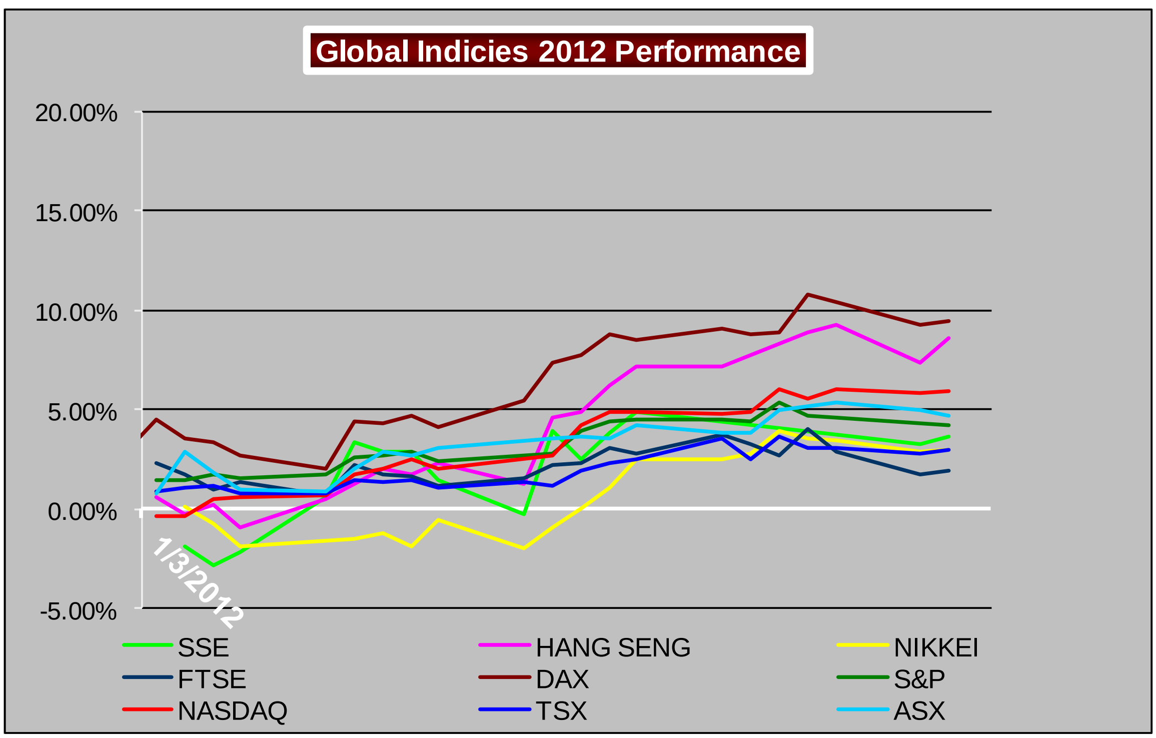
# GDB February 2012 Newsletter

## Monthly Market Summary:

| 2012 January Market Activity | | |
|---|---|---|
| SSE COMPOSITE | ***2,292.61*** | +80.61 (+3.64%) |
| HANG SENG | ***20,390.49*** | +1,619.85 (+8.63%) |
| NIKKEI 225 | ***8,802.51*** | +252.97 (+2.96%) |
| FTSE 100 | ***5,681.60*** | +109.30 (+1.96%) |
| DAX | ***6,458.91*** | +558.73 (+9.47%) |
| DOW | ***12,632.91*** | +411.72 (+3.37%) |
| S&P 500 | ***1,312.41*** | +53.55 (+4.25%) |
| NASDAQ COMPOSITE | ***2,813.84*** | +156.45 (+5.89%) |
| ASX 200 | ***4,262.70*** | +192.80 (+4.74%) |
| TSX COMPOSITE | ***12,452.15*** | +354.92 (+2.93%) |
| TSX VENTURE | ***1,631.75*** | +133.53 (+8.91%) |



## Special Edition: China 2012 Outlook

After visiting China at the start of this year, GDB Capital Inc. is wishing all of our clients a prosperous Year of the Dragon. We will kick off the year with a special edition of our outlook on China for 2012.

**Macro Economy:**

Both the domestic and international markets have weathered a volatile year in 2011. China's GDP growth however remained steady, registering a year-on-year increase of 9.2% to reach 47.16 trillion yuan (approx. US$ 7 trillion). Nevertheless, behind the shadow of this robust growth, factors that will create drag on the Chinese economy in the next couple of years are becoming ever more apparent. Inflation, real estate slow-down, impediment in bank lending, and reduced demand from the export markets are all challenges that will test the Chinese economy in 2012.

2012 is the second year into China's 12th five-year plan and there will also be a change of leadership at the helm of the central government. Examining the government's past policy stance during years of leadership transition, "stability" will be a key focus that will dictate economic policies. At the same time, issues that have generated much public outcry in recent years such as inflation, housing affordability, employment, and social welfare will undoubtedly remain at the top of the government's agenda. We highlight a few of the policy directions we expect to see in 2012:

- The real estate market has hit an inflection point, demonstrating the effectiveness of government's efforts to cool down prices. We expect these policies to remain in tact

- Inflation and stimulating growth will be opposing dilemmas for setting monetary policies. We expect China to sacrifice some growth to maintain a stable price environment

- Government will continue to endorse policies that will speed up urbanization and boost domestic consumption to mitigate the slow down and reliance on exports

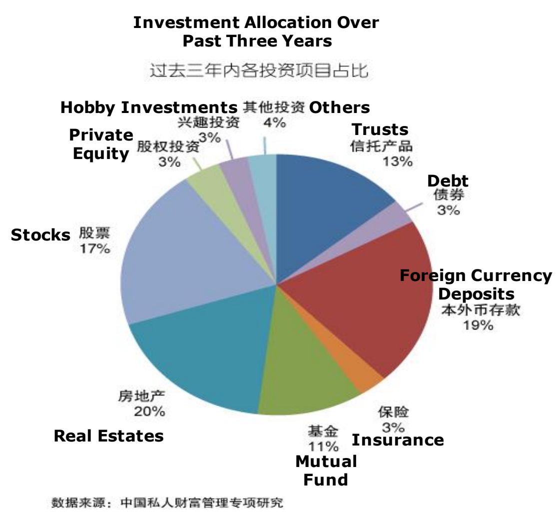
**Investment Markets:**

The traditional investment channels for investors in China encompass real estate, domestic stocks, and savings accounts.

