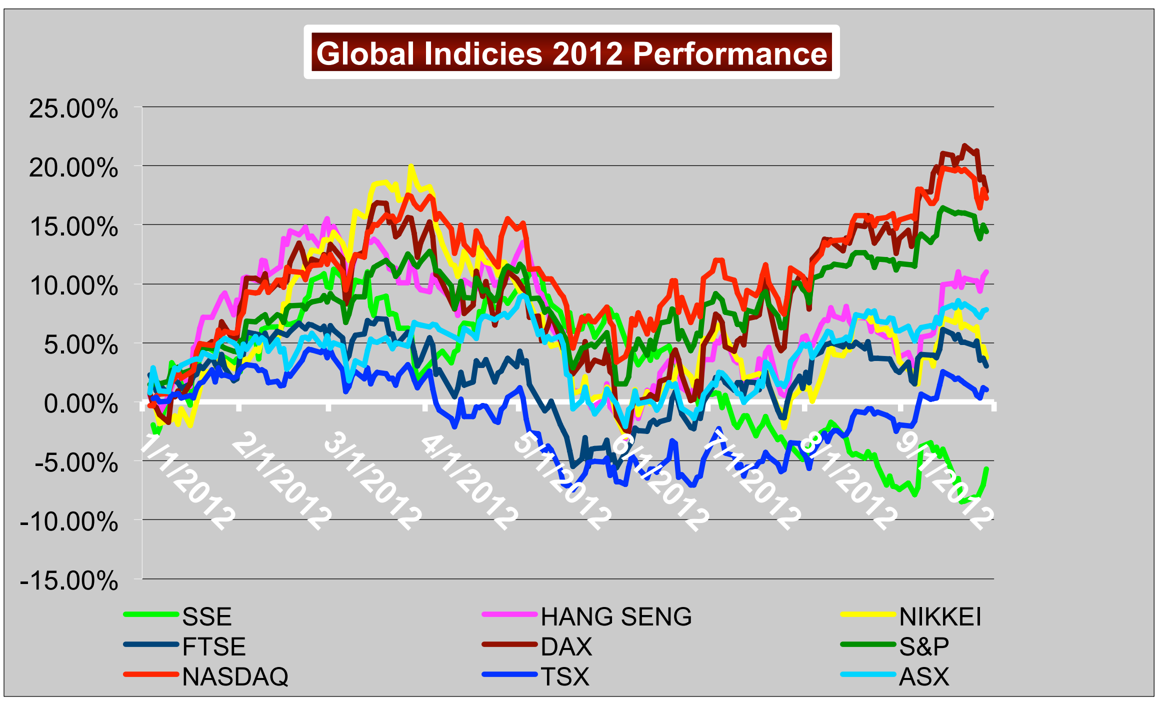
GDB October 2012 Newsletter

Monthly Market Summary:

2012 September Market Activity		
SSE COMPOSITE	*2,086.17*	+38.65 (+1.89%)
HANG SENG	*20,840.38*	+1,357.81 (+6.97%)
NIKKEI 225	*8,870.16*	+30.25 (+0.34%)
FTSE 100	*5,742.10*	+30.60 (+0.54%)
DAX	*7,216.15*	+245.36 (+3.52%)
DOW	*13,437.13*	+346.29 (+2.65%)
S&P 500	*1,440.67*	+34.09 (+2.42%)
NASDAQ COMPOSITE	*3,116.23*	+49.27 (+1.61%)
ASX 200	*4,387.00*	+70.90 (+1.64%)
TSX COMPOSITE	*12,317.46*	+368.20 (+3.08%)
TSX VENTURE	*1,344.98*	+104.24 (+8.40%)



Investment Themes:

The Shanghai Stock Index has been in the dog house for the last two years. On September 19, the Shanghai Composite Index continued its downward spiral by plunging through the psychological 2,000 barrier, officially making China again the worst performing stock market globally this year. The benchmark index is the lowest since February 2009, and has a CAGR of approximately 2.2% over the last decade.

