

**Denver Gold Conference, (because it's in Zurich)****Three Miners & the little one said roll over****The NOT so INVISIBLE HAND of Government****FOOD for thought?****Smokin' POTash****GORie Bull Market****HGF Share Classes/SIPP**

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**Denver Gold Conference, Zurich**

In early April we attended the yearly Denver Gold Conference in Zurich, the European meeting of the main conference held in Denver later in the year. Three days of excellent presentations by many of the mid-cap and junior miners from around the world, including talks by well known money managers, Dr Marc Faber, author of Gloom, Boom & Doom and Frank Holmes of U.S. Global Investors were very informative and well received. Despite gold's recent rise the conference had the same attendance as the previous year. The mining C.E.O.s mingled with a good selection of analysts, private bankers and fund managers. In 2001 the conference did not take place at all due to lack of interest with the gold price at US\$300. I presume when gold trades at US\$3000 and the place is full to the rafters, it will be a good sign of a market top.

With the help of our well known consultant Paul Burton, formerly the editor of The World Gold Analyst and now Managing Director of GFMS Ltd, we were able to have several one on one meetings with senior management of various companies. This gave us some excellent insight into the current state of their businesses, (all biases set aside). While you can pore over the annual reports until the numbers are doing cartwheels, you certainly get a different perspective in a small meeting. At the risk of providing too broad a generalisation, mining executives can be divided into three categories, the businessmen, the geologists and the businessmen-geologists. Mining is a difficult and lengthy business, make no mistake. It is fraught with risk but with potentially huge returns. The constant monitoring of political and environment risks, the huge capex over many years to extract a product that fluctuates in price every day is a tricky business. Generally speaking the businessmen are too cautious and the geologists are too adventurous. In our view the businessmen-geologists who can combine those factors to provide a strong and enduring business plan with the right risk awareness for future projects and acquisitions are the best bet for increasing shareholder value.

**The Current Climate**

Business has not really changed much since the American gold rushes of the 1800's. Some prospectors made untold riches and many went broke and many went mad trying. Apart from the stores set up selling the shovels and pans, this is often a make or break business and still today the gold stocks are either incredibly rich and overvalued or ludicrously cheap and undervalued, not often "fairly" valued. We must always try and justify the current level of the market with explanations that sound perfectly plausibly as the pricing is meant to reflect all the current and future news and information. Rarely do the current factors actually change as much as the level of the market and so it is just a change in sentiment that is the main driver.

Despite 1st quarter 2008 gold sales at a record average of roughly US\$930/ oz for most miners, the gold stocks trade at the cheapest levels relative to the gold price by most measures in history. The analysts will give you all the best possible logical and indeed plausible reasoning:

- Cost "creep"- How every input needed for mining is escalating in price at a rapid pace. Whether it is energy, labour, (skilled and highly skilled), cement, rubber tyres, you name it, it costs more.
- Mining difficulties (which are mentioned in detail later.) Political or country risks, NGOs and environmental concern or raised royalties and safety issues.
- General market malaise as the credit crunch bites into financing schedules and reduces share sponsorship.
- A general concern that the gold price will revert back to the mean of the last 10 years. Most analysts are still unwilling to increase their long term forecasts to much higher than \$700 /oz and many are lower when calculating the net present values of future cash flows.
- Investors are using the Gold ETFs for investment rather than gold stocks.

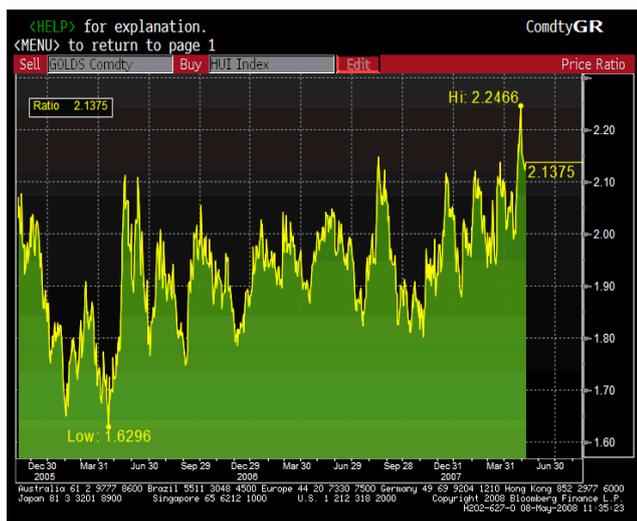


Chart: Gold/HUI (Amex Gold & Silver Stocks Cheap vs Gold) Source: Bloomberg

While all these issues are very understandable and current, the market appears to be priced for what might well be the worst case scenario.

In our models we use the forward curves and discount back at an appropriate rate to try and take into account the other risk factors for country weighting, number of projects for NPV and also use fully owned reserve status for a value in the ground assessment as well as the more standard P/E and cash flow ratios. Also we have regression correlations versus the underlying metals both for short term and long term periods to identify the best leverage to the metal prices.

Using these methods it is hard not to assume that one's analysis is flawed, as almost all gold and silver stocks are severely undervalued. The most logical explanation is Warren Buffett's description of Mr. Market as a manic depressive, being willing to offer you a ridiculously high price one day and an insanely low one the next. Management expertise has a huge role and is hard to define, as is market sentiment, by the far the most fluctuating of variables. So a good starting point is identifying the cheapest stocks with great management.

### Three Little Miners

We have picked for a short discussion 3 companies:

1. Newmont Mining (NEM) A top tier major producer
2. Silver Wheaton (SLW) A silver stream royalty company
3. Columbia Metals (COL CN) A junior

### Newmont Mining

Last week NEM announced first quarter profits of USD\$370m compared to first qtr 2007 profits of USD\$68m, a 500% increase in one year. Of course they were helped by the mere fact that their gold sales were at significantly higher levels than last year. Nonetheless the share price is unchanged from a year ago!!! Granted the stock could well have got a head of itself a year ago, as that's what markets do-discount the period ahead. But we think not. As far back

as 2001 the trailing P/E was trading at over 100x multiples and even last year it was trading in the 30-50 range. Today if the company continues to earn 81 cents a share for the next three quarters the 2008 P/E is currently 13.5x. (By the way most analysts' estimates were around 50 cents...Nice work guys). While some would argue now that the P/E ratios of gold stocks are now more in line with the oil and base metal companies which makes more sense, this has historically not been the case.



Chart: NEM (Newmont Mining) Source: Bloomberg

The market capitalisation is roughly USD\$ 20billion with proven and probable reserves of some 87 million ounces and it produces 5-5.5 million ounces a year at cash costs of \$406 /oz.

A back of the envelope calculation on their current reserves with 87million oz at \$900 /oz with cost of \$400 gives us USD \$ 43.5 billion, discount it back at say 5% over mine life of 15 years gives us \$30billion. So if we just move to fair value to reserves it is 50% higher but if assume the P/E goes back to last year's range it can be 100% higher.

