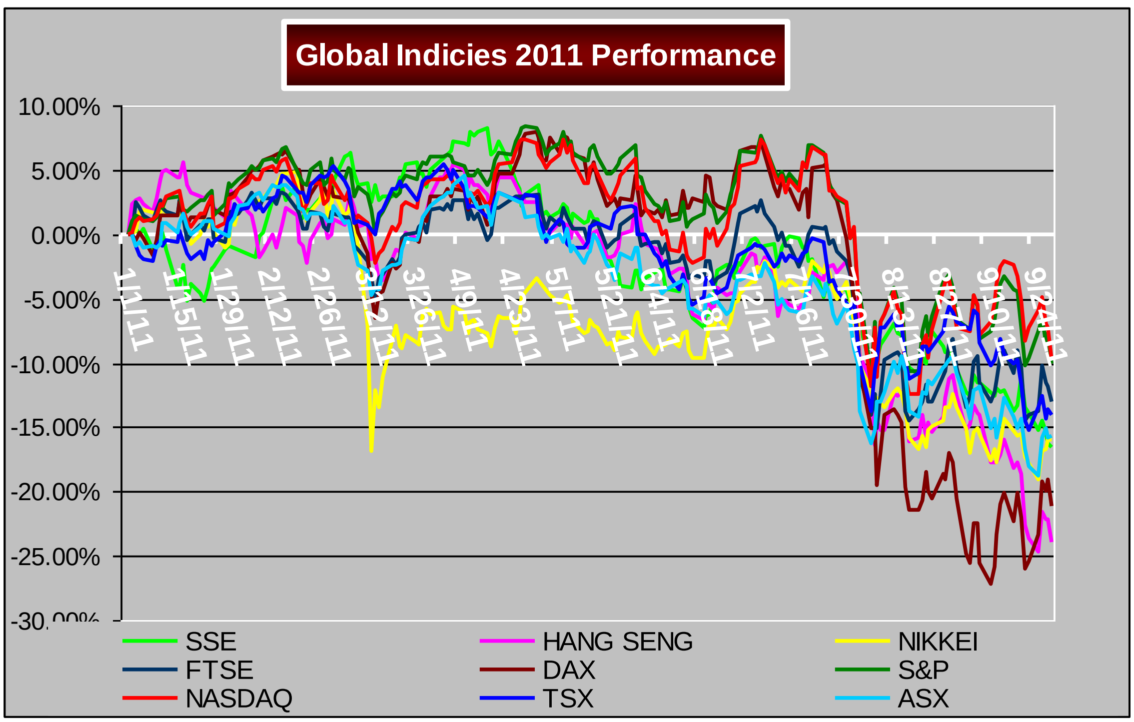
GDB October 2011 Newsletter

Monthly Market Summary:

2011 September Market Activity		
SSE COMPOSITE	***2,359.22***	-210.58 (-8.19%)
HANG SENG	***17,592.41***	-3,197.81 (-15.38%)
NIKKEI 225	***8,700.29***	-316.72 (-3.51%)
FTSE 100	***5,128.50***	-266.00 (-4.93%)
DAX	***5,502.02***	-291.08 (-5.02%)
DOW	***10,913.38***	-699.92 (-6.03%)
S&P 500	***1,131.42***	-87.70 (-7.19%)
NASDAQ COMPOSITE	***2,415.40***	-167.94 (-6.50%)
ASX 200	***4,008.60***	-289.30 (-6.73%)
TSX COMPOSITE	***11,623.84***	-1,146.81 (-8.98%)
TSX VENTURE	***1,467.17***	-340.60 (-18.84%)



Investment Themes:

1. The European debt crisis continues to paralyze the world markets in September. The inaction of the troika (Europe Commission, ECB and IMF) has thickened the cloud of uncertainty over Europe and around the world.

Questions about when and what kind of measures will be taken to contain the debt crisis in Greece and recapitalize the European banks have pushed investors to withdraw capital from Europe. This is evident across the European currency, credit and the equity markets, all of which saw significant declines in September.

As one door closes, another opens. The key for our investors is to identify the capital flow as it exits Europe into other markets. GDB Capital will discuss a few scenarios below:

a) **China where growth remains:** In IMF's latest global forecast, China's GDP is forecasted to increase 9.5% this year. Although, the growth is slower than last year's, it is still attractive compared to the US, European and Japanese economies, which all are expected to be at a stand still.

