion equivalent to needy nations.
- They have sold 400 tons of gold but only to IMF member nations; more has been put into the real market but not announced as sales.
- China has recently doubled its gold reserves and are encouraging its citizens to save by buying gold on a monthly saving plan.
- Certain large gold ETF holders with worth have asked to have their gold delivered in bullion.
- Quantitative easing is not working and has a distinct risk of being inflationary and maybe even hyper-inflationary.
- There are even rumours that the US is planning to print a new currency so as not to cause confusion when the dollar ceases to be a reserve currency.
- Since most nations would prefer to devalue their currency rather than other choices, the use of the SDR as a reserve currency means that all devaluations can occur at the same time.
- In any instance, without a new reserve currency, most currencies will fall into a crisis and a global SDR currency will be brought on in an emergency.
- The Toronto G20 meeting had discussions about "one world economy".
- How many times have we heard or read of the following terms being used:

- o "New world order"
- o "Enlightened sovereignty"
- o "Unity in Diversity"
- o "One world economy"

In my 49 years of investment management I have seen many stock market bubbles. I've seen bubbles in growth stocks, small caps, oil and gas, tech stocks and others. At each bubble, there always was a fundamental and believable rationale for the public to buy indiscriminately of prices. What was almost always overlooked was the likelihood and possibility that bubble thinking had driven prices to overvalued territory. In some instances, very overvalued. There is one overpowering reason that bubbles occur – they are noticeable after the fact. To spot a bubble in advance is almost impossible, until the bubble bursts and you look back. A good investor tries to buy potential bubbles while their future performance is not visible, hoping to sell before a bubble burst. But ignoring those investments that are potential bubbles is ignoring investment risk in general. If you have the fear and lack of understanding, don't play the game.

In considering gold, it is wise to remember that optimism thrives in bubbles as that is exactly what makes them happen. But based on the fact that any error caused by not being optimistic, dies in the crisis of a bubble, in dying it gives birth to an error in pessimism. This new error is not born as an infant, but a full grown giant. It is my opinion that the price of gold is heading to the "mother of all bubbles".

On March 15th, 1999, I was honoured to be asked to give the keynote address to participants of the Prospectors and Developers Association (PDAC) annual convention. Here are some of my comments in that speech:

> "On August 31st 1998 gold established a new 19 year low of $273.40 per ounce. This also occurred soon after a Financial Times headline and special story entitled "***Death of Gold"***. These are all good signs for a contrarian. In fact the new Euro currency and banking system now looks positive for gold. Recent press releases from the ECB in reference to gold forming part of their reserve system, clearly indicates that their gold is there to stay and not for sale. You heard me talk about a secular bottom for resource commodities. Secular in this instance means a long term cycle that encompasses the traditional shorter term industry repeating cycles of monthly and yearly supply and demand. The secular trend is a major trend and is long term rather than the shorter cyclic patterns that generally get written about in newspapers. Secular bottoms create the very lowest risk and potentially highest reward – possibly for as long as a generation. In conclusion – on March 15, 1999 at the PDAC, I said:
>
> "Commodities and resource equities have been devastated by the Asian contagion and the up-cycle is overdue. Commodities and resource equities are incorrectly discounting a global recession and are selling at lower prices than seen in a generation. Reconstitution of the convergence of global growth is more likely."

In 1999 both Don Coxe and I, almost at the same time, came out bullish on resources. But Don wrote that both Nostradamus and Nicholas Kondratieff were at work and he allowed that Kondratieff was more important. Nicholas Kondratieff was a Marxist revolutionist who was executed by Josef Stalin

because he did not agree with his work as it pertained to the economic future of Communist Russia in the early days of Stalin's regime.

What Kondratieff had forecasted was that commodity prices tended to rise in waves for twenty five years and then stay stable for another quarter century. His work was based on a backward view from that time for as far as he had statistics. Since his death the waves have been shorter. Commodity prices as measured by the CRB Index rose from 1930 to 1950, fell from then to 1969 which is two years after I started my investment counseling career at Beutel Goodman and Company.

