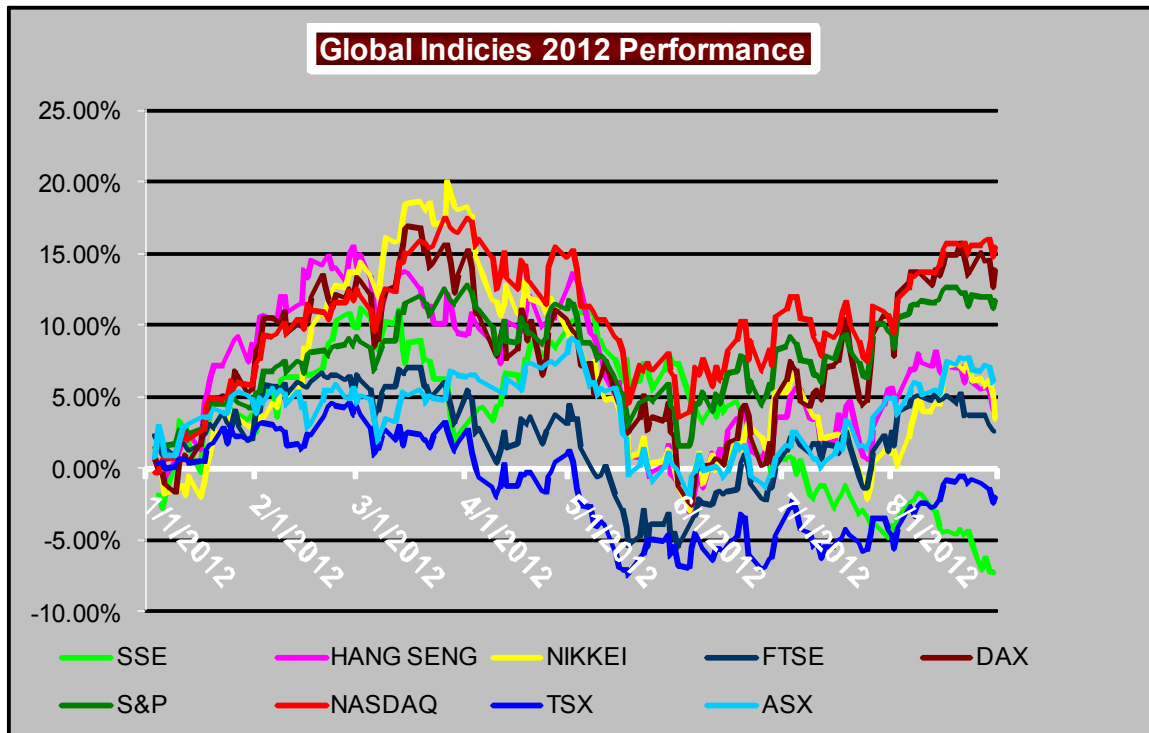


## GDB September 2012 Newsletter

### Monthly Market Summary:

2012 August Market Activity		
SSE COMPOSITE	2,047.52	-54.20 (-2.58%)
HANG SENG	19,482.57	-164.39 (-0.84%)
NIKKEI 225	8,839.91	+217.87 (+2.53%)
FTSE 100	5,711.50	+76.20 (+1.35%)
DAX	6,970.79	+194.80 (+2.87%)
DOW	13,090.84	+83.37 (+0.64%)
S&P 500	1,406.58	+27.26 (+1.98%)
NASDAQ COMPOSITE	3,066.96	+110.24 (+3.73%)
ASX 200	4,316.10	+46.90 (+1.10%)
TSX COMPOSITE	11,949.26	+256.15 (+2.19%)
TSX VENTURE	1,217.96	+28.33 (+2.38%)



**Investment Themes:**

In recent weeks, much of the world's attention has been centered around the ECB's bond buying announcement and Fed's decision on QE3. The brewing conflict between China and Japan over Diaoyu Islands has largely been under reported by business televisions and financial publications in the Western world. Below is a timeline taken from China Daily to give our readers a quick recap of the unfolding dispute between the world's second and third largest economies:

*Aug 15 – A total of 14 Chinese nationals were detained by Japan after landing on Diaoyu Islands to claim China's sovereignty.*

*Aug 19 – Ten Japanese right-wing activists illegally landed on the island.*

*Aug 22 – Seven Chinese nationals who previously detained by Japanese authorities were returned to Hong Kong.*

*Aug 24 – Japanese Prime minister Yoshihiko Noda claimed Diaoyu Islands were part of Japan's territory, which strongly displeased Beijing.*

*Aug 26 – The Japanese government announced that a 2.05 billion yen (\$26.26 million) bid for Diaoyu Islands' purchase plan to bring them under state control.*

*Sept 5 – The Japanese government reached an agreement with the Kurihara family, the private owner of three of the five islands to nationalize the disputed islands.*

*Sept 9 – Chinese president Hu Jintao told Japanese Prime Minister Yoshihiko Noda during the APEC forum that Beijing will not recognize Japan's "purchase" of the islands under any circumstances.*