It has its problems like any major, constantly challenged by cost, by permitting issues and by the worry of how to replenish future reserves with new discoveries and acquisitions of smaller companies. There have been management concerns in the past as they have had more cost creep than the other majors but that appears to have been reined in. The choice of which grade to mine has sometimes cut into their production forecasts which they have been punished for. (Miners tend to mine the high grade ore when prices are low to keep production and cash flow up, the same tonnage of rock for more gold but when prices are high they work on the lower grades dropping production but maintaining cash flow.)

They have been actively hedging some of their exposure to rising energy costs with no long term gold hedge book and while gold might well not shoot off into the inflationary stratosphere as it did in the 1970's this is a historic cheap time in Newmont's history by any measure.

Silver Wheaton (SLW)

Silver Wheaton is the largest public mining company with 100% of its operating revenue from silver production. Its 2008 production is expected to be 15 million ounces rising to 25 million by 2010. It has the largest market capitalisation to employee of any company in North America. However it does not actually produce silver, it is a royalty company that provides finance to mining operations in return for silver stream revenue. It is really a financial engineering company operating in the mining business. Originally Wheaton River Minerals, in partnership with Goldcorp was created to provide an ability for miners to manage their silver exposure as a by-product, in return for a revenue stream. Since 2003/4 the share price has risen six fold as it has proved to be an outstanding business model whilst enjoying the leverage to the rising silver price.

Royalty companies have some advantages to actual miners. Costs are relatively fixed, most of SLW's current contracts are struck at the lower of the silver price or \$3.90 so the recent inflationary surge is less worrisome. Production increases and new discoveries usually come for free as all capex is borne by the miner. While production delays will affect cashflow as any miner, the miner is still bound to continue with production for life of mine or repay its contract to SLW.



Chart: SLW vs Silver, Hinde Capital. Source: Bloomberg

Goldcorp sold its remaining interest of 48% of SLW in the first quarter at a price of \$14.50 which was well oversubscribed. Since then the correction in the price of silver and the general malaise in the precious metal shares has seen SLW trade to cheaper levels. With this recent pullback, SLW trades at a discount to its historical trading multiple that ranged between 20x to 25x forward cash flow estimates, (currently 14). Likewise with our silver correlation models SLW is 50% cheaper than its historic normal both to FCF and silver correlation.

We have always been impressed with the management and business plan at SLW on an independent basis. However coupled with our belief of a serious shortage of silver supply and the leverage that every \$1/oz change in the silver price results in an increase cash flow in 2009 of \$0.07/share we feel this is an excellent investment at this time.

Columbia Metals (COL CN)

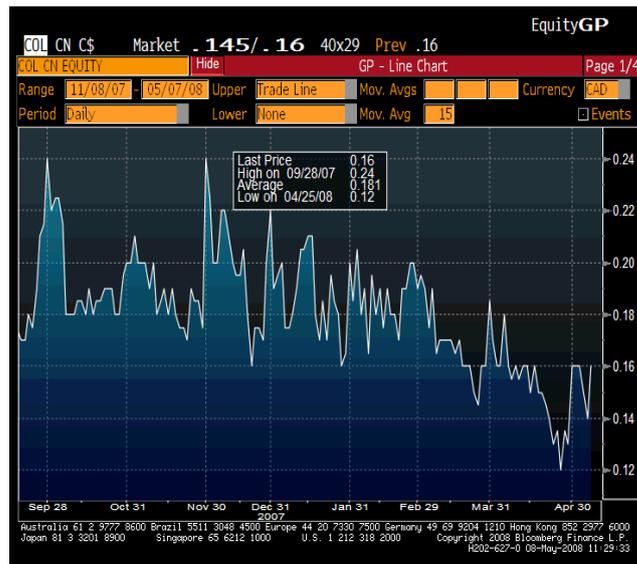


Chart: Columbia Metals TSX listed, Source: Bloomberg

While we have spoken recently about the problems in the junior sector of the gold mining business, especially the rise of political and country risk and lately the credit crunch threatening project financing, it is still one of the most dynamic potential investments from a return perspective if the market is underpriced for the risks involved. We have tightened up some of our parameters in this sector to further filter out the potential winners despite most juniors trading at record cheapness to assets in the ground. Columbia Metals is a company that makes the new grade.



Images: Columbia Metals Lluvia de Oro mine [www.columbiametals.ca](http://www.columbiametals.ca)

COL has re-commissioned the past producing Lluvia de Oro gold mine in Mexico for commercial production. The basic property package totalling 5074 hectares combines the two mineral properties of Lluvia de Oro and La Jojoba gold resource with exploration rights to the surrounding grounds including Sierra Pinto and P2 Colorado. The 43-101 compliant M&I gold resource of the former properties totals some 514,577 oz gold.

COL is not a new story for many investors and there have been many difficulties along the typical path of bringing a resource to market. Financing issues resulting in over share dilution and concerns over property rights have eaten away at COL's share price which currently has almost 100m shares outstanding with a market capitalisation of only \$14m CAD but it is almost priced for disaster.

The reality is that they have \$10m CAD plant and equipment, 500k Oz gold and 30m dollars worth of recoverable copper and a producing mine set to pour gold in six weeks. Mexico is a NAFTA country with real mining laws and the management have spent four years putting together this property package. With their partner BioteQ Environment Technologies (TSX:BQE) they are developing a treatment facility to remove copper from the circuit in the form of saleable copper sulphide which will enhance the economics of the mine accordingly.

The production target from late May is 1000 oz gold a month so the immediate cashflow potential will alleviate any financing concerns that the market has priced in. While the maths of 514,000 oz gold alone is very compelling the potential for further increase in reserves with drilling at Sierra Pinta and P2 of up to 2-3m oz makes this of real interest.

A junior with very undervalued assets about to have a positive cashflow in a stable country with a highly competent and committed management team passes our current parameters for junior investment. As with all juniors the high risks versus high rewards that are always there, investment size is accordingly significantly lower than with the majors.

At this current time Hinde Gold Fund has investments in the three companies mentioned above within a constantly changing and diverse portfolio. Information and valuations can change exceptionally quickly in the mining business and the need for constant monitoring of all factors is essential on an ongoing basis.

These brief commentaries do not provide the exhaustive research necessary and are not recommendations for investment but purely a selection of some of the cheapest stocks within the whole "cheap" arena of precious metal shares at the current time.

### The NOT so Invisible Hand of Government

Never have we known a month when so many actions by governments have so negatively impacted the precious metal miners, primarily the exploration and development "juniors". There is a growing interest toward higher corporate taxes, royalties or project interest as rising commodity prices have kindled the "states" interest in revenue share.

In an environment of strong metal prices – but also social and environmental awareness – governments around the world are imposing new initiatives to gain greater control of the mining industry. Control is being achieved through more stringent mining laws and governments are demanding a bigger slice of the financial pie through taxes or royalties or direct project interests.



Image: Government Shakedown (Source: Canaccord Adams)

There were so many Government announcements its tough to know where to begin. Probably the most high profile was the news that broke out of Ecuador. The national assembly passed a mining mandate to temporarily ban all mining and mineral exploration activities and initially strip concessions from those with more than three.

