DALRYMPLE FINANCE LLC

Protect Then Grow

Company Overview

January 10, 2011

Gerova Financial Group (GFC): An NYSE-listed Shell Game

Company Statistics:

Price	$28.04
Market Cap	$900 M
Shares Out	32.12 M
Debt	N/A
EBITDA	N/A
EPS	N/A

Company Description

Gerova Financial is nominally a reinsurance company; the company owns a small provider of sub-prime auto reinsurance. Company assets, however, consist primarily of illiquid asset-backed lending hedge fund portfolios.

Keith Dalrymple

Keith@dalrymplefinance.com

Summary:

Gerova Financial Group is nominally a Bermuda-based insurer; although the company compares itself to Berkshire Hathaway, in reality we believe it is a repository for impaired, illiquid hedge fund assets, which are used for regulatory capital. We think that the bevy of insider and related-party transactions is indicative of a firm operated for the benefit of insiders and affiliates, rather than GFC shareholders. We believe GFC is likely fraudulent and the firm's assets, hence the shares, worth a fraction of current stated value.

Key Points:

- **Complete lack of financial disclosure.** GFC has not filed financial statements since becoming public a year ago. Consequently, there is no publicly available information available to shareholders. We believe this is intentional.
- **Impaired and overvalued assets.** The acquired assets were likely impaired and overvalued at purchase; quality has eroded in 2010. In our opinion, critical information on asset quality, performance and a long history of audit problems has been kept from GFC shareholders.
- **Undisclosed related-party transactions and affiliations.** An examination of numerous transactions indicates self-dealing to us. Moreover, we believe these relationships have been carefully edited from GFC documentation to give the illusion of arms length transactions.
- **Strong ties to the investment underworld.** GFC insiders exhibit strong ties to individuals and entities that have been sanctioned, sued or shut-down by regulators, including Jason Galanis, Matthew Jennings and Westmoore Capital.
- **A deeply troubled company.** GFC has many hallmarks of a classic fraud. In our opinion, GFC exhibits: a lack of financial disclosure, insider dealing, and obfuscation of both relationships and transactions. When this information is widely disseminated, we expect the stock to trade at a fraction of the current price.

This report and the conclusions are the opinion of the author.

See important information and disclosures on last page

Summary

"The engine to use the fuel of the capital"?

While nominally a reinsurance company, we believe a key purpose of GFC is to allow certain parties to swap illiquid and impaired hedge fund assets for GFC shares and other economic benefits. GFC, in turn, keeps the assets on the books at inflated values and can pledge them as regulatory capital for businesses such as insurance and stock brokerage. GFC management said on the recent conference call, "GFC is the engine to use the fuel of the capital". Yes, you read that correctly; they actually said that. We interpret this less than eloquent statement to mean that the contributed assets (RE loans in default, for example) are used to meet capital requirements of other businesses.

GFC is an NYSE-listed shell-game, in our opinion.

We believe GFC is a game of smoke and mirrors in which over-valued, illiquid and severely impaired assets are pooled to create the illusion of a large capital base. The only beneficiaries of the business model appear to be management and the affiliated parties. Critically, our research shows that GFC management is likely well aware of problems with some contributed assets, but does not share that information with its public shareholders, the majority of which (around 90%) own restricted shares and can not sell or liquidate their holdings.

We think information regarding asset quality and performance is deliberately kept from shareholders.

Our information regarding the dire state of acquired assets comes from none other than Stillwater, the firm GFC purchased assets from and subsequently re-hired to manage them. Despite the availability of returns and outlook for Stillwater assets, GFC management has not provided shareholders with any information, neither qualitative nor quantitative.

We consider the recently acquired life insurance assets another phase in the shell-game - more impaired, illiquid overvalued assets for the company to pledge as regulatory capital for businesses such as the proposed transactions of securities/brokerage firms.

Is GFC negligent or fraudulent?

In the best-case scenario, we think GFC management is negligent and incompetent; more likely, though, is that GFC is engaged in fraudulent activity. To dispel our suspicions, however, we invite management to fully disclose all information available about the valuation of assets, origin of assets, previous relationships and affiliations, and cease shifting GFC assets to non-consolidated, off balance sheet affiliates.