Prices rose through the 1970's then fell for the period of the bull market for stocks, which went from 1982 to 2000. Prices have moved up since 2000 with a small break in 2008 and in my view, as would be Kondratieff's, there are still many years ahead for bullishness on commodity prices, and especially gold which falls into a similar pattern. We are at the early mid-point of a twenty-five year commodity bull cycle which then will take on a long period of stability. Ironically, this period also coincides with the economic and population growth expected in the emerging markets of the world, especially China and India.

We are in the tenth year of a resource commodity bull market and if the worst that happens is stability in prices the next five to fifteen years look favourable for investing in the resource commodity producers.

When one charts the prices of stocks to prices of commodities which Barry Bannister of Stifel Nicolaus calls "the paper to hard asset" trade we can see that since 1999 just at the time that the share indexes in general started to deteriorate, an investment in hard assets outperformed the S&P500 stock index almost continuously to the present day. This is the program that has done well for us at Dundee and Dynamic. There are some that believe that the measurement of stocks divided by commodities is about to change in favour of stocks. We don't agree and are planning for the future "New Dundee" (ex Dynamic) to continue to pursue the resource investment market.

According to economist Richard Koo in his book ***"The Holy Grail of Macroeconomics".***

> "Until the private sector is finished repairing its balance sheets, if the government tries to cut its spending we are going to fall into the same trap that President Franklin Roosevelt fell into in 1937 and that Prime Minister Ryutaro Hashimoto fell into in 1997, exactly 60 years later. The economy will collapse again and the second collapse is usually far worse than the first, mainly because behavioral instincts are negative from the memory of the first collapse. The second collapse affects more people because all of the efforts to fight the downturn to that point – monetary ease, quantitative easing, low interest rates, stimulus spending and other fiscal help – have all failed. Once the negative mindset sets in it is mega times harder to get the economy going again and it is difficult to convince people to change that negative outlook. Because of the natural negativity, the economy remains weak, asset prices also will be weak, making it even more difficult to repair those private sector balance sheets that are the real problem. What is required is fiscal infrastructure stimulus that can outlast the negative attitudes until private sector balance sheets are repaired."

What this means is that unless the US gets going on the required fiscal stimulus and spending they will be in a long recession and unemployment will not be cured in the short term.

But the real question of the future of global economics is whether or not Ben Bernanke starts to tighten or goes into QE3 in June of this year. He should be poised to tighten because he is wrecking the economy of the world by printing dollars. But Bernanke needs low interest rates to save thousands of home owners with Adjustable Rate Mortgages. He also has to keep inflation from being too obvious.

And the Federal Reserve and the Obama administration are cheerleading and trying to keep the population base of the US happy (there is an election in about 18 months); they want to keep the stock market buoyant. So they went after Osama bin Laden and the US cheered.

Yes, I am calling for a sideways or range bound stock market and that means there will be periods of up and periods of down, especially in those measuring tools called indexes, especially in the United States. But to disagree with Don Coxe's poem shown earlier, despite my age I am not ready for the tomb, and the boom that I am looking for will come from the fact that the world is no longer US-Centric and resource markets are the place to be.

It is ironic that the consultants that advise Canadian pension funds are promoting asset allocations that hold 2-3% of Canadian stock. They do so on the thinking that you should only be involved in accordance with the size of market for each country. This thinking is unprofessional and foolish and it makes the contrarian process in me very comfortable as I devote the harvest years of my career to investing in resource securities mostly listed on the TSX. I intend to stay there until the boom turns into a bubble, or when they carry me out.

I am finishing these remarks with the knowledge that commodity trading pits have gone into a correction which is unnerving a lot of speculators who were using commodity prices as their personal casino. I see this correction as a healthy turn of events. We may be looking at a troubled world economy but emerging markets' forward looking indicators remain resilient. There is some irony in the fact that Ben Bernanke may view this as an opportunity to remove his policy of emergency towards the US economic condition.

We remain solidly long-term bullish on our scenario that demand for most commodities, including food, will remain in excess of the world's ability to supply. For the "new" Dundee we are staying the course.

