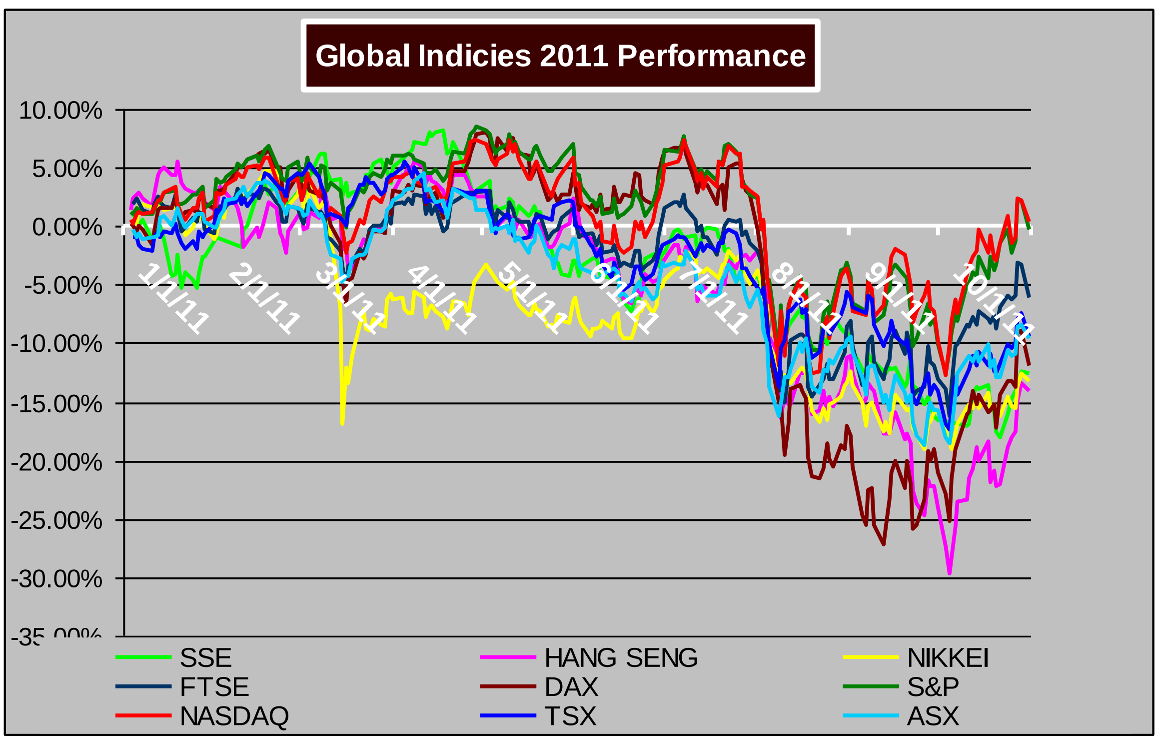
GDB November 2011 Newsletter

Monthly Market Summary:

2011 October Market Activity		
SSE COMPOSITE	***2,468.25***	+105.17 (+4.45%)
HANG SENG	***19,864.87***	+2,685.67 (+15.63%)
NIKKEI 225	***8,988.39***	+420.41 (+4.91%)
FTSE 100	***5,544.20***	+415.70 (+8.11%)
DAX	***6,141.34***	+829.41 (+15.61%)
DOW	***11,955.01***	+1,042.99 (+9.56%)
S&P 500	***1,253.30***	+122.09 (+10.79%)
NASDAQ COMPOSITE	***2,684.41***	+283.22 (+11.79%)
ASX 200	***4,298.10***	+276.30 (+6.87%)
TSX COMPOSITE	***12,252.06***	+735.20 (+6.38%)
TSX VENTURE	***1,614.90***	+159.55 (+10.96%)



Investment Themes:

1. On October 26th, after a marathon summit in Brussels, the EU leaders stitched together a "comprehensive solution" to the prolonged European debt crisis. The solution came in three parts: 1) leveraging the current EFSF to €1.0 trillion, 2) recapitalization of the European banking sector by around €106 billion, 3) a negotiated write-down of 50% nominal value of Greek bond held by private sector investors, namely the European banks. French president and EFSF chairman also pointed to China as a potential participant in the new EFSF bond. Markets reacted with risk assets rallying strongly across the board the day following the announcement.