### Reflections on Ecuador's mining mandate

<http://upsidedownworld.org/main/content/view/1267/68/>



### Anti-Mining Protests in Ecuador- Social Pressure

Rafael Correa is considered to be Pro-mining and states that the country has some \$220bn worth of resources. They need the support of International mining infrastructure to extract these resources for the wealth of the nation. However it is a socialist country and there is a large anti-mining lobby led by ex-Minister of Energy and Mines, Alberto Acosta and Monica Chuji, a Sarayaku indigenous Ecuadorian and president of the Assembly's natural resource working group. Both are members' of Correa's Alianza Party. Our sources speak of a political posturing behind Correa's back, whose term runs until 2011. Correa was taken aback by the response of the International Community to the 180 day impasse on mining. Within days he moved to speak of a faster resolution of the Mining code. Perhaps as early as July. He has opened into a healthy dialogue with miners such as Aurelian, Corriente,

and IAMGOLD and says he wants to work with them to build the Code.

The market reaction to the initial vote was understandably one of horror as you will see below most stocks fell in order of some 60-70 per cent. Aurelian whose Fruta Del Norte concession is probably the find of this gold bull market was most hurt. Our take is this is healthy if they sincerely move forward on agreeing a proper mining code which establishes the rules and engagement. If all parties know where they stand, the uncertainty on permitting, royalties and taxation will be removed. Then International investors will be more comfortable in financing some of these developing projects, in a country with abundant resources.



Chart: Aurelian Resources down 64% Source: Bloomberg



Chart: Corriente Resources drops 45% Source: Bloomberg

We personally have some sympathy with the Government as some of big miners have rights to millions of hectares of concessions which they have merely staked. In effect they have a free option on the resources that lie within them. Either they develop them or push off is in effect what the Ecuadorian assembly is saying. As it stands they pay hundreds of thousands of dollars, when in reality it should be upwards of tens of millions in light of the potential resources available. However it would be churlish to underestimate the extent of short-sighted socialism. For instance Carlos Zorrilla, executive director of Defensa y

Conservación Ecológica de Intag (DECOIN), calls the assembly's decision a victory of "right over might."

Another nagging concern is the similarity between Ecuador and Bolivia. The evolution of Ecuador's mining policy is perhaps not dissimilar to that of Bolivia. To expand: a left-wing Latin American nation passes legislation through a Constituent Assembly charged with rewriting the nation's constitution, which appears aimed at significantly increasing the government's take of mining revenues. Although Bolivia did not expropriate any title or lands from mining companies in the region, President Evo Morales did proclaim, on May 1, 2007, that any unclaimed lands would become part of Bolivia's Mining Fiscal Reserve, to be administered by the state mining company Comibol. Ecuador's Constituent Assembly has proposed that companies and individuals would be able to hold only three mining concessions. Would the excess concessions revert to state ownership, similar to Bolivia's Mining Fiscal Reserve?

The Ecuador mining proposal went so far as to propose the creation of a "national mining company". Would this Ecuadorian state-owned entity be as thoroughly involved with the mining industry as is Bolivia's Comibol? We would note that both nations have proposed legislation which as of yet is not ratified into law. Indeed, the only certainty regarding mining policy in Bolivia and Ecuador is that there continues to be uncertainty.

Several other South American countries joined the party of hindering mining. In Venezuela Crystallex and Gold Reserves share prices plummeted when the Ministry of the Environment and Natural Resources issued a communication denying exploration.

**TORONTO, ONTARIO--(Marketwire - April 30, 2008) - CRYSTALLEX INTERNATIONAL CORPORATION (TSX:KRY)(AMEX:KRY) has become aware that the Director General of the Administrative Office of Permits at the Ministry of the Environment and Natural Resources of Venezuela ("MinAmb") has issued a communication to the Corporacion Venezolana de Guayana ("CVG"), the owner of the Las Cristinas concessions, denying a request for the authorization to affect natural resources to carry out exploration activities in the mining area of Las Cristinas in Sifontes, Bolivar State.**

*In issuing the communication, the Director General cites sensitivities surrounding indigenous peoples, the small miners and the environment in the area generally known as the Imataca Forest Reserve, which contains a number of mining projects, which like those of Crystallex, are seeking the required permits to continue their development and exploitation.*

*The communication by the Director General appears to be in conflict with the Las Cristinas EIS approval, Construction Compliance Bond Request and Environmental Tax request issued by the MinAmb (that Crystallex posted and satisfied last summer) and the communication appears to be in opposition to all mineral mining in the Imataca Region.*

*The communication is subject to several avenues of response, including an application for reconsideration by interested parties under Venezuelan law. Crystallex is currently working with various levels of the CVG to develop strong submissions in support of the authorization to affect natural resources. Crystallex is committed to defending its rights in the Las Cristinas project and intends to respond to this matter vigorously in accordance with its legal entitlements to protect the interests of our shareholders.*

Crystallex (KRY) is (WAS) an emerging intermediate gold producer with operations and exploration properties in Venezuela. Crystallex believes that it offers remarkable growth potential for its shareholders in a competitive gold sector. The Company's principal asset is the Las Cristinas property located in Bolivar State in southeastern Venezuela. With estimated reserves of 12.5 million ounces, Las Cristinas ranks Crystallex as one of the largest North American based gold company in terms of reserves. (Not a stock we owned; rather we owned it's neighbour Gold Reserve)

To put in perspective the valuation on KRY- Agnico-Eagle, for example, has similar proven and probable reserves as Crystallex, but Agnico-Eagle has a market cap of C\$6.73 billion, while Crystallex has a market cap of C\$716.88 million, making Agnico-Eagle's market cap per ounce much higher. One is overvalued and one is under.

One is in Venezuela awaiting permitting to continue development and exploitation, the other is in Canada predominately and producing. But if you thought Western Governments were a safe bet, we now have to monitor mining laws changes there to (more later).

The response of markets was swift. We were fortunate enough to cut our positions on news. However the stocks have been in costly decline for several months prior to announcement in keeping with overall sector.



Charts: Crystallex, Venezuela down 80%, Source: Bloomberg, Below Gold Reserve, Venez. down 45%



<http://www.goldreserveinc.com/documents/nr-08-04.pdf>

Suriname equally feeling left out decided that it wanted to renegotiate its contract with IAMGOLD because of soaring gold prices. Natural Resources Minister Gregory Rusland said that prices have risen beyond expectations since the government signed a contract with Rosebel Gold Mines in 2005 (IAMGOLD).

Next up a continent away Ghana chipped in. Ghana is Africa's second-largest gold producer, behind South Africa, and multinationals such as AngloGold Ashanti Ltd. and Newmont Mining Corp. are active in the former British colony. Gold accounts for the lion's share of its mineral exports.