We cannot predict when GFC will unwind. However, we are firmly convinced that either through investor knowledge or regulatory action, the story will end in scandal and a deflated stock.

This stunning story of a big-board listed shell game begins with an acquisition by a SPAC (Special Purpose Acquisition Company):

A SPAC "Purchases" an Insurance Company and some Hedge Fund Assets

GFC started as a SPAC called Asia Special Situations Acquisition Corp., a blank check company with a trust account of some $115M looking for an Asia-related acquisition. After two failed attempts and just two weeks prior to the liquidation deadline, the company announced the series of acquisitions that would become GFC. The acquisitions included a reinsurance company and the illiquid assets of a few troubled hedge funds and funds of funds (FoFs). The total deal was valued at over $650 million.

Most of the SPAC investors did not want to participate in the deal. Consequently, in keeping with SPAC rules that allow shareholders to swap shares for cash when voting against proposed mergers, the company paid out the majority of its $115M to buy out "no" votes, leaving the company with precious little operating capital. The acquisitions were made entirely with shares.

$23 million in consulting and legal fees is excessive and sadly indicative, we think, of GFC priorities.

To speak plainly, a company with almost no cash and no assets simply printed shares and exchanged the paper for $650 million of assets. It paid over $23M in consulting and legal fees (again in cash and shares) for the privilege. Either GFC is a fairytale come true or something other than what meets the eye is going on. We believe it is the latter. To understand how GFC works, it is helpful to look at the origins of the acquisitions.

The Acquired Insurance Company: Amalphis/Allied Provident

Allied, the Bermuda-based insurer was established in 2007. GFC documents state that Allied Provident currently provides reinsurance to only one provider, a US insurance company that offers auto insurance to high risk or "rated" drivers. That is, the company provides sub-prime auto insurance.

Amalphis/Allied was established in 2007 by two GFC insiders.

According to SEC filings the shareholder's of a company called NatProv contributed $29 million in cash and securities to capitalize Allied, which became Amalphis. According the GFC's 1/7/2010 6-K, Amalphis' assets consisted of likely illiquid securities, each of which is connected to current GFC insiders. The table below notes the assets and values as of December 2008 from the 6-K along with our commentary.

Asset	Cost	Fair Value	Commentary
Codrington Partners	12,125,000	14,550,000	The Bermuda listed company later became M2 Global Ltd. Appears to have 1 trade of 1,000 shares in 2010. Contact person is Darren Rennick, co-founder of Hirst Investment Management, a firm controlled by GFC President Gary Hirst.
Global Asset Fund	1,785,000	1,860,026	Global Asset Fund is managed by Axiat Inc. a firm controlled by Gary Hirst.
Taurus Global Fund	9,770,000	12,843,313	A fund managed by Taurus Advisory (now TAG), a firm controlled by James Tagliaferri, a member of the advisory board of GFC

Source: GFC 6-K January 2010.

Note that both Codrington Partners and Global Asset fund are related to GFC President Gary Hirst. The Taurus fund is related to James Tagliaferri, GFC advisory board member. We don't know what is held in these funds, but we suspect they are illiquid and the valuation assigned is likely optimistic.

This GFC insider is in deep legal trouble.

As a side note, a law suit was filed against James Tagliaferri and his TAG (formerly Taurus Advisory) in December 2010 for fraud by Matthew Szulik, former Chairman of Red Hat (RHT). In the complaint, plaintiffs allege that "TAG, in combination with Jason Galanis, defrauded the Szuliks", used the money to "fund loans to persons involved in illicit or potentially illicit activities…with millions in kickbacks paid to the defendants. There is a link to both the article and a the full complaint on Exhibit A, Document Links at the end of this report. This is as fascinating a read as any legal document can be.

Opaque investments hide consulting fees and kick-backs to the investment manager.

The complaint may well give clues as to how GFC insiders can profit via deals with acquired companies and joint ventures. The complaint details how defendants profited via consulting fees and kick-backs paid from companies in which they invested.

If the origins of Amalphis are interesting, the subsequent events are doubly so.

