Seabridge Gold Inc.
Excerpt from the quarterly report to shareholders, Sept. 30 2010

The Gold Market
In our view, the next phase of the gold market has begun. The stealth bull market of the past 10 years is now going main stream. For the last decade, gold has mostly traded with the commodity complex, negatively correlated to the US dollar, in what has recently been called the 'risk-on-risk-off`' trade. But as gold moves to center stage as a preferred store of wealth and a preferred central bank reserve asset, dollar-euro and dollar-yen no longer seem to matter. Gold now appears to be trading independently of the commodity complex and the dollar which means that traditional yardsticks for the gold price no longer apply. This is the transition which we long have predicted would mark the beginning of the real gold bull market.

As we have said in these reports for many years, the real bull market in gold begins when declining confidence in paper wealth restores gold`s traditional role in the financial system as the most trusted store of value and the only certain and universally accepted form of final settlement. The recent policy decision by the Federal Reserve to resume quantitative easing (QE2) is, we believe, a defining moment for the present currency regime and market confidence in sovereign debt. It has taken 23 years to undo the legacy of Paul Volcker, Fed Chairman from 1979 to 1987, but Chairmen Greenspan and Bernanke have proven equal to the task, in our opinion destroying not only the credibility of the Federal Reserve but also confidence in the world`s reserve currency which was their responsibility to manage.

QE2, in our view, is very bad policy which fails to address the issues facing the US economy. More liquidity in a system which already suffers from too much will not generate the business confidence, savings and real, long term investment needed to create jobs and provide for a sustainable economic recovery. QE2`s failure as a policy designed to promote US economic recovery is bad enough. But far worse are the Fed`s justifications for it which expose the Fed`s powerlessness and intellectual poverty. And worse still are the implications for the world`s financial system.

In his now famous Op-Ed piece in the November 4 issue of the Washington Post, Chairman Bernanke argues that more inflation is needed in the US economy and that more liquidity and even lower interest rates resulting from QE2 will increase inflation and sharpen investor appetite for risk assets, driving up stock and bonds prices, increasing the wealth effect and thereby supporting additional consumption…a `virtuous circle` which he says will generate jobs. We are not alone in finding this argument to be spurious. As Mr. Volcker stated the day after the FOMC policy announcement: "The thought that you can create a prosperous economy by inflating is an illusion, in my judgment."

The highly respected Dr. John Hussman, writing in his letter to investors of November 8, noted that Bernanke “seems to be grasping at straws” and concluded that his Op-Ed article`s justifications for QE2 “are undoubtedly among the most ignorant remarks ever made by a central banker.” He goes on to evaluate the probable wealth effects to be gained from stock market appreciation, based on available studies, and calculates that, at best, we can expect a temporary increment in GDP of $11.3 billion over two years. But at a more fundamental level, what are we to make of a Fed Chairman whose monetary policy aim is to target the stock market? Chairman Bernanke twice mentions the stock market in his article without once discussing the banking system which is his primary responsibility (we thought).

But the greatest negative impact of QE2 is likely to be on the world financial system which is already in a state of extreme imbalance due to a huge surplus of unwanted dollars. Developing countries will need to print even more of their currencies to absorb yet more dollars as they flee the US for better returns elsewhere and these countries are already suffering from price inflation. Many are now openly discussing capital controls to reduce the inflow of dollars. America is exporting inflation and the rest of the world is not appreciative. A senior advisor to the People`s Bank of China was quoted as saying that it was “absurd” that the dollar was the world`s reserve currency while a leading representative of the German Government called the Fed “clueless”. Clearly, confidence in the current financial system is quickly declining and the risk of currency and trade wars has never been higher.

Most commentators who don’t understand gold question how high its price can go. Surely, they argue, gold cannot continue its inexorable climb. They worry that gold is in a bubble that must soon burst. In our view, it is not so much that the gold price is going higher, but rather that fiat currencies are falling in value as a result of excess liquidity, continued money printing and sovereign budget and debt levels which are clearly out of control. The correct question is not how high gold can go but whether or not we can restore confidence in fiat currencies.

Does anyone think that the US congress can agree upon, and implement, a credible deficit reduction program? Does anyone think that the Federal Reserve can withdraw liquidity from the system without bringing down the major banks which remain in a very weakened condition despite reporting bogus profits engineered by changes in the accounting rules?

We are watching the slow demise of the current monetary system. We cannot know at this time what will replace it. Undoubtedly, there will be much confusion and several false starts before a new, trustworthy monetary order can be achieved. In our view, a successful transition to a more stable monetary system will require the reintroduction of gold as a central monetary asset which limits the ability of governments to print money. If the world’s governments and central banks are not able to formulate such a system, the market will eventually do it for them by demanding payment in gold. In this period of uncertainty, we believe gold is more likely to preserve and enhance wealth than any other asset.

Gold share prices have not reflected anything like the increase in net present values that have been generated by the higher gold price. In part, this reflects the fact that gold share investors are not yet convinced that higher gold prices are here to stay.

Many of those who buy physical gold are from a different set of investors whose motive is longer term protection of wealth and who are less likely to trade out of their positions at the first sign of weakness. Furthermore, many hedge funds seem to have been pursuing a so-called ratio trade…long physical gold and short gold equities. This strategy has depressed gold shares, including those of Seabridge, at a time when they should have been outperforming gold. We believe that a period of catch-up for the gold shares is close at hand. As investors become more comfortable with the gold bull market, they will find the low valuation of gold in the ground to be increasingly compelling. Short positions are the bids of the future. We look forward to better share price performance in the months ahead.