I have been involved in the investment in the resource industry since 1962. In 1984 I was instrumental in creating the mechanism of using tax flow through share issues for resource exploration companies in Canada. Together with my partners, we raised money for exploration from 1984 to 1991 under the CMP brand which today still exists and is owned by our subsidiary, Dundee Capital Markets. In 1991, my partners and I decided that the economy and potential investment returns to our clients were not sufficient and we closed CMP down.

In December of 1999 it was my opinion that the bear market for commodity and resource business was almost over and we brought the CMP tax flow-through issue back to life. Since 1999 we have had all but

one successful investment years. The one bad year, of course, came out of the global financial crisis that faced all investors. But since 1999 when we ended that eight year recess we have served our clients well in CMP and Canada Dominion and have provided exploration dollars to many oil and mining companies.

Since our positive call in 1999, demand from developing countries like China, India and others caused a large shift in the price structure of resources in particular as well as agricultural commodities. According to Jeremy Grantham of GMO, this paradigm shift in prices is remarkable because it has come after a 100 year period of continuous price declines of commodities in general. As he said in a recent quarterly letter of GMO – "Statistically, also, the level of price rises makes it extremely unlikely that the old declining trend (100 years) is still in place". Our call for resources in 1999 has worked well and in December 2010 on the sale of our DundeeWealth subsidiary we likewise made the call that the paradigm shift in resource commodity prices is still in place and has a five to ten year or longer life ahead of us. The "us" is the "New Dundee".

This call into the future is made with full knowledge that the global economy is filled with Black Swans that can come to be problematic as we go forward. I am also aware that there are many others in my position who have the view that the resource industry is in bubble territory because all of the price increases are pushing the result of the debasement of the US dollar and is called "asset inflation" and is not likely to continue as just plain old price inflation, because the US CPI incorrectly says that we have very low inflation.

The common view is that the recycling of Asian savings that has funded US debt and the US money supply increase and US easy money policies have boosted the prices of most commodities. The view of the commodity bear is that the easy money policies of the US are about to go into reverse. We don't think so. It is my view that in the last 9 or 10 years we have seen a massive change in the global economy where the drivers of growth are coming from East Asia with China and India in particular. China has emerged as the second largest economy in the world and it is the new demand for commodities from the growth of China and India's urban construction that is feeding the demand for those resources that was totally overlooked for the twenty year period from 1980 to 2000. Exploration, as was predicted in 1990, was not happening and development of future resource properties was non-existent. Without exploration and development, new resources cannot come to market and when demand exceeds supply, as in almost everything, prices go up and today we are living through a demand driven global resource boom. We expect the demand to remain in excess of supply as it takes many years to move a successful resource exploration property to development and then to production at the same time that existing producers are being depleted and supply is diminishing.

Let me quote Grantham again, "How we deal with this unsustainable surge in demand and not just "peak oil" but 'peak everything' is going to be the greatest challenge facing our species. But whether we rise to the occasion or not, there will be some great fortunes made along the way in finite resources and resource efficiency, and it would be sensible to participate".

Before Jeremy Grantham wrote those words in April 2011, we had already made the decision to bet our future on increasing our resource investment activities to "participate" in his "great fortune" and the

sale of DundeeWealth was to allow the use of my harvest years to shareholders' best advantage by working uniquely on what I know and love to do. Thus the new Dundee Corporation, along with its subsidiary, Dundee Capital markets, is uniquely committed to being exposed to those inflationary businesses that compose the hard assets of real estate and resources in general.

After the sale of DundeeWealth we emerge as the new Dundee Corporation with a new subsidiary, Dundee Capital Markets, where we have chosen to specialize in those areas of our expertise and where we see growth and safety, over the foreseeable future. Our menu includes resources in general, real estate of all kinds, agriculture and infrastructure. We may waver a bit and get excited about some special situation in other areas, but we intend to be a leading expert in our chosen areas. For the most part, we are playing to our strength because Dundee Corporation for the last twenty-two years was built on those inflation resistant areas of real estate and resources.

Resources may scare some people, especially because after soaring for almost ten years and particularly the last few months, the short term thinkers are becoming wary and have been selling in recent days. We have learned to accept volatility in our quest for longer term profits and we do not think it is time to sell. The Wall Street Journal published a recent article that put it best from our viewpoint. To invest in the resource and/or the agricultural sectors remember the required "crucial test" – security.