Problem solved? We are not in the clear yet. GDB believes after the initial applause settles, investor will come to realization the European community will require much more than what is currently presented to sew together the tears in their sovereign debt troubles. The continuing rise of the sovereign borrowing cost is an obvious tell-tale signs that the inferno is still engulfing the European region. The borrowing cost of Italy's 10 year bond is again creeping above 6%, a level deemed unsustainable and on par with the level reached prior to the ECB intervention back in August. If the objective of the "comprehensive solution" is to backstop the Greece problem from spreading to Italy, Spain and the larger indebted economies, it certainly failed to win approval from its ultimate audience, the investors in the sovereign credit market.

The 50% "voluntary" hair-cut on Greek debt may also prove to be counterproductive in containing the debt crisis. It is speculated that even though the write-off on Greek debt is significant, it would not constitute as a default event and trigger payments on the credit default swaps associated with it. If a 50% loss on a debt can be construed as a non-defaulting, it challenges the legitimacy and creditability of the entire sovereign CDS market. This creates uncertainty around whether CDS serves as an effective hedging instrument against sovereign default. The fallout from its use or even perceived use as an effective hedging tool can lead to reduced demand on European sovereign debt as the only other way to control risk exposure is for investors to reduce their holdings. As selling increases, the yields on Italian and other at risk sovereign bonds will encounter further upward pressure.

Further to the two issues above, the plan to leverage the EFSF is still unclear. The notion that China will be the white knight and provide a chunk of the planned €1 trillion levered EFSF seems far fetched. China has many of its own issues it needs to address domestically before going across the continent to help "a friend in need". Even in the best case scenario that China does choose to participate, the amount will probably not exceed the current available funds in the EFSF (€250 billion) or Germany's commitment to the EFSF (€211 billion). The more realistic figure is likely a fraction of those if at all. A back of the envelope calculation assuming China investing an amount equivalent to 20% of the German contribution would put China's contribution at a mere 4% of the total funds needed to be raised. The proposition for China to diversify its $3.2 trillion forex reserve by investing in the EFSF bond also lacks appeal. Currently, most of China's forex reserve is invested in safe debt, and only about 20% of the reserve is euro-denominated. If China were to increase its European exposure, we suspect it make more sense for China to invest safer euro debt such as the German bund.

On October 31, when this newsletter was just about to go into publication, Greece PM George Papandreou threw another wrench into the whole rescue effort by announcing plans to hold a referendum on whether to accept the bailout deal. If Greek voters reject the bailout package, the possibility of a disorderly Greek default again lurks in the horizon.

Yet despite all the enormous uncertainties, the markets have gone up significantly in October. Until we see further positive developments and unity from Europe, we are highly skeptical of the current market euphoria that we have seen in the last month. For now, we will remain patiently on the sidelines.

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.

5. **Congolese Potash Corp.**
   Consolidating up to nearly 50% of Congolese Potash belt in Democratic Republic of Congo, Angola, and Gabon, as well the Republic of Congo. Management team in place. Seeking $5 mil and listing over the next 6 months**.**

6. **Ethiopian Potash Corp.**
   Potash development project in Danakil Depression (largest potash depression in the world). Excellent logistics, largest land package in the belt 481 sq km. Other players include BHP. Shallow, high-grade, existing resource of 128 mil tons at 21%, feasibility within 18 months. Publicly listed TSX-V: FED.

7. **Fugra Potash Corp.**
   1,095 sq km land package south of basin adjacent to BHP and north-west adjacent to Ethiopian Potash Corp. Seeking financing and go public listing this summer.

8. **SKKY Hotel**
   32 room boutique hotel property in Yukon, Canada. Property is 1.23 acre in size and is located directly across from the Whitehorse International Airport fronting the Alaska Highway. First high-end, quality boutique hotel in the Whitehorse airport and Alaska Highway area. $5,650,000 investment, hotel operator will lease back land and property from investor at 6% annual yield.