<http://www.ghana-mining.org/>

[http://www.ghana.gov.gh/ghana/government\\_urged\\_increase\\_royalties\\_mining\\_communities.jsp](http://www.ghana.gov.gh/ghana/government_urged_increase_royalties_mining_communities.jsp)

*Ms Joyce Aryee, Chief Executive Officer of the Ghana Chamber of Mines (GCM), yesterday advocated that 30 per cent of royalties paid to Government by mining companies should be returned to mining districts.*

*She said the current 10 per cent paid to the mining districts by the Government was woefully inadequate for the stimulation of infrastructural development in those communities to attract other service sectors to improve the well-being of the people.*

*"Mining should be seen as a catalyst for economic and social growth wherever it goes. Development in mining areas would boost the development of Ghana. "But this level of royalties that goes to these communities cannot aid in infrastructural development that would promote growth," she said.*

*She suggested to the Government to use 10 years to 15 years to develop infrastructure in mining areas to attract other sectors of the economy to ensure sustainable growth. Ms Aryee made the suggestion when she called on the Minister for Lands, Forestry and Mines, Mrs Esther Obeng-Dapaah to voice out the concerns of the Chamber. Of the total royalties paid by the mining companies, Government retains 80 per cent, 10 per cent goes to service the Mineral Development Fund and the remaining 10 per cent paid to mining communities.*

*"Ghana will amend its laws to reap more benefit from its mining sector and the government may take a more direct role in the sector", Mining Minister Esther Obeng Dapaah responded, no doubt prompted by Ms Aryee.*

Addressing a meeting of the UN Conference on Trade and Development (UNCTAD) in the Ghanaian capital Accra, Dapaah said the West African country also aimed to diversify the sector away from its traditional reliance on gold.

*"Our laws will have to be amended. At the moment the laws are so liberal. The idea was to attract investment but we are willing to take a look at our laws again," the minister told delegates at a forum on how developing nations can benefit more from high commodities prices.*

*"The mining industry must move from being an enclosure to being fully integrated into the Ghanaian local economy," Dapaah said, citing what she called low levels of employment generated by the sector. "Tax revenues are*

minimal. The nation does not hardly benefit from high mineral prices," she added.

"Either we want to give concessions out and take the royalties, or to actually get involved in the mining industry. A decision is actually being taken," Dapaah said. "A committee is being organised to look into mining activities in Ghana and how Ghana can benefit from mining."

Under current legislation, the government has the right to royalties between 3% and 6% on gold production. Ghana is considered as progressive and fair jurisdiction for mining, Newmont, IAMGOLD, AngloGold Ashanti and Golden Star all operate in the company. One developer got hit 18 per cent on the news- Red Back Mining. It operates the Chirano Gold mine where it pays a 3% royalty. The stock has since recovered as Ghanaian government has downplayed the comments, but hot on heels of Ecuador this had investors feeling risk averse. I suspect Newmont who announced 500% returns on year earlier, was impeded in part by this news as it owns the Ahafo mine in Ghana. Investors clearly should be wary as Obeng allegedly cited Zimbabwe as an example where a government was trying to amend laws preventing an increase in mining royalties. Alarming. This is why we want to own big cap players who are more isolated from such events by dint of their mine diversification.



Chart: Red Back Mining down 34%, since recovered  
Source: Bloomberg

Mining changes spread as far wide as Outer Mongolia. The Government of Mongolia proposed mining changes to claim a minimum of 51 percent and 34 percent at any strategically significant mineral deposits explored by state and private funding respectfully. But the amendment said that up to 51 percent of state interest at strategically significant mineral deposit explored by private funding would be subject to negotiation by under investment agreement.

Rio and Ivanhoe's Oyu Tolgoi "the world's largest undeveloped copper-gold resource" and junior Uranium player Western Prospector group were impacted to a small extent by such news. Some Mongolian politicians are concerned if they take too much state control and commodity prices fall they will be left with losses! The debate goes on.

[http://newswire.mn/index.php?option=com\\_content&task=view&id=206&Itemid=68](http://newswire.mn/index.php?option=com_content&task=view&id=206&Itemid=68)

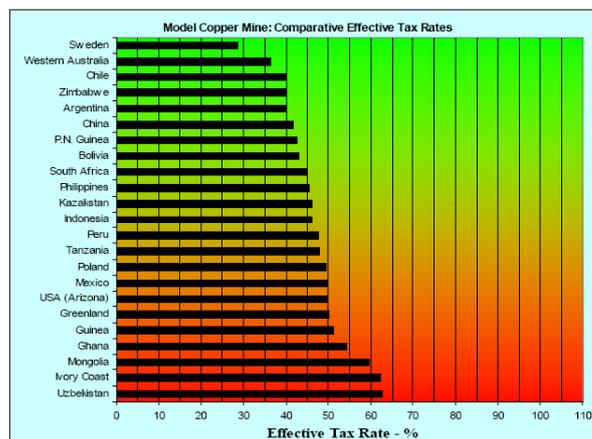


Table: Effective Tax rates for mining from first World countries to LDC's (Source: World Bank)

### Positives-

We would like to note some of the positive jurisdictions for mining amongst this litany of woes. Mexico, particularly the North has a pro-mining outlook despite high levels of bureaucracy. Chile and Peru are well grooved. Argentina has potential issues with export duties but some provinces are very stable. However it seems Venezuela and Bolivia are not worth the sleepless nights even at such discounted prices.

China has a fantastic resource base highly untapped and would seem from conversations with Chinese mining companies (foreign entities mining in China) that expropriation is a low risk. Dealing over the years with Government officials there we feel they get it. But they are wily, to some degree they manipulate foreigner expertise to develop mining. Jinshan Mining just entered into agreement with China Goldfields (Chinese Government miner) which potentially could be the start of a mining giant....maybe. Silvercorp has excellent capabilities and polymetallic resource base of rich grades which are being exploited by seasoned China players. The reality is mining occurs in countries fraught with political issues. The degree of difficulty in extracting resources in itself is highly bullish for gold and silver.

It is also important to note that the revenues that flow into government coffers represent only a part of the overall benefit associated with the exploration, development and operation of mining concerns. Investment in exploration and development comes with secondary benefits to development areas:

These include improved infrastructure, wealth creation in communities (salaries), technological improvements, healthcare facilities and services, fresh water supplies and improved skills and job training for local labour pools. In many cases, companies conduct thorough reviews of local communities, identifying problem areas and implementing important initiatives to insure communities in the area of a mining project benefit from development and experience an improvement in quality of life. It seems not unjust for many of these countries to share in their own resource revenue. Right now investors need clarification by all Governments on their proposed laws.

### Idiocy-

However as you have read, there is inconsistent and irrational behaviour bordering on stupidity in many countries, particularly developing countries who can ill afford not to cultivate such industry. However if you thought such "Stupidity" was confined to LDC's be warned even on the home front Politicians exercise greed and motivations for election.

North America has worrying stirrings afoot. In the USA congress is working on reforming the America's 1872 Mining Law, a bill was passed in the House of Representatives featuring royalty increases that threatens the whole existence of the industry. Although Bush and many mining state Senators blocked the bill, a group of predominately Democratic Senators have made an Appeal via open letter. They want higher taxation on existing and new mining operations, citing that the country has had nothing in return for mineral exploitation by large conglomerates. Hmm let us see. Apart from metals for cars, electronics, coal, oil for heating homes, improvements in medicine ...no we have had "sweet F.A."

