



**DUNDEE  
BANCORP INC.**

**EXECUTIVE OFFICE**

Scotia Plaza, 55th Floor

40 King Street West

Toronto, ON M5H 4A9

[www.dundeebancorp.com](http://www.dundeebancorp.com)

**REGISTRAR AND  
TRANSFER AGENT**

Computershare Trust Company of Canada

100 University Avenue, 11th Floor

Toronto, ON M5J 2Y1

Telephone: (416) 981-9633

Toll Free: 1 (800) 663-9097

Fax: (416) 981-9800

**STOCK LISTING**

The Toronto Stock Exchange

**STOCK SYMBOL**

DBC.A



**FIRST  
QUARTER  
2001**

Three Months Ended  
March 31, 2001

## First Quarter 2001

### MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to present the interim report of Dundee Bancorp Inc. for the three months ended March 31, 2001. Operating income was \$493,000 or \$0.02 per share compared with \$29.9 million or \$1.12 per share in the first three months of 2000. The net loss for the three months was \$1.4 million compared with net income of \$15.1 million in the same period of 2000. During the first quarter of 2001, cash flows from operating activities, before accounting for non-cash balances in working capital, were \$8.1 million or \$0.31 per share.

The primary reasons for the comparatively lower revenue and net income figures are described below but can be summarized as follows:

- A decline in revenues associated with the Company's financial service business conducted through its 85% owned subsidiary, Dundee Wealth Management Inc.;
- Reduced investment income from realized transactions in the corporate portfolio; and
- Lower earnings from equity accounted investees.

Although recent market conditions resulted in a 15% drop in the TSE 300 Index for the first quarter of 2001, the fair value of the Company's portfolio was reasonably stable. The negativity in capital market conditions contributed towards a 6% market depreciation in assets managed by Dundee Wealth, reducing average assets under management for the period and the associated management fees. We likewise experienced reduced transaction volume levels and a general slowdown in corporate finance activity, all affecting the operating results of the capital markets division of Dundee Wealth.

### Revenues

Total revenue, before investment income, for the three months ended March 31, 2001 was \$64.4 million compared to \$87.5 million in the same period of the prior year. Investment income from the

## MANAGEMENT'S DISCUSSION AND ANALYSIS

investment portfolio, exclusive of share of earnings of equity accounted investments, was \$4.6 million in the first quarter of 2001 compared with \$19.2 million for the same period in 2000.

### Domestic and International Wealth Management Operations

Mutual fund management fee revenue during the period was \$26.9 million on average assets under management of \$5.8 billion. The average management fee was approximately 1.85%. Average assets under management during the same period of 2000 were \$6.2 billion with an average management fee of approximately 1.86%, resulting in mutual fund management fee revenue of \$28.6 million.

Mutual fund assets under management at March 31, 2001 were \$5.6 billion. Gross sales of mutual funds were \$220 million offset by significantly reduced redemption levels of \$270 million. Redemption levels decreased 50% during the first quarter of 2001 compared with the same period of 2000, a positive development that actually reduces revenues from redemption fees. Consequently, total redemption fees received during the first three months of 2001 were \$2.9 million compared with \$9.0 million during the same period of 2000. This drop in redemption fee revenue is reflective of improved investment performance causing better retention of mutual fund assets.

Management and administration revenues from the Company's offshore operations totalled \$607,000 (2000 – \$558,000).

During the first three months of 2001, the Company earned \$1.1 million from the management of other fiduciary assets. This compares with \$0.7 million for the same period of 2000 and reflects an increase in other assets under management.

Financial services revenue during the three months ended March 31, 2001 was \$32.8 million compared with \$48.7 million in the same

## MANAGEMENT'S DISCUSSION AND ANALYSIS

period of 2000. Commission and trailer revenues during the first three months of 2001 were \$22.9 million compared with \$30.9 million in the same period of 2000. Retail brokerage operations continue to represent approximately 85% of total commission and trailer revenues, with institutional sales contributing the remaining 15%.

