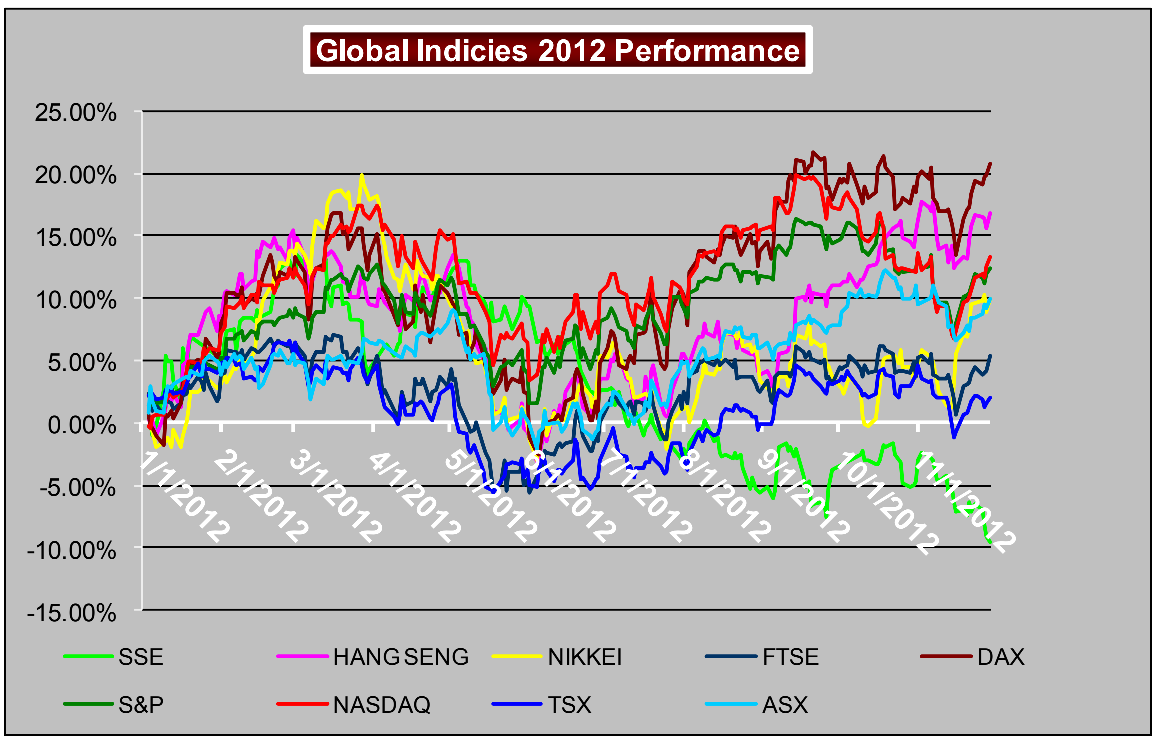
GDB Capital Inc.

GDB December 2012 Newsletter

Monthly Market Summary:

2012 November Market Activity		
SSE COMPOSITE	*1,980.12*	-88.76 (-4.29%)
HANG SENG	*22,030.39*	+601.81 (+2.81%)
NIKKEI 225	*9,446.01*	+517.72 (+5.80%)
FTSE 100	*5,866.80*	+84.10 (+1.45%)
DAX	*7,405.50*	+144.87 (+2.00%)
DOW	*13,025.58*	-70.88 (-0.54%)
S&P 500	*1,416.18*	+4.02 (+0.28%)
NASDAQ COMPOSITE	*3,010.24*	+33.01 (+1.11%)
ASX 200	*4,506.00*	-11.00 (-0.24%)
TSX COMPOSITE	*12,239.36*	-183.55 (-1.48%)
TSX VENTURE	*1,220.90*	-93.58 (-7.12%)



Investment Themes:

Politics again is dominating the financial markets around the world going into the end of 2012. Namely, the "fiscal cliff" situation in the US is causing investors to be on the edge. "Fiscal cliff" entails a combination of tax increases and automatic spending cuts scheduled to become effective on December 31, 2012. Specifically, we have outlined the major components for our investors below:

- **Expiration of Bush tax Cuts.** 1) The current tax brackets of 10%, 15%, 25%, 28%, 33% and 35% will revert back to 15%, 28%, 31%, 36%, and 39.6%. 2) Top capital gain tax will increase from 15% to 20%. 3) Qualified dividends will no longer be taxed at 15%, but at the ordinary tax rate, meaning the total maximum tax rate on dividends could go up to 43.4% (39.6% plus 3.8% Medicare Contribution Tax). 4) Marriage penalty, limitation on personal exemptions and itemized deductions, and estate tax liabilities are also part of the Bush tax cuts that will come to an end.

- **The Alternative Minimum Tax (AMT) Patch.** AMT threshold will be based on lower income levels. An estimated 27 million additional taxpayers will be affected by the additional AMT tax.

- **Payroll Tax Cut.** The Social Security payroll tax holiday will expire, raising the rate from 4.2% to 6.2%.

- **Extended Unemployment Benefits.** The eligibility to receive federal unemployment benefit was extended in February 2012 which is scheduled to end at year end.

- **Sequestration.** A series of automatic spending cuts will be triggered in January 2013 if Congress does not act. The budget cuts will be $109 billion annually from 2013 to 2012. Half of the cuts will be coming from the national defense budget and the other half from non-defense.