Cue the Canadians. To be more specific certain Provinces have also enacted increasing stupidity that even they realised it. Alberta increased its royalty structure to 20% for oil and gas and then promptly turned around and offered incentives to aid deep drilling. Go figure. Fortunately Ontario, Quebec, British Columbia, Saskatchewan are still forward looking. Odd incidents have occurred in Nunavut lands and areas of Uranium. Taxation rates are comparable though to many LDCs

	Provincial Tax Rate	Combined Federal/Provincial Rate	
		General <sup>2</sup>	Mining <sup>3</sup>
Alberta <sup>4</sup>	10.0%	32.12%	31.13%
British Columbia <sup>5</sup>	12.0%	34.12%	34.01%
Manitoba <sup>6</sup>	14.5%	36.62%	35.24%
New Brunswick <sup>7</sup>	13.0%	35.12%	33.87%
Newfoundland and Labrador	14.0%	36.12%	34.78%
Nova Scotia	16.0%	38.12%	36.61%
Ontario <sup>8</sup>	12.0%	36.12%	31.01%
Quebec <sup>9</sup>	9.9%	32.02%	31.04%
Saskatchewan <sup>10</sup>	14.0%	36.12%	34.78%
Northwest Territories <sup>11</sup>	11.5%	33.62%	32.50%
Nunavut	12.0%	34.12%	32.96%
Yukon	15.0%	37.12%	35.70%

Table: Canadian Corporate income mining tax rates (Source:PWC)

As it stands the mining industry has been hit by the double whammy of "Greenism" and perversely soaring prices. When the world is awash in riches the world is more apologetic about exploitation of resources. Let's be certain about this the pendulum has swung too far the wrong way. Fears of destruction of our planet are palpable. However it's reached hysterical proportions. When economies slump and recessions come to pass, as is highly likely in many Western worlds, either via deflation or "hyper"inflation we suspect the deafening roar of the "environmentals" and NGOs will abate. Starved of food, water and fuel, I suspect such entities won't have enough energy to go to the toilet let alone carry on their moral crusade. It would seem that if any hysteria was needed it was pertaining to food. Trying to lessen our carbon footprints seems to be impeding our ability to create any footprint! As biofuels have in part put strains on food sources around the world so our ability to sustain ourselves and indeed have enough energy to walk is a real issue. To be fair the sudden and alarming rise in

many foodstuffs is as much a function of environmental disasters such as the Cyclone in Burma, floods in Bangladesh, droughts in Australia, the biofuel industry as is the demise of the dollar. The consistent debasement of the dollar by past and incumbent US governments has led to most foodstuffs which are priced in dollars to soar. Not lack of resources just plain old fashion loss of purchasing power on goods that were undervalued in the first place.

### Food for Thought

Anyone not think we have inflation please stand up now! Even ourselves who enjoy going to Sainsbury's supermarket on a crowded Saturday as much as lying on a bed of nails, can't help but observe the price increases on individual foods.



HOW THE COST OF FOOD HAS SOARED THIS YEAR			
Product	Apr-07	Apr-08	Increase
Fusilli pasta - 500g	£0.37	£0.67	+81%
Fresh chicken - 1.55kg	£2.00	£3.54	+77%
British beef mince - 500g	£1.00	£1.64	+64%
English Butter - 250g salted	£0.58	£0.94	+62%
Medium free-range eggs - (12)	£1.75	£2.45	+40%
French baguette - own label	£0.49	£0.65	+33%
Basmati Rice - 1kg	£0.90	£1.19	+32%
Mild Cheddar - 250g	£1.21	£1.52	+26%
Pure Orange Juice - 1 ltr	£0.72	£0.88	+22%
Semi-skimmed milk - 6pints/3.4ltr	£1.68	£1.96	+17%

Source: MySupermarket.co.uk

Google the words FOOD INFLATION and you will note that there are rising food prices on every continent, Asia, North & South America, Africa, the Middle East and Europe. It's staggering. The world has been deeply affected by the fall in the dollar, especially those on PEGS. As we have discussed many times the clamour from ravenous and impecunious people in these country will lead governments to abandon these PEGS. The dollar then will start another leg down in its demise. So whilst it may appear the dollar index weighted mainly via the Euro may stabilise here the reality is the trade-weighted value of the dollar will fall further. Incredible as it sounds with the dollar having fallen so far. The reality is almost consensus for a dollar rally here. But back to food:

While most western economies are not even close to experiencing a food crisis, other economies have already started to experience the impact of higher prices. Several news articles have highlighted the fact that the UN Food and Agriculture Organization [FAO], recently released a study that stated that rising food prices will continue for the next several years. The FAO also issued the following statement:

*A combination of factors, including reduced production due to climate change, historically low levels of stocks, higher consumption of meat and dairy products in emerging economies, increased demand for biofuels production and the higher cost of energy and transport have led to surges in food prices.*

Indeed globally food prices have risen 40% since mid-2007. Such increases have hit the poorest hardest as in many LDCs food represents 60-80% of consumer spending versus 10-20% in industrialised countries (UNFAO statistic).

CRB Food Index



Chart: CRB Food Index, Hinde Capital, Source: Bloomberg

For commodity bulls, the above comment is fairly obvious. What is alarming, however, is that the FAO also warned that the food shortages and rising prices would most likely contribute to food riots in all parts of the globe. The president of the World Bank, Robert Zoellick, also stated that he believed 33 nations are currently at risk because of rising food prices. He went on to state that, "For countries where food comprises from half to three-quarters of consumption, there is no margin for survival"

In fact, food riots- in various degrees- have already taken place in India, Mexico (tortilla strike), the Philippines, and Haiti, among others.

The Head of the IMF Dominique Strauss-Khan told a French radio station that the food price hikes that had sparked riots in Egypt, Haiti, Philippines could lead to toppling governments and wars. For once the IMF has said something of truth.

On April 30<sup>th</sup> in Peru in Lima, women from poor communities and soup kitchens beat on empty pots and carried signs in front of the congress, chanting to President Alan Garcia: "The pot is empty, Garcia!"

<http://upsidedownworld.org/main/content/view/1269/68/>

Costco /Wal-Mart have even been rationing certain foodstuffs.

[http://www.nytimes.com/2008/04/24/business/24rice.html?\\_r=2&adxnml=1&oref=slogin&ref=busin&adxnmlx=1210241266-4zAjYeYw4jxYAO/c5nvMwg](http://www.nytimes.com/2008/04/24/business/24rice.html?_r=2&adxnml=1&oref=slogin&ref=busin&adxnmlx=1210241266-4zAjYeYw4jxYAO/c5nvMwg)

Food Shortages

Worldwide stockpiles of cereals (wheat, corn, etc.) are expected to fall to a 25-year-low of 405 million tonnes in 2008. That's down 21 million tonnes, or 5%, from their already reduced level last year.

U.S. wheat stockpiles are at a 62-year low, even though farmers are planting from fence-to-fence. And with the U.S. dollar falling fast, foreign buyers are lining up to scoop up as much of Uncle Sam's grain as they can carry away. Wheat recently soared to the highest price in 28 years.

Meanwhile rice, a staple food for three billion people, is becoming increasingly scarce. World stores of rice have shrunk from 130 million tons eight years ago to today's stockpile of 72 million tons, enough for only 17% of annual global demand. Result -the price of rice is up 75% in the past year.