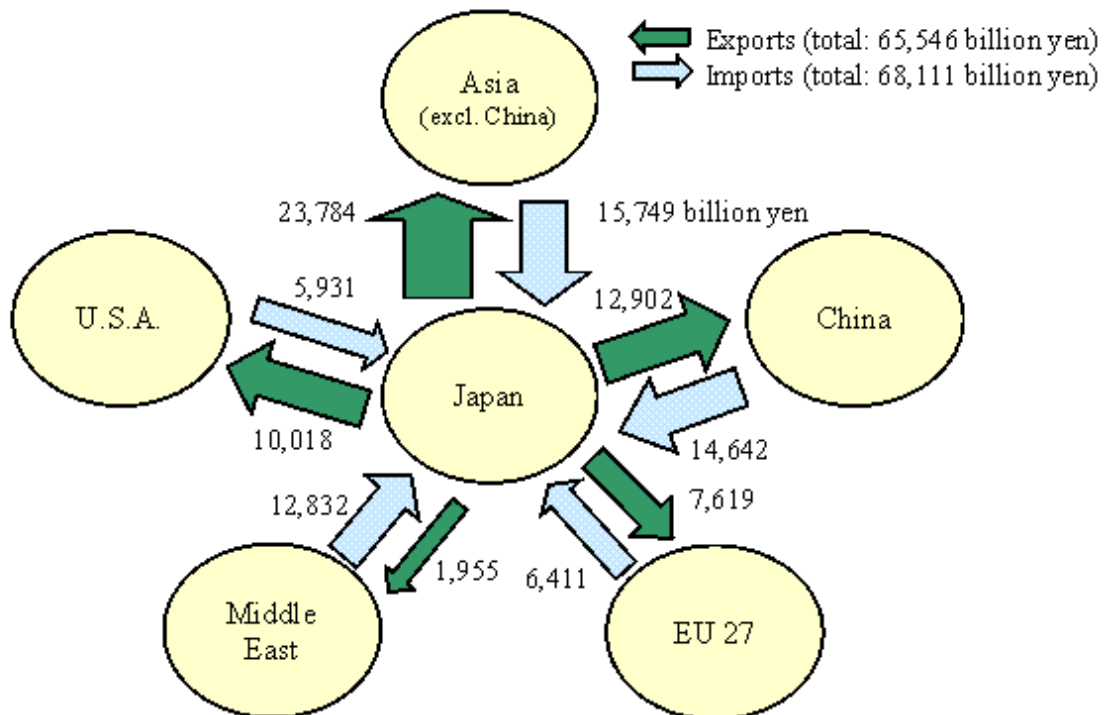
*Sept 10 – The Japanese government officially decided to purchase part of Diaoyu Islands in a ministerial meeting.*

*Sept 11 – The Japanese government signed the official contract with Kurihara family for Diaoyu Islands.*

Although there were previous incidents over Diaoyu Islands where frictions were felt between the two world powers, such as in September 2010, when a Chinese fishing boat rammed into two Japanese coast guard patrol boats, the current situation carries even greater tension and animosity. With the current regime change in China and the parliamentary election in Japan expected in the next few months, we do not foresee either governments backing down as their actions or inactions will be heavily criticized by the citizens of their nations. The escalation of tension will strain ties in commerce and trades between the two countries; the impact will be gravely more severe in the improbable but not impossible event of military actions.

According to Japan's Ministry of Finance, Japan exported US\$165 billion and imported US\$184 billion worth of goods from China in 2011 (using forex rate of 78.4 USD/JPY).

**Figure 11.4**  
**Japan's Foreign Trade by Country/Region (2011)**



Source: Ministry of Finance.

Although China exports more goods to Japan by value, with a US\$2 trillion export market that is twice that of Japan's, China is less reliant on Japan in terms of exports. About 20% of Japanese exports are destined to China, while this percentage is less than 10% for China going the other way.

The reaction in the financial markets has yet been muted with both the Yen and the Nikkei trading relatively stable.



But given the scale of the potential impact on trade relations, this macro event could significantly affect Japanese companies that sell and produces goods and services in China.

As the lens of focus shifts away from QE3 and the European crisis to this seemingly escalating Sino-Japanese dispute, many Japanese

companies may be on the radar screen of short-sellers. We see good shorting opportunities in some of the names especially in the Japanese currency and Japanese retail, automotive, construction and electronics stocks:

Retail: *Kirin Brewery, Asahi Breweries, Aeon, Seven & I Holdings, UNY*

Automotive: *Toyota Motor, Honda Motor, Nissan Motor, Suzuki Motor, Mazda Motor*

Construction: *Shimizu, Kajima, Obayashi, Taisei, Chiyoda*

Electronics: *Sony, Toshiba, Hitachi, Matsushita Electric, Mitsubishi Electric, Sharp, Matsushita Electric, Sanyo Electric, Sharp, Sumitomo Electric, Cannon*

Last but not least, Japanese exports to China are already slowing in the first half of 2012 due to the slowing Chinese economy. Bank of Japan is also expected to intervene to curb the appreciation of Yen in the very near future. These factors provide additional buffers in the short strategy against Japanese Yen and equities.

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**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 Dakota where large US oil companies such as Hess, and Occidental Petroleum have both recently acquired a number of smaller firms.