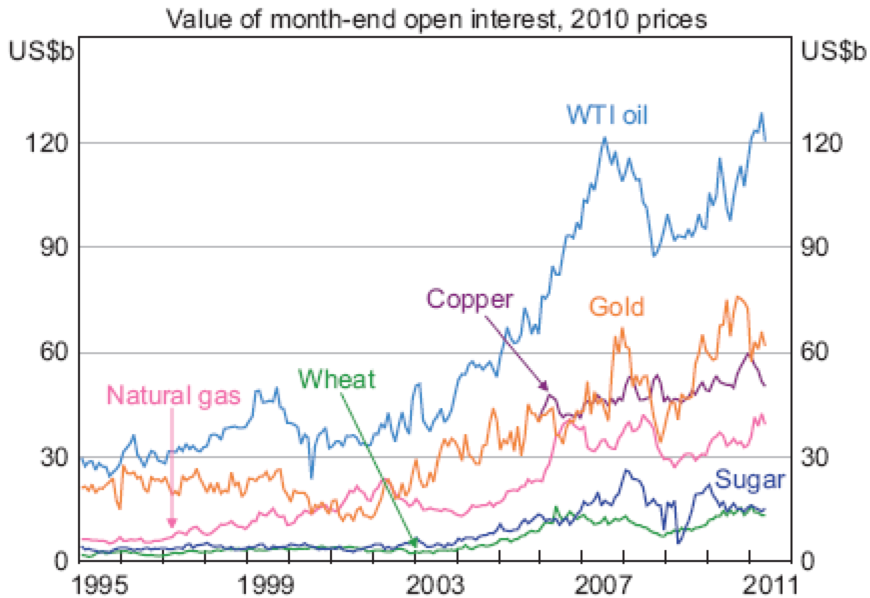
China's capital restriction makes it difficult for foreign investors to invest directly in the Chinese currency and capital markets. The only alternative is to invest through markets in Hong Kong. We are not seeing sizeable incremental inflow of capital into the region as the flagship Hong Kong Hang Seng Index has basically followed the European markets into bear territory over the last three months.

GDB suspects the resent scandal of oversea Chinese listed companies which exposed accounting irregularities and the lack of regulatory oversight in China, the contraction in the Chinese real estate market, the large local government debt overhang on the banks' balance sheets, the difficulties for domestic SMEs to access funds, and the slow down in the domestic export markets are all factors contributing to investor reluctance to allocate capital in the region.

b) **Commodities:** Copper – down 24%, silver – down 27%, oil – down 11%. Commodities markets have been punished during

September; even the king of safe haven – gold, was not able to maintain its shine, falling 11% in the last month.

The problem here is an issue of liquidity and leverage. Take a look at the size of the commodities market below:



* Open interest for the largest contract covering each commodity
Source: Bloomberg

In comparison, the global debt market totaled $95 trillion and the global equity market had a combined market capitalization of $55 trillion at the end of 2010; both dwarf the size of the commodities market. Commodities investments are also highly leveraged. In a scenario where investors were to run for the exit in Europe by liquidating European assets, commodities would not be the ideal market for smart money to reallocate their capital without tipping their hands. Fund managers would prefer markets where prices cannot be easily manipulated by a lack of market depth. In anticipation that additional capital flow will not pour into commodities as “store of value trades”, commodity traders pull out by cashing in their gains, causing a decline in prices. The magnitude of the price decline will further be compounded by leverage as margin calls are triggered, causing further selling. Following the above logic, GDB does not think European capital reallocation will occur in the commodities market. However, for our investors who have positions in commodities or related investments, we suggest to maintain your holdings and avoid herd selling.

c) **US treasury and equities:** Even before the Fed announcement of "Operation Twist" on September 21, we have observed continued decline in the US Treasury yields. The 10 year yield has declined from 3.16% from the end of June to less than 2% at the end of September. Capital migration into US treasury is further evident through the increase in the USD/EUR exchange rate. USD has increased over 7% against the EUR over the last three months. The capital appreciation on US treasury plus the rise in exchange rate have provided a temporary safe harbor for capital that was coming out of Europe. However, with Operation Twist, the Fed will be replacing $400 billon of short-term debt with longer-term treasuries, further driving down the yield on longer dated US debt.

Is it likely that investors will park their capital in a market that is yielding less than 2%, a rate that is below the inflation figures in the US and many other countries?

GDB certainly does not think this situation can persist. Once the excessive fear in the market subsides, the next seismic move will be the capital outflow from US treasuries. The most probable market in our estimation will be the US equity markets. The US, even in the face of its sovereign credit downgrade and stagnating economy, provides sound regulatory infrastructure, excellent liquidity, and an accommodative Fed that is proven to act much quicker than the other central banks around the world to save markets in times of turmoil. In addition, the S&P companies now have average dividend yield of above 3% and very attractive P/E ratios. Last but not least, many of the US listed companies offer emerging markets exposures by generating ever more proportion of their revenues in growth markets such as China. For these reasons, we recommend to our clients to overweigh US equities through incremental investments in companies that offer global foot prints, attractive growth, and cushioned by a comfortable dividend yield of over 3%.

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.