Chart: Rough Rice rose 75% from start of year, Source: Bloomberg

And as for corn, more and more of that is used for ethanol. The price of corn is up over 70% in the past year and has more than doubled in the past two years.

Corn



Chart: Corn Up 75% since Aug 2007, Source: Bloomberg



Chart : May Milk futures \$18/ 200,000 lbs! Source: A COW!

Protectionism-

The Philippine government recently asked China to provide 200,000 metric tons of milling wheat, equivalent to about 10% of annual consumption. Beijing declined, leaving the Philippines scrambling to find more wheat. China isn't the only large, populous country that is curbing exports to ease prices and internal unrest at home:

Vietnam, one of the world's three biggest rice exporters, will reduce shipments by a million tons this year to 3.5 million tons to ensure supplies domestically and curb its highest inflation in more than a decade (20% year over year — ouch!). The government also said it's considering a tax on rice exports. Egypt, Cambodia and Guyana have all also put export bans on rice in place.

Kazakhstan just suspended its wheat exports to tame domestic inflation. Kazakhstan is the breadbasket of Central Asia, and the only state in the region that exports grain, about 50% of the 21 million tons it says it harvested last year.

Ukraine stopped wheat exports this month and reduced barley exports.

Argentina, the world's fourth largest wheat exporter has effectively pushed back the date that new shipments can leave the country.

India has already put restrictions on its rice exports. And its wheat output, second only to that of China, may drop 1 million tons to 74.81 million tons in the March-April harvest because of a drop in acreage.

World Bank President Robert Zoellick recently told a conference: *"As the Indian commerce minister said to me, going from one meal a day to two meals a day for 300 million people increases demand a lot."*

And he's only talking about the poorest of the poor. There are 1.1 billion people in India, and they're all improving their diets and eating more Western foods. Meanwhile, 1.3 billion people in China are eating a lot better and eating a lot more meat and it takes 7 pounds of grain to make one pound of meat! No wonder why food prices in China jumped 28% in February. To put this in perspective Japan, another Asian culture that went from poverty to riches since the 1950s, saw its meat consumption rise a stupendous 900% as they

adopted a more Western-styled diet. No doubt India and China will follow.

The obvious way to combat rising food costs is to invest in the commodities that are increasing in price. If food prices are going to continue to rise, then it might make sense to invest in wheat, corn, soybeans, coffee, meats, sugar, cocoa, and other food commodities. Think of it as a hedge against rising food costs at the local supermarket. Take the COW ETN or MOO ETF



Chart: COW, Livestock ETN, has come off as Feed prices have increased. This is a buy as Meat in demand and farmers will increase price of MEAT! Source: Bloomberg



Chart: MOO ETF, Agribusiness equities, rallying with food prices, Source: Bloomberg

An excellent read on Globalisation & the rising protectionist tide can be seen at Prudent Bear site, by Martin Hutchinson

[http://www.prudentbear.com/index.php/archive\\_menu?art\\_id=5051](http://www.prudentbear.com/index.php/archive_menu?art_id=5051)

The other viable way investors can protect themselves is by investing in the one monetary investment that has survived countless empires, wars, and governments. The answer of course, is Gold (precious metals). During these times, you can be assured that gold not only protects your wealth (in terms of purchasing power), but it also provides you a globally-recognized medium of exchange that has withstood countless alternate forms of money.

### Smokin' "POT"ash

As we will explain later under GORie, bull markets move in phases and it would be far to say Food commodities have had an incredible surge. But remember this was from extremely low levels. Like when Gold was at \$280 and it then rose to \$475 and people said whoa too much. But it would be fair to say that some investors are clearly Smokin' too much POTash. It seems Investors now have a case of the "Munchies"- Sorry. Food is "in" and all by products that help grow it are de rigueur, hence the explosion in fertiliser and Potash companies. One of the constituents of the MOO ETF is going "HIGH" "HIGH" "Higher".

*The company: Intrepid Potash (IPI). Hand in hand with the surge in grain prices has been a surge in the price of this fertilizer (basically water-soluble potassium), and the frenzy for potash has increased in step with the speculative hoarding of foodstuffs. Clearly the company is a direct "play" on potash prices. But this is interesting – according to the company's own prospectus, "Fertecon Limited, a fertilizer industry consultant, expects global potash fertilizer consumption to grow 3.7% annually from 2007 to 2011." On that growth rate, and on the basis of elevated earnings due to high potash prices, the companies in this group are selling at P/E multiples of 40-60.*

*As a side note, the word "intrepid" (adjective: resolutely fearless; dauntless) in the context of fertilizer is strangely reminiscent of the late-1960's "Go-Go" market, when dull little companies gave themselves exciting names to divert investors attention from the fact that they were, in fact, dull little companies – as when Minnie Pearl's Fried Chicken renamed itself "Performance Systems."*

Hussman April 28, 2008 Weekly Commentary.



Chart: Potash Corp of Saskatchewan Up 204% since August 2007, Source: Bloomberg

### GORie Bull Market

GORie, i.e. the GOLD/OIL Ratio. Both commodities have been in a bull market. Most would say the bull run began in 2000/01 at end of the secular bull run for stocks.

So far in this bull run in the market gold has risen roughly 4x to \$1000, whilst Oil 8x. This seems very reasonable in what we would describe as the first phase in the bull market. Consumer demand was rabid for crude oil, as investors and consumers alike had enjoyed large gains in paper wealth, which helped underpin leisure activities and vacations. Gold demand was dormant other than in India, elsewhere it was a forgotten relic. The real driver of this outperformance was Industrial demand from Emerging BRIC economies. Even Investment demand favoured Oil. It was more "tangible" to Investors, and fund managers. Even most traders lacked understanding as too young to have known of the gold standard. Most see it as "unproductive asset". On trading floors people laughed at you in 2001 if you mentioned gold. You were scorned as a Doomsday figure, even though your arguments were more mining related. Now they listen up a little, but still don't really get it.

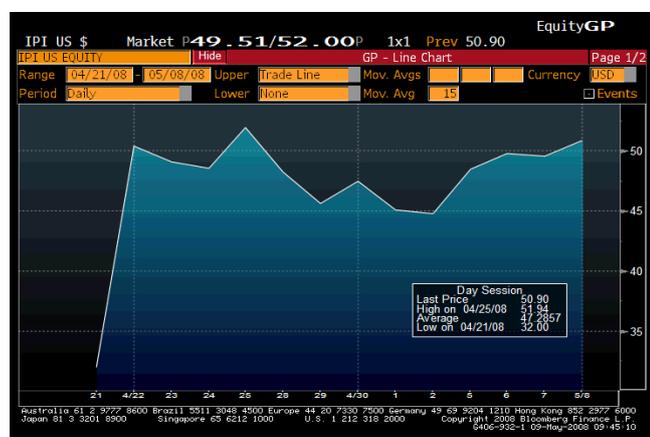


Chart: Intrepid POTash IPO and UP 60% in a day! Source: Bloomberg

Inflation to most has only just become a reality as they realised their money didn't go so far; debasement had led to loss of purchasing power. But the official statistics showed benign inflation?! Governments are clever at confiscating a Nation's wealth, if not that subtle. Oil was seen to be rising, but gasoline prices were still benign, it wasn't a huge clip out of disposable income. And when it did start rising Investment managers used Oil as an Inflation hedge, not Gold. Even the falling dollar was not seen as troublesome, rather it was a healthy way to stimulate exports and reduce the current account deficit.