The world's population is growing much faster than most of us realize. We now host almost 7 billion people in the world, up from 1.6 billion in 1900, and around 2 or 3 billion people away from where we will likely be in 25 or 30 years. Demand for many commodities is expected to rise dramatically, because new supply is not keeping pace and becomes more difficult to find. This becomes more obvious when we study the demographics and wealth creation in most of the world's emerging countries. There are many such countries with GDP per person less than $1000 US. The World Bank has calculated that for each 10% increase in income per capita the world will enjoy a 10% growth in the use of metals and 6% increase in the use of grains and more than 4% increase in energy.

Yet, while demand is growing, supplies of raw materials, crops, water, industrial materials, are not keeping up, and strategic storage stockpiles are gradually being depleted. To dwell only on copper as a for instance, is where supplies have currently fallen below a usual three weeks of consumption and it's likely to remain that way for the foreseeable future. Other industrial metals have a similar supply-demand problem. The things they call "stuff" have become scarce and the increase in demand continues.

We have picked our territory with a strong conviction that we expect to be highly successful in those areas that we believe will provide us with inflation gains rather than losses and we have compiled a team of experts that knows how to make it happen.

Being intensely involved in the resource exploration and producing business for my entire career, I am very much aware of the current frothiness of the resource market and the price of oil, copper, nickel etc. and do believe that we should expect a pullback or at least a setback in their current prices. We have cash in all of our resource portfolios and are looking forward to utilizing that cash as better pricing takes hold, but we are bullish on commodities and resources in general from a longer term perspective. The bull market for resources started in 2000 and in our opinion still has legs for at least another four or five years. We are always ready to participate in the fat pitch when it arrives. In the meantime we are still at bat. For the last ten years commodities in general and resources in particular have outperformed the

stock indices stripped of them. With what's going on in emerging and developing countries and population growth, the need for "stuff" continues.

For the first time since its formation in 1999 Dundee Capital Markets is getting my undivided attention. Our access to the capital markets as well as being dedicated to resources will provide many opportunities for Dundee and clients to prosper.

Building Dynamic Mutual Funds over those years was a love affair with a business. As anyone who has built a business of any kind knows, you must have guiding principles that make it easier and we now have that for our next venture, Dundee Capital Markets. We have the same culture of family values and we know that there is no reason to change our business strategies. We will create more equity for our brand much as we did for Dynamic.

Our model for the operation of Dundee Capital Markets emanates from the market practiced by the old merchant bankers of London and Wall Street. We will not offer our investment clients the opportunity to purchase any investment that we are not prepared to buy for our own account and in some instances we may be the only buyer, if we think the issue is too small or too expensive for client distribution. I intend to use our vast experience as a buyer of resource securities and companies to great advantage. It was intriguing for me to see that Goldman Sachs and other Wall Street investment bankers have higher profits from their proprietary investing than they do from fees and commissions.

We are treating Dundee Capital Markets as a 'start-up' venture and have intentions to undertake significant changes, especially to the corporate culture which will be changed to what was successful and led to the growth of Dynamic Funds. The company remains under the leadership of Joanne Ferstman, who is now relieved of all her extracurricular duties that she had when under the DundeeWealth regime.

Since the sale of DundeeWealth, we have brought on board many people who were ex-employees and retired several who did not formerly fit into our business plan or culture. We are continuing to staff up with quality persons experienced in what our business plan is set to evolve.

Dundee Capital Markets today is a "new Dundee" start-up company that has been in existence for more than 10 years but we know that there are cultural and structural liabilities that have to be eliminated. Things like corporate mind set, people culture, business standing, leadership and commitment. We are already in the process of eliminating those obvious liabilities and it is happening quickly. Other things will be changed to eliminate future liability and create more structure. Our organizational structure is undergoing change. Skills and capabilities are being strengthened. Budgetary and resource allocation processes and information systems are being upgraded. As we go forward, we know that we have to work on our branding and customer relations, investor resistance and response, as well as our distribution channel alliances.