In addition to the "fiscal cliff" described above, beginning on January 1, 2013, there will be an additional 3.8% Medicare tax on investment income, on top of any other income taxes a taxpayer may owe.

According to the most recent Congressional Budget Office projections, "fiscal cliff" if left uncontested, will slash the federal budget deficit by $503 billion, close to 4% of GDP. These harsh austerity measures in a still-fragile US economy will likely bring US back into a recession.

The markets seem to be convinced that there will be a compromise and the two US political parties will reach a concession to avert such an avoidable fiscal disaster. The S&P and Nasdaq have been rising steadily since mid November when the "fiscal cliff" talks began. S&P 500 and Nasdaq are up 4.64% and 6.11% respectively from November 15.

Although we tend to agree with the consensus that the probability of a "fiscal cliff" resolution will be reached at some point before year-end, we think the markets may be getting a bit ahead of itself. Based on the hostile and accusatory nature of the current and historical negotiation patterns between the Democrats and Republicans, we dare to speculate that even if a deal will be reached, it will likely be in the 11th hour. We are also not precluding the probability of a temporary patch that extends the deadline of the "fiscal cliff" into 2013. If either of these scenarios occurs, there will be a lot of anxiety in the markets in December; consequently, we are likely to see some pullback on the recent gains.

In the realm of uncertainty surrounding the "fiscal cliff" negotiation, there may be foundations of definitiveness that are starting to emerge. There is a Bipartisan agreement that the Bush tax cuts should be extended to the middle income earners, while Obama and congressional Republicans are locked in a battle over whether to extend them to the wealthy Americans making over $250,000 annually. A recent poll shows that majority of the Americans would attribute blame to the Republicans for a "fiscal cliff" impasse. This puts additional pressure on the Republicans to soften their stance. Somehow, keeping the status quo and not increasing tax on the wealthy seems to be unattainable at this point. One area where the wealthy are likely to get hit is on the dividend and capital gain tax on their existing investments. The incremental capital gain tax may lead to end of year selling to lock in the existing lower capital gain rate. Also, US wealthy investors may shift investments from dividend yielding stocks to other tax sheltered investment vehicles such as Master Limited Partnerships (MLPs) as their dividend tax gets hiked. Investor in MLPs receives distributions, mostly as return of capital, which does not create an immediate taxable event compared to dividend payments. There happens to be a very informative article from CNBC on MLPs we encourage our clients to read: "Here's One Way to Beat the Looming dividend Tax Hike" http://www.cnbc.com/id/50012456.

Large defense budget cuts will be the other high probable outcome of the "fiscal cliff" negotiation. The automatic spending cuts that will kick in on January 2, 2013 have allocated an overwhelming 50% of the cuts to defense spending. We anticipate that even if a new budget is reached, the reduction in military spending will continue to make up a large proportion of the total cuts since the starting negotiation point of 50% is high. And in late July, President Obama exempted all members of the military from the potential cutbacks, so the proposed cuts are likely to shift to other areas of the Pentagon, such as weapons programs. This will create headwind for defense contractors such as Lockheed Martin, Northop Grumman, SAIC, Raytheon, and General Dynamics.

There is definitely a lot of uncertainty remaining in the "fiscal cliff" talks. Nevertheless, the markets seem to discount this and rallied as of late. We would be cautiously optimistic going into December as the "cliff" deadline approaches. However, if the "fiscal cliff" is averted, we believe it will be a significant catalyst for the US stock market to rise further in 2013.

Investment Opportunities:

1. **Sino-GDB Fund**
   Fund managed by GDB Capital. Event-driven investments using hedging strategies and combinations of long/short positions in equities, futures, and commodities and their derivatives. Fund targets gross pre-tax IRR of 20% per annum, minimum investment US$100,000. GDB will insure against investment losses up to 5% of investor's original investment.

2. **Clear Hill – Iron Ore**
   The Clear Hills properties consist of ten Metallic and Industrial Mineral permits and four Mineral Leases comprising 76,652 hectares. The Clear Hills property encompasses three main project areas, Rambling Creek, Whitemud Creek and Worsley.

   Estimate on Rambling Creek portion of the Clear Hills iron deposit contained 139,777,000 tons grading 33.04% Fe classified as Indicated Mineral Resources and 62,824,000 tons grading 33.70% Fe classified as Inferred Mineral resources.

   It is noted that the Rambling Creek Iron deposit is associated with appreciable concentration of vanadium pentoxide (0.21%). Early work indicates that the vanadium may be recoverable during the DRI process.

3. **Tampoon Resources Inc – Oil**
   $50,000,000 private placement. Proceeds used for oil and gas exploration in Western Canadian Basin Oil Property Acquisition and Farm-in opportunity. Currently producing ~300bbls/d with significant reserve/deliverability (Est. 600bbls/d flush; 200bbls/d aver prod); 600,000 barrels 38-42 API/well.)

4. **Open Range – Oil**
   $10,000,000 private placement of preferred and common shares. $5,000,000 preferred shares Series B – 8% Cumulative Dividend, Voting, Redeemable December 31, 2012 priced at $1.00 per share. $5,000,000 Common Share priced at $1.50 per share. Proceeds used to increase land ownership from 11,000 acres to 70,000 net acres. Projected production is estimated at 2,000 BOPD for 2011. Properties located in North Dakoda where large US oil companies

such as Hess, and Occidental Petroleum have both recently acquired a number of smaller firms.