During the first three months of 2001, the Company earned a total of \$9.9 million (2000 – \$17.8 million) in other financial services revenue, including principal trading revenues of \$2.9 million (2000 – \$11.0 million), corporate finance revenues of \$3.2 million (2000 – \$5.0 million) and interest on margin accounts and other miscellaneous revenues of \$3.8 million (2000 – \$1.8 million).

### Investment Portfolio

The Company manages its own investment portfolio, both directly and through several wholly owned subsidiaries. The following table summarizes the carrying value of the Company's investment portfolio as at March 31, 2001.

*(in thousands of dollars)*

	<b>Total Book Value</b>
<b>Equity accounted investments</b>	
Black Hawk Mining Inc.	\$ 3,922
Breakwater Resources Ltd.	61,440
Dundee Realty Corporation	128,067
Eurogas Corporation	17,203
Zemex Corporation	36,509
Other	5,532
<b>Marketable securities</b>	80,502
<b>Other portfolio investments</b>	165,434
	<b>\$ 498,609</b>

At the end of March 2001, the value of the investment portfolio determined by using the quoted market values for listed securities and carrying values for the non-quoted securities and loans approximates \$460 million. The Company believes that the true value of the investment portfolio is significantly higher.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's portfolio is managed with a long-term perspective, therefore realized gains or losses are expected to vary from period to period. During the first quarter of 2001, sales of some securities resulted in net investment gains of \$2.3 million compared with net investment gains in 2000 of \$17.9 million. Unrealized gains or losses in the portfolio are not recognized in income.

In accordance with Canadian generally accepted accounting principles, the Company's earnings from its investment portfolio include its proportionate interest in the operating results of its equity accounted investments.

*(in thousands of dollars)*

	March 2001	March 2000
Share of earnings of equity accounted investments	\$ 631	\$ 965
Losses from dilutions of interest in equity accounted investments	(37)	–
	\$ 594	\$ 965

Equity earnings during the first quarter of 2001 reflect the Company's proportionate share in write downs of minerals claims made by certain of the Company's equity accounted investees operating in the resource sector. These resource companies have also been subject to new accounting pronouncements that have affected the Company's carrying value of these investments, and which are more accurately described in note 2 to the attached financial statements.

## Expenses

Selling, general and administrative expenses were \$47.2 million for the first quarter of 2001 compared with \$54.9 million during the same period of 2000. The results from the first three months of 2001 include \$19.7 million (2000 – \$29.6 million) in compensation costs paid to financial advisors. These compensation costs are generally variable, calculated as a percentage of commission and trailer revenue generated by financial advisors. Decreases in variable compensation costs are directly attributable to an overall reduction in financial services revenue.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company pays trailer fees to third-party brokers and dealers to assist them in providing ongoing service to clients in respect of mutual funds managed by the Company. Trailer fees paid during the first quarter of 2001 were \$5.2 million (2000 – \$5.5 million). The decrease in trailer fee expense reflects a decrease in average assets under management.

Amortization of deferred sales commissions decreased to \$9.9 million in the first quarter of 2001 from \$10.6 million in the same period of 2000. Other depreciation and amortization expense during the first quarter of 2001 was \$2.8 million (2000 – \$2.5 million). Included in amortization expense during the first quarter of 2001 is amortization of goodwill totalling \$1.4 million (2000 – \$1.4 million).

General operating expenses of the Company's offshore business activities were \$1.7 million (2000 – \$0.8 million). Included for the first time in the three months ended March 31, 2001 are \$0.9 million of expenses associated with Dundee Bancorp's operations in India.

## Operating Segments

Selected information on the Company's operating segments for the quarters ended March 31, 2001 and 2000 are detailed in note 3 to the attached financial statements.

## Income Taxes

During the first quarter of 2001, the Company's income tax provision was \$2.5 million on pre-tax income of \$1.1 million. The income tax rate of 226% results from the Company not being able to recognize losses for tax purposes generated from offshore operations, against taxable domestic gains.

