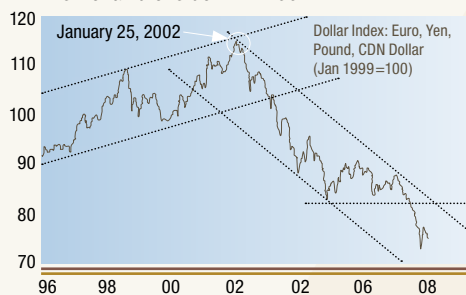


## GOLD UPDATE

Despite the surge in price during 2007 the case for gold remains very bullish. According to the chief economist of Dundee Wealth Inc., Dr. Martin Murenbeeld, the eight arguments supporting a bullish gold outlook that were outlined in last year's annual report have not changed appreciably, although the order of importance has changed.

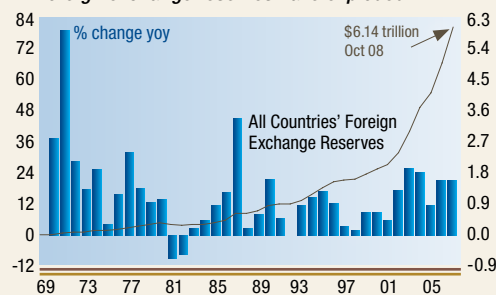
### (2) US Dollar

*The Dollar broke down in 2002 ...*



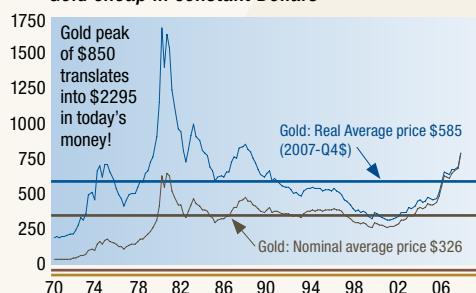
### (3) US Dollar Reserves

*Foreign exchange reserves have exploded*



### (4) Gold is "cheap"

*Gold cheap in constant Dollars*



### (7) Commodity Cycle

*Commodities only recently broke upwards*



**(1) Monetary policies are being relaxed.** Last year this factor was a "future" factor, but as events have unfolded since August 2007 when credit markets seized up, and the risks of recession have risen, it has become a "current" factor. Historically gold has always done well when monetary policies are relaxed, other things constant. This time around should be no different.

**(2) The US dollar must decline further.** Stage 1 of the US dollar's decline is more or less completed – its decline against the euro and Canadian dollar. Stage 2 is the dollar's decline against the Asian currencies (if not also OPEC currencies and the ruble). Further dollar declines against Asian currencies may well be the more important stage for gold, given Asian consumers' general interest in gold. The dollar's decline is also important in helping stave off a serious US recession.

**(3) Central bank reserves are excessive and must be diversified.** Total world currency reserves are in excess of \$6 trillion, of which about 65-70% is in the form of US dollars. Central banks that hold these US dollars will remain under pressure to diversify them into other currencies and/or possibly into gold. Either way gold will benefit.

**(4) Gold is "cheap".** Despite the 32% rise in the gold price during 2007 the gold price remains "subdued" on an inflation-adjusted basis. The 1980 peak of \$850 translates into \$2300 in today's money. And gold remains somewhat depressed relative to oil and various stock market indices.

**(5) Supply is limited.** This follows from #4, because exploration budgets were cut during the low-price years. Mine output is unlikely to rise significantly in the near term because only recently have margins in the industry begun to widen. (Costs in the industry have tended to rise faster than inflation!) Central bank supply is largely limited by the Central Bank Gold Agreement, and sales by the signatories have actually been somewhat less than the 500 tonne upper limit.

**(6) The demand side of the gold market is expanding rapidly.** In the first instance Asia is becoming wealthier. In the second, distribution networks for gold products – including investment products such as ETF's – are expanding rapidly. New gold exchange markets are springing up around the world as gold markets are being deregulated.

**(7) The commodity price cycle generally lasts for years.** The shortest up-cycle in the inflation-adjusted gold price since 1800 was 10 years, from 1970 to 1980. In other commodity markets the shortest up-cycle is typically longer. Gold is now in its seventh year of this up-cycle. We think this cycle, on account of the rapid economic development in Asia, will last longer than 10 years. But a year of price setback cannot be ruled out, and would be quite typical.

**(8) The geopolitical environment is gold-friendly.** This is not an attractive reason, but unfortunately true. The peak in the gold price in 1980 came on the back of a geopolitical crisis involving Iran and Afghanistan.

DPM thanks Dr. Martin Murenbeeld for his contribution to this page.