Gold harboured so many misgivings by the mainstream and officialdom has repeatedly sort to reign in the rise of gold for fear of its inflationary portending. Even Volcker admits he wished he had held back Gold early on in his time as Fed Governor And by not doing so felt he had let long-term inflationary expectations manifest themselves and ingrain themselves in the public's psyche. Since then Governments have not made the same mistake. Central Bank sales and leasing of gold have been used to dampen down rises in the price of gold. GATA [www.gata.org](http://www.gata.org) have done most work on this. So Gold was disadvantaged against oil. This will change in later stages as emerging central Banks become buyers and Western Central Banks grow short of

stockpiles. The dynamics for the gold oil relationship are outlined here.



### GOLD vs OIL

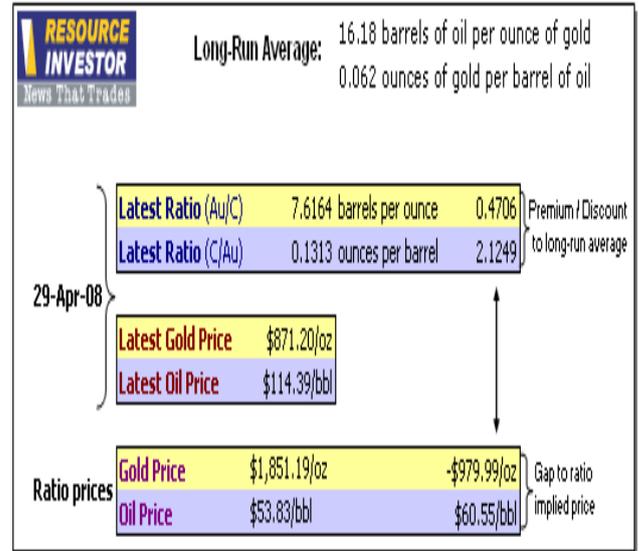
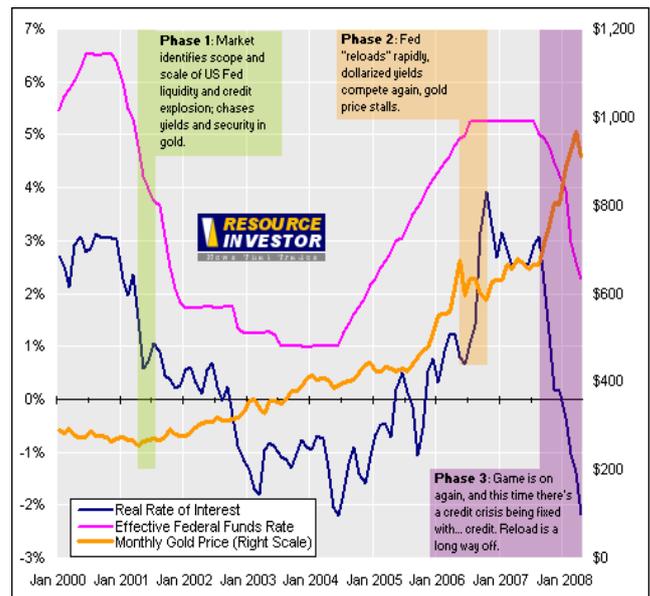


Chart: GORatio Ratio now 7.05 but display show discount on Gold, Source: Resource Investor

As you can see from the above graph the ratio of gold to oil is currently 7.05. Despite the high correlation of these two commodities the ratio over the last several years has tended to be confined to a trading range of gold trading 8-10 times the oil price. There have been a few times where we have traded above and below, in late 2006 oil brief dip to \$50/barrel while gold held above \$600/oz resulted in a ratio of 12.5 before oil started on a major run. Likewise in mid 2005 as gold was at \$425/oz and oil above \$70 /barrel the ratio was a historic 6.2 which preceded a 70% increase in the gold price.

Today's low ratio of 7.05 shows the relative cheapness of gold to oil. At \$120/barrel oil, the typical mean of 9 over last 4 years (it was 10.3 in January) suggests gold's fair value is closer to \$1100/oz., 25% higher than the current level. Of course the ratio could correct by a 25% drop in the oil price which to many would seem more likely as the global slowdown reduces demand but history shows that it rarely happens that way and that the correction to the mean comes from a rise in the cheaper commodity.

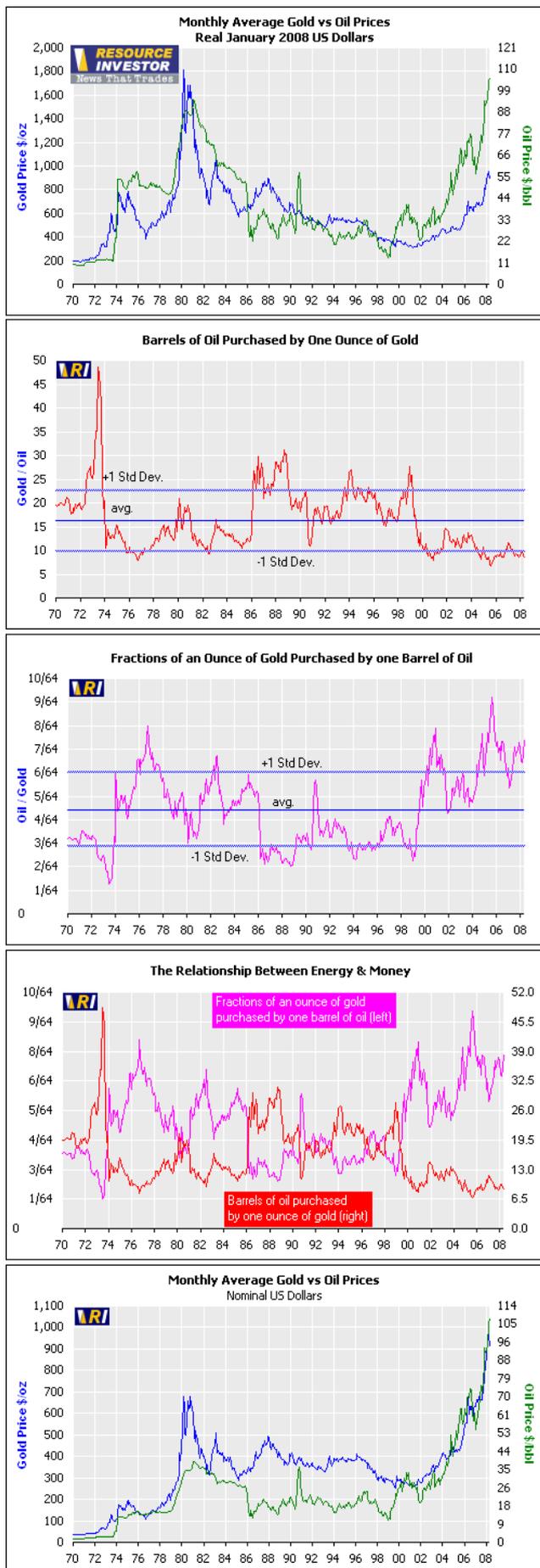
Analysts might justify the ratio having a new lower range on peak oil theory (since January!!!) but there is every much as justification that at higher prices oil becomes much more accessible than higher prices would bring on more supply of gold. These long term correlations are always difficult as there is always a temptation to believe we are moving into new era, "It's different this time", after all oil is actually used up (consumed) while above-ground supplies of gold grows but when you consider that the highs on this ratio over the last 30 years have been closer to 30 times it is very clear how cheap gold is at this moment in time.