Did Hirst use LP cash to monetize an investment? It sure looks that way.

In 2009, the owner of Amalphis, NatProv (of which Mr. Hirst is a shareholder), sold 81.5% of the company to Rineon (RIGI.PK) for $36 million. Current GFC CFO Michael Hvalsa was the CFO of RIGI at the time. According to RIGI filings, the company purchased Amalphis with $36 million in cash. RIGI raised the cash to make the acquisition through the sale of preferred shares to Intigy Absolute Return Fund. Intigy is a company controlled by current GFC President Gary Hirst. In this case, Mr. Hirst was, in essence, both the buyer and seller via different entities apparently using limited partners money to monetize an investment. A tangled web, indeed.

Exhibit B – who's who in the GFC constellation.

The NatProv/RIGI/GFC transaction is one of numerous related-party transactions. To help connect the dots of who is who in the GFC constellation, at the end of the report we provide Exhibit B, a list of companies and affiliations to help illuminate this complex scheme.

A year later in 2010, RIGI sold 81.5% of Amalphis to GFC for approximately $50-80 million depending on the share price used; NatProv, the firm in which Mr. Hirst is still a shareholder, owns all the common shares of Amalphis, as far as we can gather from regulatory filings. As a result of the transaction, RIGI owns approximately 1.8 million shares of GFC.

How many times can GFC President Gary Hirst shuffle around Amalphis?

If our count is correct, the GFC purchase marks the third time Mr. Hirst has conducted an Amalphis transaction. Of course, none of these existing and previous relationships between the management staff and the assets GFC purchased has been disclosed as far as we can tell.

Obfuscate and opaque are the watchwords.

In our opinion, the Amalphis series of transactions illustrates several key points:

- It shows how illiquid assets can be and offloaded for use by businesses that require regulatory capital, in this case insurance.
- It shows a strong pattern of related-party transactions where assets are shuffled to and fro at different valuations.
- It shows how insiders can potentially profit by shuffling the assets. Note that Hirst used Intigy cash to finance RIGI's purchase of Amalphis, a company he owned.
- It demonstrates the obfuscation of important facts and relationships. To our knowledge the previous and current ownership of Amalphis by GFC's management has not been disclosed in GFC filings. We consider the Amalphis story a series of related-party, self-dealing transactions. We also consider the lack of disclosure alarming.

The Amalphis insider deals show the genesis of the GFC "business model".

Importantly, we think the Amalphis series of transactions shows the genesis of GFC's current business model and demonstrates a pattern that is being continued with the hedge fund assets GFC acquired along with Amalphis. However, with the Stillwater assets the process is being conducted on a much larger scale.

The Stillwater Assets: Inflated Values, Impaired Assets, and Obfuscation

In addition to Amalphis, GFC acquired hedge fund and FoF assets. The majority of assets came from Stillwater funds, a family of asset-backed lending (ABL) funds. Stillwater assets represent over 70% of the acquisition transaction's value.

GFC CEO Bianco's Fund.com recently issued a "non-reliance" statement on previous financials.

Gerova also acquired assets of Wimbledon, which were ABL funds managed by Weston Capital Asset Management. Interestingly, according to Fund.com (FNDM.PK) SEC filings, Weston Capital was acquired by FNDM and current GFC CEO Joseph Bianco became a director of Weston. Mr. Bianco resigned as FNDM Chairman in June 2010; other GFC managers are FNDM alumni as well. FNDM is another company with strong ties to Jason Galanis.

Shortly after Bianco moved to GFC and resigned, FNDM released an 8-K stating that various financial statements from 2007-2009 were not reliable and do not accurately present certain financial information. We mention this to show a pattern of management negligence (or worse) and related-party transactions that remain undisclosed in GFC documents. However, for the purposes of the discussion on values, we will focus on the Stillwater assets.

The Ohio Dispatch details allegations of fraud surrounding Stillwater's Ohio RE investments.

Stillwater has generated some controversy, most visibly related to fraud regarding the origination of its real estate loans in Ohio. There have been several convictions of people involved with the Stillwater loans, though as far as we know no one directly associated with Stillwater has been implicated. For a detailed analysis of the problems, please review Ohio Dispatch articles listed in our document links in Exhibit A. Needless to say, this type of coverage makes us doubt the actual value of the real estate portfolio, which GFC values at $79 million.