Let me say a little more on corporate culture and the hidden liabilities which may apply. Based on many of our previous ventures and employment we have a treasure trove of unused hidden assets on the left

side of the culture balance sheet which are not really offset by those hidden liabilities on the right side and as such we are better prepared than is thought on our ability to correctly read market actions in a timely fashion, better our execution at less cost and build the same commitment to grow, that has allowed us to build the growth achieved in Dundee Realty and DundeeWealth. We have the commitment to grow our capital markets business to profitability levels in excess of that normally seen by typical investment bankers of similar size. We have achieved this kind of transformation before and we will do it again.

We have the management and board and corporate leadership that can overcome those instances when something new gets worn down with a stream of "yeah, buts" that focus only on the negatives and not on how we can overcome those negatives. All that is required is the expansion of our understanding and capabilities such that we are enabled to broaden our ideas and offerings for growth while maintaining and strengthening our core business of investment banking and client advice on investment and mergers and acquisitions.

We will not be a company that puts up with organizational bureaucracies that impose an onerous decision cycle on new business growth initiatives. We will not let the market place move faster than us in moving ideas through our corporate strata. We will not allow our good ideas to get watered down, disappear or simply become irrelevant because of what is usually called due diligence but really amounts to death by a thousand cuts.

We have to upgrade our brand as merchant bankers and make sure that our potential clients and customers have a readiness or willingness to grant us the acceptance of our message. And just as our branding must evolve in order to earn permission from customers to create new business with them, the image of our vision to evolve in order to gain and return the favour of investors even as we build out our model of an old-fashioned merchant banker. I know that much of the energy and all of the capital we need to make our 'new start-up' grow is already in place. All we need is to buckle down and once again learn how to mobilize it.

We know from experience that the growth of an entrepreneurial start up usually involves a team of ten to thirty intensely dedicated, highly talented individuals working like crazy to bring a powerful vision that is personally accepted, to fruition. At Dundee Capital Markets, we are a company which has the leadership who have done it before and have the aspiration to do it again. And this time we are armed with a more than $2 billion balance sheet as well as a host of very capable people. We recognize that our operating personnel are betting their careers and much of their financial well being on the company's growth and profit prospects. We are aware that every day they come to work they are re-affirming their belief in the company, its leadership, the soundness of our growth plans and their part in the efforts required as well as the personal gains that are possible, and we thank them for their loyalty and patience as we work our venture towards a new business structure.

The oversight program we use for our best intellectual capital will be family-like interaction rather than a rule based codified process. We can accept that mistakes that lose money can happen if it was the "right" thing to do. Codified procedures may appear to be more efficient, but they often lead to the

terrible outcome of group think or no think that drives complacency as long as business is normal or worse.

We have, and look for more, “out of the box thinkers” who can solve problems by bringing their associates along in a nurturing and mentoring manner. This will add value to our business and to its people and should not be the cause of any organizational friction. We have a pledge to never submit our clients to any investment we do not understand or, even if we do, we would not purchase for our own account. We search for commitment that we wish to always think as owners.

Robert Lucas, a Nobel prize-winning economist, unknowingly created the mandate for each of the partners of Dundee Capital Markets. “Once you start thinking about growth, it’s hard to think about anything else”.

We include as part of our job to search for crises and take heed from Rahm Emanuel when he was Chief of Staff for President Obama: “Never let a serious crisis go to waste”. Search out companies that are in crisis. Those are the clients that need us because we can be their problem-solver and pain reliever.

We will not let organizational structure overtake the logic of mentoring our people as a means of adding value to our business. We look for people who can solve problems and bring other people along, without causing any organizational friction. We want people whose personal attitude for the organization is acceptable. People who try to understand other people and their business goals and what they stand for. People who will spend time explaining in order to achieve success. People who are positive, optimistic and creative and look for the good in situations. People who are committed, focused on the moment and are prepared to accept full responsibility for the choices they make. Most of all, we want people to enjoy their work and can be successful while remaining cheerful and enjoying our family culture, our business family.