## Basic Earnings per Share

Earnings per share is computed by dividing net earnings for the period by the weighted average number of Class A subordinate and Class B common shares outstanding during the period of 26,285,541 (2000 – 26,682,128).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Liquidity and Capital Resources**

Total cash and short term investments at March 31, 2001 increased to \$120.0 million compared with \$106.5 million at the end of 2000.

During the first quarter of 2001, borrowing pursuant to the Company's revolving credit facility increased to \$18.9 million while borrowing at the Dundee Wealth corporate level was reduced to \$11.9 million. Borrowings under the operating facilities available to Dundee Securities decreased from \$23.3 million at the end of 2000 to approximately \$16.6 million at the end of the current quarter.

The Company continues to internally finance mutual funds sales commissions relating to the sale of mutual fund units sold on a deferred sales charge basis. During the first quarter of 2001, the Company financed \$4.4 million (2000 – \$5.2 million) of commissions. The total potential redemption fee revenue from units sold with a deferred sales charge in the Dynamic Mutual Funds was approximately \$136.6 million as at March 31, 2001.

**Share Capital Outstanding on March 31, 2001**

At March 31, 2001, there were 25,231,565 Class A subordinate voting shares and 1,059,020 Class B common shares outstanding. The Company had granted 2,975,205 stock options to employees and directors to acquire shares of the Company at a weighted average price of \$14.51.

The Company is able to repurchase Class A subordinate voting shares for cancellation under its normal course issuer bid. During the first quarter of 2001, the Company, pursuant to its normal course issuer bid or otherwise, acquired 1,363 Class A subordinate voting shares for cancellation.

## CONSOLIDATED BALANCE SHEETS

(expressed in thousands of Canadian dollars) (unaudited)

	March 31, 2001	December 31, 2000
<b>ASSETS</b>		
Cash and short term investments	\$ 119,954	\$ 106,456
Brokerage securities inventory	8,077	4,786
Accounts receivable	32,439	39,682
Client accounts receivable	371,798	266,519
Investment portfolio	498,609	497,733
Deferred sales commissions	66,321	71,798
Capital and other assets	125,291	129,915
<b>TOTAL ASSETS</b>	<b>\$ 1,222,489</b>	<b>\$ 1,116,889</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 38,035	\$ 52,703
Brokerage securities sold short	9,698	1,842
Client deposits and related liabilities	379,600	258,621
Deferred acquisition obligations	475	475
Current taxes payable	2,360	11,262
Corporate debt	216,823	214,955
Future income tax liability	48,256	49,414
Non controlling interest	18,709	18,572
	713,956	607,844
<b>SHAREHOLDERS' EQUITY</b>		
Share capital		
Common shares	346,788	346,493
Retained earnings	161,745	162,552
	508,533	509,045
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,222,489</b>	<b>\$ 1,116,889</b>

## CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

for the three months ended March 31, 2001 and 2000  
(expressed in thousands of Canadian dollars, except per share amounts) (unaudited)

	March 31, 2001	March 31, 2000
<b>REVENUE</b>		
Management and administration fees	\$ 28,619	\$ 29,852
Redemption fees	2,936	8,974
Financial services	32,834	48,669
	64,389	87,495
Investment income	4,557	19,205
	68,946	106,700
<b>EXPENSES</b>		
Selling, general and administrative	47,162	54,914
Amortization of deferred sales commissions	9,886	10,649
Trailer fees	5,202	5,483
Depreciation and amortization	2,785	2,451
Interest expense	3,418	3,338
	68,453	76,835
<b>OPERATING INCOME</b>	493	29,865
Share of earnings of equity accounted investments	594	965
Income tax provision	(2,460)	(14,733)
Non controlling interest	(32)	(996)
<b>NET (LOSS) INCOME</b>	<b>\$ (1,405)</b>	<b>\$ 15,101</b>
<b>RETAINED EARNINGS AT BEGINNING OF PERIOD</b>		
Net (loss) income	\$ 162,552	\$ 166,950
Change in opening retained earnings to account for change in accounting policy of equity accounted investees	701	-
Premiums related to cancellation of share capital	(9)	(1,321)
Cancellation of stock options	(94)	(10)
<b>RETAINED EARNINGS AT END OF PERIOD</b>	<b>\$ 161,745</b>	<b>\$ 180,720</b>
<b>EARNINGS PER SHARE</b>		
Basic earnings per share	\$ (0.05)	\$ 0.57
Diluted earnings per share	\$ (0.05)	\$ 0.56