Over the same period, the Chinese economy has grown on average 10.6% per year. Many have attributed the disparity in stock performance to the lackluster corporate governance, murky public disclosure, reluctance of firms to pay dividends, and the lack of investors trust towards Chinese listed companies. Aside from all these factors, unlike mature markets around the world, Chinese stocks lack the support from institutional investors that are long-term in nature. As of the end of 2011, only 15.7% of the shares on the Shanghai Stock Exchange are held by institutional investors. In mature markets around the world, institution participation constitutes the majority of the investor landscape. As most of the Chinese stocks are owned by retail investors, the market tends to reflect their rather short-termed nature. Most retail investors are less sophisticated in their stock analysis and have less influence over the companies that they invest in. The Chinese retail investors lost an average of RMB 40,000 last year, almost twice the annual average disposable income of an urban Chinese according to a May 9 People's Daily article. At this point, many retail investors have capitulated and the flushing out of these less sophisticated participants who have propensities to gamble rather than invest could provide stability for the stock market in the long run.

The lack of foreign participation is another factor impeding the performance of Chinese equities. The Chinese government was cautious of allowing foreign capital inflows into the domestic stock market in the beginning of this decade. Through implementing the Qualified Foreign Institutional Investor program (QFII) in 2002, China has restricted foreign institutions in making investments in its domestic stocks. As a result, this restriction has capped foreign institutional ownership. Western asset managers have had a longer history investing in the stock markets and are comparably more experienced than domestic managers when it comes to enforcing corporate governance and setting standards for transparency in the companies they invest in. Their increased presence will likely boost overall investor confidence and translate to better stock performance. China has increased their efforts to accelerate foreign participation. In April, CSRC increased the QFII quota from USD 30 billion to USD 80 billion; and last month, Chinese officials from the Shanghai and Shenzhen stock exchanges have led campaigns overseas to persuade foreign institutions, among them pension funds and insurance companies, to increase investments in the Chinese stock markets.

Even when Europe is engulfed by the sovereign debt crisis and the US is stagnant in term of growth, their stock markets have performed exceptionally well compared to China (although one may argue much of the increase is attributed to artificial asset inflation by the central banks). Yet, many economists are not expecting Europe to come back for the next two to three years and the US will muddle along growing marginally at best. Many are concerned that China's growth with slow, albeit most are not expecting it to come to a halt. Even with GDP growing at 7% a year, China's growth will outpace that of the develop markets by a wide margin. For long term investors, investment in Chinese equities makes an attractive bet at current deflated levels. The forward PE ratio of the Shanghai Composite is approximately 10x, and have lost 5.7% YTD. It is cheaper than Spain and Italy which have forward PE of 15x and 11x, respectively. The chart below illustrates the return and valuation stats of other major markets around the world:

	YTD Chg	As of 9/30/2012	Trailing PE	Forward PE
S&P (US)	14.4%	1,440.67	14.7 x	13.8 x
NASDAQ (US)	17.3%	3,116.23	17.0 x	16.2 x
DAX (Germany)	17.8%	7,216.15	13.9 x	10.7 x
FTSE (UK)	3.1%	5,742.10	13.1 x	11.3 x
CAC (France)	6.2%	3,354.82	11.8 x	10.4 x
IBEX (Spain)	-9.9%	7,708.50	22.7 x	15.3 x
MIB (Italy)	0.0%	15,095.84	12.5 x	10.5 x
Nikkei (Japan)	3.8%	8,870.16	21.6 x	14.6 x
HANG SENG (HK)	11.0%	20,840.38	10.5 x	11.0 x
SE COMPOSITE (China)	-5.7%	2,086.17	11.6 x	9.8 x

CSRC's Chairman Guo Shuqing has being avocating that Chinese blue-chips offer deep investment value, returning as much as 8% a year. The problem of Shanghai Composite Index, however, is that it is grossly misrepresented by four of the large banks which make up close to 45% of the Index's weighting. The Index also does not include any blue-chip companies listed on the Shenzhen exchange, China's other national bourse. In June, a new index, the CCTV Financial 50 Index attempts to change this by constructing an index totaling 50 A-Share stocks, 10 stocks under each of the five dimensions: growth, innovation, return, corporate governance, and social responsibility. The five categories have equal weighting of 20% of the index, and every single stock is capped at 30% of the dimension weighting. When examined performance data tracking back to June 2010, the CCTV Financial 50 Index gained 20% over the period compare to the Shanghai Composite which fell close to 20%. This paints a different picture of performance of Chinese equities when examined under a different light.

When investors come off the highs of the European and US central bank stimuli in the not too distant future and economics again drive the performance of stock prices, investment in quality Chinese stocks will make a compelling case. In contrast to US and European companies which faces the headwind of stagnant growth for the foreseeable future, Chinese companies will fare better from better growth outlook. Hopefully by then, the reform initiatives by CSRC to clean up its stock market and the opening up of its stock markets to foreign and institutional investors will provide additional tailwind to Chinese equities.

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.