As the recent past has proven, no one can predict the future, but in our areas of interest we continue to place the focus on opportunities that have inherent growth where we can participate as advisors and owners. Our overall core strategy is to integrate our advice and capital along with attaining the best of a deal for our clients.

Our legacy is a proven culture and ability to manage risk and reward in the investment process. And we have a well-defined culture of “kicking tires”; we do in-depth due diligence which helps us to comfortably recommend what we distribute, because we are prepared to buy it.

Clients come to Dundee because in our area of expertise we have the best ability to integrate advice, “bought deal” financing and investment capability. Clients include retail high net worth individuals, institutions and the many corporations who use no other investment banker. Because of our overall balance sheet we are able to “be there” when capital is required during those periods when market liquidity and traditional sources of capital have closed their doors.

Because of our size and a business policy of limiting our people resources to a small section of the business sphere, Dundee can bring an integrated team of advisors to the assistance of our clients. We have a culture of teamwork where everyone, including me and other senior executives and board

members, will be brought to the table to provide an effective solution to a client's needs. Within our core areas of interest, we have the expertise in equity trading, bonds or other financial derivatives, raising capital, advising on mergers or managing investments.

We can act as a financial intermediary and match the capital of our investing clients with the requirements of our corporate clients who require capital to generate growth. In our co-investing activities we always align Dundee's interest with those of our different clients. Much of our investment banking opportunities are sourced from our asset management team's investment portfolios.

We maintain a sound financial profile because we know that it is often necessary to be there in the meeting of our clients' short-term needs. Within our institutional client base we can act as advisor, co-investor and asset manager.

Our investment banking business is boosted by our asset management in those same areas of interest of our clients and is often the genesis for those opportunities to help them raise capital, make acquisitions, and divest assets which are no longer required.

We pride ourselves on "out of the box" thinking through a team of innovators who work closely together, whether we work with our clients to buy or sell a business, or help them to invest their assets, obtain a meaningful financing for their growth and expansion or allow them to use our resources to ensure an efficient trading market. Because of our balance sheet, we are able to provide interim financing at times when it is scarce, or to assist in an acquisition prior to an equity or debt issuance.

Eurogas Corporation

Eurogas' $129 million acquisition of oil and gas assets in southern Ontario on March 29, 2010 advanced the Company's strategy to grow through the development of long-life, low-risk assets. Dundee Energy Limited Partnership ("Dundee LP"), Eurogas' 100%-owned operating arm, assumed operating control over oil and natural gas assets in southern Ontario on June 29, 2010 and became the largest producer of hydrocarbons in the province.

Eurogas acquired more than 700 producing oil and natural gas wells that provide a base of low-decline and long-life production at high netbacks. Production averaging 669 barrels per day of light crude oil from onshore wells and 10.4 million cubic feet per day of natural gas from offshore wells in Lake Erie generated cash flow of approximately $10.8 million in the second half of 2010. Oil and gas production receives premium commodity pricing due to the assets' geographical positioning near a densely populated, heavily industrialized region that imports virtually all of its natural gas and crude oil. Natural gas production sells at a premium of approximately $1 per MCF over the Alberta AECO-C spot price and $0.30 per MCF above NYMEX while the oil sells at a modest premium to the West Texas Intermediate benchmark.

After the acquisition, we placed a priority on, and were successful in retaining experienced and highly skilled field personnel from the previous operator. These employees have a thorough understanding of the asset base, the unique operating environment and potential opportunities. We supplemented the field staff with key technical professionals experienced in full cycle Ontario oil and gas operations, plus financial and administrative personnel to complete the team. The Ontario oil and gas producing assets

are well-maintained and include a fleet of offshore barges and supply boats for drilling, completing and servicing the natural gas wells.

In 2010 the wholly-owned "Dundee LP" initiated an oil optimization program for existing well bores and successfully decreased the historical production decline rate from 18 percent to 15 percent. Offshore a series of workovers and pipeline optimization projects limited the annual decline in natural gas production to 6 percent, exiting the year at 10.6 million cubic feet per day net to the Company. The offshore operation is unique in Canada in that it is 100 percent barge-serviced, using divers to access the lake bed wellheads and pipelines.