## CONSOLIDATED STATEMENTS OF CASH FLOWS

for the three months ended March 31, 2001 and 2000  
(expressed in thousands of Canadian dollars) (unaudited)

	March 31, 2001	March 31, 2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (1,405)	\$ 15,101
Non cash items in income:		
Depreciation and amortization	12,671	13,100
Net investment gains	(2,333)	(17,868)
Share of unremitted equity earnings	(594)	(965)
Future income tax provision	(1,114)	6,171
Non controlling interest	32	996
Other non cash components of income	885	(901)
	8,142	15,634
Changes in:		
Accounts receivable	7,243	14,515
Accounts payable and accrued liabilities	(14,668)	(9,295)
Current taxes payable	(8,902)	(15,692)
Brokerage securities inventory, net	4,565	(7,487)
Client accounts receivable, net of deposits and related liabilities	15,700	(37,136)
<b>CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES</b>	<b>12,080</b>	<b>(39,461)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds on sales of portfolio investments	6,858	80,403
Acquisition of investments	(1,008)	(74,158)
Sales commissions paid on distribution of mutual funds	(4,409)	(5,219)
Other	(1,615)	217
<b>CASH (USED IN) PROVIDED FROM INVESTING ACTIVITIES</b>	<b>(174)</b>	<b>1,243</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (decrease) in corporate debt	1,314	(15,335)
Issuance of Class A subordinate shares, net of costs	204	-
Issuance of shares in subsidiaries to non controlling interest	261	-
Acquisition of Class A subordinate shares	(25)	(9,099)
Cancellation of options granted	(162)	(10)
<b>CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES</b>	<b>1,592</b>	<b>(24,444)</b>
<b>NET INCREASE (DECREASE) IN CASH DURING THE YEAR</b>	<b>13,498</b>	<b>(62,662)</b>
Cash, beginning of period	106,456	137,987
<b>CASH, END OF PERIOD</b>	<b>\$ 119,954</b>	<b>\$ 75,325</b>
Cash flows from operating activities include the following:		
Interest paid	\$ 3,418	\$ 3,338
Taxes paid	\$ 12,875	\$ 24,254

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the three months ended March 31, 2001 and 2000 (unaudited)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The consolidated financial statements of Dundee Bancorp Inc. (the “Company” or “Dundee Bancorp”) have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting principles and methods of application as those disclosed in note 1 to the Company’s consolidated financial statements for the year ended December 31, 2000, except as disclosed in note 2 below. These interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2000.

will be assumed to have been used to repurchase Class A Subordinate Voting Shares for cancellation at the average market price during the period. The incremental shares (the difference between the number of shares assumed to have been issued and the number of shares assumed to have been purchased for cancellation) will be included in the denominator of the diluted earnings per share computation. Under previous guidelines of the Canadian Institute of Chartered Accountants, cash proceeds from the deemed exercise of stock options were assumed to be invested in such a way as to earn a reasonable return.

The effect of this change on comparative 2000 diluted earnings per share would result in diluted earnings per share increasing from \$0.54 to \$0.56. The effect of this change is detailed below.