Sources: U.S. Bureau of Labor, St. Louis Fed, LBMA

Chart: Real Rates Negative, Gold Positive, Source: Resource Investor

A typical secular bull market, whether for commodities or stocks, progresses naturally through three stages:



Source: R.I. Analytics, LBMA & US Dept. of Commerce

Source: Resource Investor

- Early Stage.** This is the “Stealth” stage of the bull market, where the old mania from the late stage of the previous secular bull market still preoccupies investors. The masses live in the past, and so does Wall Street. The shift is not recognized, or is widely regarded with scepticism, or is even denied outright. It is the “Stealth” stage because the majority of investors are not aware that the bull market has begun – the asset class is not even on their radar screen. Only a small minority of astute investors realize that a profound shift in the investment environment has occurred and begin to accumulate assets in the new investment class. This group of early investors is best known as “smart money.” This Stealth period is typically long, lasting about 30-35% of the whole secular cycle, anywhere between 4-7 years. Typically, at the end of the early stage, there is a major sell-off. Poor returns for an extended period of time, as long as 1-2 years, shakes off many of the weak investors and most of the speculators.
- Wall of Worry Stage.** In this stage, the new investment trend gradually becomes recognized by institutional investors. Investing in the new investment class becomes acceptable. Generally poor returns of the alternative class force institutional investors to look at alternatives. There is still a general disbelief in the new asset class. There is also a belief that the returns have been so great, prices cannot go much higher. Therefore everyone is “worried” that the bull market might soon be over. During this stage, the market climbs the proverbial “Wall of Worry.” Nevertheless, the healthy returns from the early stage convince them that they should jump on board, albeit cautiously and with a relatively small percentage of their funds. Institutional investors are known as “Big Money.” They enter the markets slowly and steadily, typically herding tightly with their peers and trying not to deviate too far away from them. It is important to understand that even by the middle of this stage, a full decade may have passed since the beginning of the shift, while the masses (the average investor) have still not recognized it. This period is typically long, lasting about 35-40% of the whole cycle, anywhere between 5-8 years.
- Late Stage.** This is the “Mania” stage, the period when the masses enter the bull market in droves. They never saw the first stage, but they have watched the second stage develop for almost a decade. They are finally convinced that the trend is permanent and expect prices to rise forever. Caution is thrown out of the window and greed takes over. Use of leverage becomes the investment norm. Leveraged speculation is rampant; over time, greed turns into mania, with bursts of panicked buying. Throughout the Mania stage, the buying conviction of the masses drives prices parabolically, which feeds back to reinforce their convictions. Asset-based lending becomes the norm, so rising asset prices beget more lending, which further fuels the boom. This stage is usually associated with a major bubble. It is also known as the “Blow-off” stage. It typically lasts 20-30% of the time, anywhere between 2-4 years.

(Casey Research, 2007)

Jim Rogers contends Bull markets last on average 15-21 years. We have had three this last century:

1905-1922 (18 years)

1933-1953 (21 years)

1968-1982 (15 years)

On January 31<sup>st</sup> in the WSJ article Rush to Gold, (which we spoke of in the January Letter, and when gold dropped a quick 70 bucks), we believe this marked the start of the second phase of the bull market for Gold. The awakening by the mainstream that Gold is a viable asset class, but still fraught with worries that it might not be; compounded by near on 200 dollar corrections. Gold will outperform Oil in the later stages of this bull market as inflation fears and currency dependency are questioned. In the mean time equity managers will observe the fabulous returns the miners are now producing and the whole sector will benefit from an inflow of institutional money.

### HGF Share Class

There are three share classes for investment into Hinde Gold Fund issued by subscription on the first day of the month, USD dollars, Euros and Sterling. The monies received in Euros and Sterling are converted into USD dollars and a one month forward swap is taken to ensure all classes receive similar performance.

We wanted investors to be made aware that they may switch between classes for the following month's share issuance if they notify our administrators, Swiss Financial Services by the 25<sup>th</sup> of the month. This switch will be transacted with no fee or bid to offer spread or any loss of class performance.

As many of you are aware we have been advising since our launch in Oct 2007 that our preferred currency has been Euros which has been a reasonable strategy to date. While we still believe that the Euro will strengthen against USD and GBP over time, the recent rate of ascent is unlikely to be continued in the short term. Sterling is the main cause for concern as the overvaluation and stage of business cycle continues to suggest that USD/GBP 2.00 resistance will continue to hold and eventually a move back to 1.70/1.75 is likely. Against the Euro, Sterling should continue to weaken and tend towards the 1996 Euro equivalent of 0.92 if not parity.

The decision of the investor into which share class he invests should be based on his own personal circumstances and exchange rate view but we will continue to monitor all market factors within our share classes to enable constant updates and views.

### Investment in Hinde Gold Fund through SIPPS (UK)

Most SIPP providers have set up HGF as an investment security on their platforms and although some of our investors have used this tax efficient method for their investment we are trying to encourage more in the future. SIPPs have become far more standardised now than in the past and the government is encouraging these DIY pension plans in light of the real possibility of a shortage of state funding in our lifetime. They have become easy to set up and the charges of set up and maintenance are now very low in comparison to the big pension providers not to mention the increased transparency and on-line access for asset value and dealing.

A £50,000 cash amount can be paid into a SIPP which is deemed net of basic rate tax. The SIPP claims 6 weeks later or so £14,100 from HMRC ((50/0.78)-50) and now the total in the fund is £64,100. That is the gross amount so clients basic rate tax band is extended by that, and if they have earned say in excess of £100,000 they then get a tax rebate of 18% of the gross amount. A cheque or tax saving of £11,540 ((64.1kX 40%)-(14.1k rebated into SIPP) Note. Next week basic rate goes down to 20% which makes a difference on what gets added in tax direct from HMRC but not the net effect to investor.

Also many people who have worked in city or other institutions that have paid into a separate company pension scheme for many years can transfer all of these monies from each plan into one SIPP and manage it themselves accordingly. Again the costs of transfers have dropped dramatically recently making this a more compelling plan for everyone.

If you have any questions on these matters please call one of team at Hinde Capital Ltd. Our Website is [www.hindecapital.com](http://www.hindecapital.com). All documentation on Fund and how to subscribe can be accessed there. Or alternatively please send all subscription requests to [info@hindecapital.com](mailto:info@hindecapital.com)