In 2011 "Dundee LP" plans to focus on opportunities to increase oil and gas production through pipeline optimization, well recompletions, drilling and applying techniques such as horizontal drilling and multi-stage fracturing. Last year, one offshore gas well that had been shut in for 10 years was reactivated and tested gas at 1 million cubic feet per day, with no production water, and is now producing at a self restricted rate of 250 MCF per day. "Dundee LP" is studying opportunities to drill into previously bypassed pay zones to access unrecovered hydrocarbon reserves, either by recompleting vertical wells or drilling up to ten new wells. Elsewhere, Dundee will acquire a 3-dimensional seismic survey over oil producing lands and apply these new seismic interpretation methods to identify un-drained portions of the reservoir. In consultation with the Ontario Ministry of Natural Resources, the Company's 2011 programs will include study and development of underground gas storage in abandoned fields.

The Castor Underground Gas Storage project (Castor UGS) in which Eurogas has an indirect 24.6 percent ownership is on budget. Development works are on schedule and materially on budget, reaching 54 percent of completion by the end of the year and as of this date has reached 65 percent. The 13 well drilling program commenced August 2010 with the installation of the wellhead platform, the first of two offshore platforms. The construction of all the facilities is well underway, including the 22 kilometre offshore pipeline. The second offshore platform, which will house the processing facilities, is expected to arrive on location sometime in November 2011, with mechanical completion of the facilities expected in May 2012, at which time the injection of cushion gas will commence. The injection process will take approximately six to nine months leading to full commissioning and operational readiness during the first half of 2013.

Eurogas' financial footing is sound. It has no obligations to fund the development of Castor UGS, through commissioning and inclusion of the facility in the Spanish gas system. Currently the completion costs are budgeted at €1.6 billion including financing costs incurred during construction. ACS Group, which owns 66.67 percent of the operating company Escal UGS SL, will provide all equity funding required under the terms of the project financing.

Dundee Realty

In the words of Michael Cooper, Dundee Realty's CEO, "Overall, Dundee Realty had an amazing year in 2010, capped off by a brilliant fourth quarter. On $465 million of revenue, we generated about $115 million of pre-tax profits. Every part of our business performed well. However, the Calgary land that we acquired at the end of 2009 drove profits by about $40 million, which created our record year. The

fourth quarter alone represented about 50% of the years' profit, which was again primarily as a result of the Calgary land sales. We do not expect to match these profits in 2011 because we do not have as much land to sell in Calgary. However, we are already off to a strong start for land sales and housing sales in Western Canada.

Our asset management business is doing well and will continue to generate increasing profits this year. We have a number of new initiatives that, if they succeed, will produce profits in future years.

Our condominium division continues as predicted. We have large sales commencing in 2012 which should produce profits between 2012 and 2014.

Our infrastructure income is also continuing very well. We expect to have about $40 million invested in infrastructure by the end of next year that should produce about a 12% tax efficient return.

Arapahoe Basin is having an excellent year and we expect to set a new record for cash flow from this ski area in the current ski season. The new high speed quad has been a catalyst for the area and we have benefited from excellent snow conditions. Bear Valley is also having a good year. However, Base Camp has continued to be disappointing."

We anticipate that while we may not have record profits in 2011, we are laying the foundation for higher profits in the future. In fact, if we are successful on many of our current new initiatives, 2011 may be the most significant year for future growth we have had since we started the business in 1994.

Dundee Realty's management and staff are continuing to work very hard to expand the sources of income for the company. Instead of having to create every dollar earned in a year of reporting, we are hopeful that over the next several years we will be able to add to our recurring income so that every year we will be able to count on increasing profits.

Once again, in Michael's words, "The environment continues to create fear, surprise and shock. We are always aware that the environment could change dramatically negative at any time. We try to balance pursuing opportunities with safety. We have been consistently paying down debt every year and increasing our equity base. As we pursue these new initiatives, we will continue to grow our equity base from retained earnings, but for the first time in a number of years, we may increase our borrowings. I take comfort in the fact that we have a record $250 million of receivables, undrawn lines, unencumbered assets and we have consistently been producing cash flow.