## 2. CHANGES IN ACCOUNTING POLICIES

### Basic and Diluted Earnings Per Share

Effective January 1, 2001, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants in respect of the calculation of basic and diluted earnings per share. Under the new recommendations, the Company is required to use the treasury stock method to calculate the dilutive effect of stock options. This change impacts the way the dilutive effect, if any, of outstanding options issued by the Company will be reflected in diluted earnings per share. As per the new standard, options will be assumed to have been exercised at the beginning of the year or at the date of issuance, if later, and the proceeds from exercise

(expressed in thousands, except per share amounts)

	Treasury Method	Previous Method
Net income	\$ 15,101	\$ 15,101
Income earned on proceeds from exercise of options	–	577
	\$ 15,101	\$ 15,678
Basic weighted average number of shares outstanding	26,682	26,682
Shares issued on assumed exercise of options	–	2,495
Incremental shares issued on assumed exercise of options	469	–
	27,151	29,177
Diluted earnings per share	\$ 0.56	\$ 0.54

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Exploration and Development Costs

In March 2000, the Canadian Institute of Chartered Accountants issued "Accounting Guideline 11, Enterprises in the Development Stage", which is required to be adopted in years beginning after April 1, 2000. The impact of this guideline appears to require immediate expensing of all exploration and development costs in the absence of proven reserves. Certain of the Company's equity accounted investments are affected by this guideline. In accordance with the requirements of the guideline, these equity accounted investments charged a portion of their previously deferred exploration and development costs against opening retained earnings on January 1, 2001. Dundee Bancorp has made a corresponding adjustment to its January 1, 2001 opening retained earnings to recognize its proportionate interest in these amounts. The impact of the adoption of this guideline by certain of the Company's equity accounted investments is to decrease retained earnings as of January 1, 2001 by \$1,834,000.

### Income Taxes

Certain of the Company's equity accounted investees implemented the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes in 2000. Adoption of the new recommendations by equity accounted investees resulted in a charge against the investee's opening retained earnings as of January 1, 2000. During the first quarter of 2001, the Company recorded its proportionate share in any opening retained earnings adjustments of the investees not previously recognized, through a further adjustment in the Company's opening retained earnings as of January 1, 2001. The impact of the adoption of these new recommendations by certain of the Company's equity accounted investments is to increase retained earnings as of January 1, 2001 by \$2,535,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENTED INFORMATION

Financial information is presented according to the following operating segments:

#### Wealth Management

The wealth management segment includes the operating results of the Company's investment management subsidiary, Dundee Wealth. This segment provides investment management and administrative services to the Dynamic, Dynamic Power, Dynamic Focus Plus Mutual Funds, Dynamic Venture Opportunities Fund, institutional clients and private individuals. This operating segment also provides securities brokerage, investment banking and financial planning and advisory services to corporations and individuals.

#### Corporate and Merchant Banking

The corporate and merchant banking segment includes various revenues and expenses incurred at the corporate level, including revenues generated and expenses incurred in the management of the Company's investment portfolio. Merchant banking activities carried on by certain offshore subsidiaries are included in this segment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Offshore Activities

The Company, through several wholly owned subsidiaries, carries on business in Bermuda, the Cayman Islands and India. Through its offshore entities, the Company provides investment management and administrative services to mutual funds, hedge funds and other investment clients.

### Segmented Components of Net Income

(in thousands of dollars)

	Wealth Management		Corporate and Merchant Banking		Offshore Business		Intersegment		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Revenues	\$ 63,631	\$ 85,197	\$ 6,704	\$ 23,332	\$ 702	\$ 636	\$ (2,091)	\$ (2,465)	\$ 68,946	\$ 106,700
Expenses	60,842	70,960	7,582	7,092	2,120	1,248	(2,091)	(2,465)	68,453	76,835
<b>OPERATING INCOME</b>	2,789	14,237	(878)	16,240	(1,418)	(612)	–	–	493	29,865
<b>Other items in income:</b>										
Equity earnings	–	–	594	965	–	–	–	–	594	965
Non controlling interest	(32)	(996)	–	–	–	–	–	–	(32)	(996)
<b>INCOME BEFORE TAXES</b>	\$ 2,757	\$ 13,241	\$ (284)	\$ 17,205	\$ (1,418)	\$ (612)	\$ –	\$ –	1,055	29,834
Tax provision									(2,460)	(14,733)
<b>NET (LOSS) INCOME</b>									\$ (1,405)	\$ 15,101