In terms of real estate investments, after the series of control measures adopted by the government last year, investments in this sector are experiencing dramatic declines. GDB Capital does not foresee an immediate rebound in the Chinese real estate market this year.

China's stock markets have redistributed enormous wealth from one group to another in 2011. On the one hand, lifting the ban on restricted shares and the establishment of the ChiNext (China's version of NASDAQ for star-up companies) have created instant liquidity and markets for hundreds of private company owners, creating thousands of multi-millionaires over night. On the other hand, the liquidity boost did not benefit most of the retail investors and fund managers. The Shanghai A share has seen zero growth over the last decade and is down a whopping 54.5% from its all-time high reached in 2007.

Savings accounts have long been the main investment tool for generations of Chinese for its ability to guarantee principal. But with inflation creeping up at record paces, the savings rates offered by the banks are generating negative real returns and the purchasing power of the principal is also eroding. This greatly diminishes the appeal in traditional savings products.



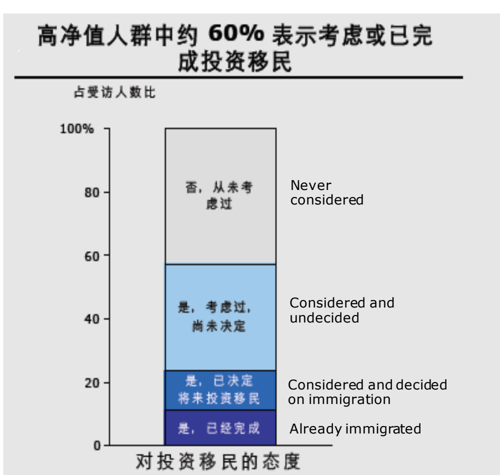
Given the above environment, Chinese investors, especially Ultra High Net Worth investors (UHNW investors, investors with investable assets over RMB 100 million) are demanding new avenues to allocate their wealth. We expect to see money flow out from these traditional investments into more sophisticated products such as precious metals, private equity, and overseas investments in 2012.

**Direction for New Investment Frontiers:**

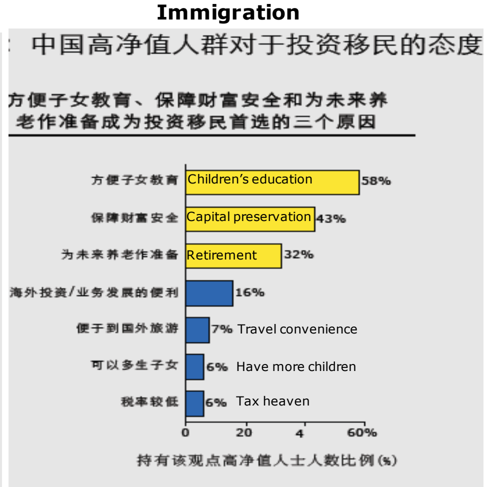
In 2011, we saw a notable increase of UHNW investors considering and executing overseas asset allocation strategies. Contributing factors include:

- Poor performance and limited options in the domestic investment markets
- The shift from a rapid growth to gradual growth economy creates uncertainty and concerns for capital preservation
- Recent global crisis in Europe and the US have created opportunities to purchase quality assets at bargain prices
- Investor immigration has been a hot topic among UHNW investors for reasons such as children’s education, wealth preservation, and retirement planning. Overseas investments that qualify for immigration are attractive to this group of individuals

**UHNW Investor’s Attitude Towards Immigration**




**UHNW Investor’s Reason for Immigration**




Source: 2011 Chinese Private Wealth Report

GDB Capital believes rise in overseas investment and immigration will continue to experience rapid increase in 2012.

In terms of alternative investment channels, investment trusts, private equity, and overseas investment are gaining increasing popularity among UHNW investors.

Trust products, due to its sector diversity and structural flexibility have grown exponentially over the last few years. At the beginning of last year, total trust related assets are estimated at 3.1 trillion yuan.

Private equities have mostly focused on early to mid stage pre-IPO investments. The creation of ChiNext has provided a market place to magnify and extract value for PE investors. It has also given additional exposure to the appeal of PE investment. Many PE investors are looking at setting up PE opportunities overseas as the domestic market becomes crowded.

From 2008 to 2010, Chinese overseas assets have grown at a CAGR of above 100%. Study shows that over 60% of wealthy Chinese nationals have considered or are already in the process of immigrating abroad. This signals a seismic capital flow that will be transitioning out from China as both Chinese companies and individuals diversifies assets internationally.

## Investment Opportunities:

1. **Sino-GDB Fund**
   Fund managed by GDB Capital. Investments using hedging strategies and combinations of long/short positions in derivatives of public traded equities. Also private equity investments with a focus on mid-markets growth companies, distressed assets, M&A, and buyout opportunities. Industry focus targeted at metals and mining, oil and gas, clean energy, fertilizer and agricultural chemicals, real estate, and technology. Fund targets gross pre-tax IRR of 20% per annum, minimum investment US$500,000.

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.