Although we are doing everything that we can to be successful with each of our various initiatives, it is unlikely that we will actually succeed in all of them. However, in order to have the opportunity, we must put in the time."

Ned Goodman Investment Counsel

Ned Goodman Investment Counsel has completed its first full year of existence with great success. The performance of the $2.5 billion of assets under management is mostly in the manner of being a sub-advisor to Dynamic and Dundee Capital Markets. It was a good year for all of the assets we oversee which includes the corporate account assets which are currently in excess of the $2.5 billion noted above. Our corporate portfolio of resource positions including Eurogas, Dundee Precious and Breakwater increased in market value from $283 million to $647 million during the 2010 year.

NGIC was fortunate to earn performance fees amounting to $37 million which was shared with Dundee Capital Markets and certain individuals who helped us achieve the performance.

NGIC is the sub-advisor to the Dundee Global Resource private equity fund which has started with the initial commitment of $500 million from Dundee. The fund is a “draw down” fund and as such its start-up only required a small percentage of the commitment. We are in serious discussion with several other interested parties who are surmising a decision to match our commitment. We only want one match to start, but we may have an interest from two or three.

We obviously feel that our timing today is much better than the last two years for raising the fund’s investment capital and we are optimistic for a successful capital raise.

~~~

We know that the world is truly screwed up and we have no idea how it may be fixed. The stock market always looks to the future for its guidance. We expect to live in a range bound secular bear market for some time before an answer to a screwed up world is achieved. Range bound in a stagflationary environment means real returns are negative, and negative real returns lead to inflation not deflation.

Karl Popper said it best, however, when he wrote: “If there is such a thing as a growing human knowledge then we cannot anticipate today what we will only know tomorrow”.

Hence, watch out for the unanticipated event – “Black Swans”.

To quote Popper again, “Quite apart from the fact that we do not know the future, the future is not objectively fixed. The future is open: objectively open”.

To conclude with the answer to the first question; one of the tests of a good money manager and of the leadership of an organization or group is to recognize a problem before it becomes an emergency. What problems do I see for the Canadian mutual fund industry and Dynamic as it was?:
~~~

a. Extreme bank competition and they are a protected species with ownership of the distribution of financial products
b. A growing and oppressive regulatory regime that can create reputational risks that are not controllable.
c. Discomfort over the geopolitical scene between Islam and the rest of the world.
d. The memory of 2008 will last a long time
e. Discomfort of the global currency wars and the devaluation of the US dollar
f. Many uncertainties relative to future events in the world - Black Swans
g. It was a good time in the history of the company to pursue a sale. We were at the top of our game.

There are many people who believe that work should be difficult – it should be, well, work; and not fun and easy. Hence the common notion that if one was given the choice one would choose not to work. But it is my view that work has to be like a game for it to be enjoyable. A game that is played in order to compete against yourself, push to your limits and beyond; a game without a finish.

Mark Twain said all this in fewer words, “What work I have done – I have done because it was play. If it hadn’t been play, I would not have done it.”

Written over the period from January while in the Antarctic to the end of April in Toronto in 2011.

Sincerely

Ned Goodman, CFA
President and CEO

Corporate Directory

Board of Directors

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

Officers

Harold (Sonny) Gordon, Q.C.
Chairman

Ned Goodman
President & Chief Executive Officer

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

Executive Office

Dundee Place
1 Adelaide Street East, 28th Floor
Toronto, Ontario
M5C 2V9

www.dundeecorporation.com

Stock Listing

The Toronto Stock Exchange

Stock Symbol

DC.A

Registrar and Transfer Agent

Computershare Investor Services Inc.
100 University Avenue
Toronto, Ontario M5J 2Y1

Toll Free: 1.800.564.6253
Fax: 1.888.453.0330
Email: service@computershare.com

Shareholders' Annual Meeting

June 3, 2011, 10:30 a.m. (EST)
Le Meridien King Edward, Sovereign Ballroom
37 King Street East
Toronto, Ontario M5C 1E9

Dundee Corporation

Dundee Place
1 Adelaide Street East, 28th Floor
Toronto, Ontario
M5C 2V9

www.dundeecorporation.com