The problems have not abated over the last year. Since acquisition, several law suits have been filed in Ohio courts naming Stillwater, Gerova and a Gerova-related entity as defendants. You can search for the cases with the link given in Exhibit A.

Who buys ABL assets at 90% of NAV with no appraisal?

Anyone familiar with ABL hedge funds knows that many, perhaps most have shut down due to the combination of illiquid troubled assets with leverage, fraud and a flood of redemptions that began during the financial crisis. Yet, despite industry fire-sales, GFC acquired the hedge fund assets at a price of 65-100% of NAV, with an average discount of approximately 10%. We consider the discount stunningly low given the carnage that devastated the ABL business over the last few years.

GFC only hints at how badly impaired the purchased assets are.

As illustration of the difficulties with Stillwater assets, GFC's 2009 20-F notes that as of December 2009 "a substantial majority of our real estate loans were experiencing payment delinquencies of 90 days or more…" Additionally, the funds' insurance policy investments were likewise impaired because, "we have not made a substantial number of these (policy) payments primarily due to our lack of liquidity, as well as other factors including rate of return considerations, collateral adequacy and life expectancy estimates. Since December 2009, over

50% of the original face amount of these life insurance policies has lapsed."

GFC shareholders are left in the dark regarding significant problems with Stillwater.

The information detailed above from GFC's documents is indicative of significant asset impairment. However, as bad as this may seem, the problems with asset valuation and lack of disclosure are even worse than initially apparent.

Material information on the quality and performance of the Stillwater assets has been withheld from GFC shareholders, despite availability.

The Matrix Group, a UK asset manager is a significant investor in Stillwater Matrix Fund, a lot of the assets of which were purchased by GFC. We consider the independent auditor's report to Matrix is a scathing indictment of Stillwater valuation practices and reported NAV. Pricewaterhousecoopers disclaimed their opinion on Stillwater. We paraphrase their reasoning as follows:

PwC destroys Stillwater's "valuation" of assets.

- Inability to obtain sufficient audit evidence in relation to $136 million of fair value as of December 2009.
- Inability to determine the recoverability of receivable balances due (from sub-fund managers that have suspended redemptions) of $20.5 million as of December 2009.
- Uncertainty in relation to Stillwater's ability to repay $95.7 million in leverage
- The auditors of Stillwater concluded that since the evidence over the valuation of a significant portion of the option is unavailable and they were not able to apply other auditing procedures to satisfy themselves as to the valuation of the option, the scope of their work was not sufficient to enable them to express an opinion on the financial statements of Stillwater at 31 December 2009.
- The auditors of Stillwater issued an adverse opinion on the financial statements for the year ended 31 December 2008.

This information tells us that the Stillwater assets were known to be impaired and extremely difficult to value; importantly, Stillwater still has unresolved disputes with auditors over valuation. So difficult is the process that Stillwater's auditors issued an adverse opinion on 2008 financial statements because of their inability to verify stated values.

Why doesn't management publish Stillwater returns?

Within the context of auditors refusing to sign off on financial statements, Stillwater reported returns of -32.9% for 2009 on the fund discussed above. For the first six months of 2010 the losses were -15.83%. We can only imagine what the losses would be if valuations acceptable to the auditors were used. In its letter to the Matrix' fund

shareholders, Stillwater assures them that "the Stillwater Pricing Committee meets monthly to discuss proper valuation of the underlying funds". Well, that certainly gives us comfort given PwC's opinion on the Pricing Committee's acumen.

It is impossible for us to understand why management purchased these assets given the uncertainty around value. It is doubly mysterious to us why GFC would pay 90% of NAV for the Matrix assets for which Stillwater's own auditors refused to sign an audit.

Stillwater paid the CFTC for failing to file financial statements.

In another incident, the CFTC (US Commodity Futures Trading Commission) accused Stillwater of failing to file annual reports in timely manner between 2004 and 2007. Stillwater paid the CFTC without admitting or denying wrongdoing to extricate itself from the matter. A link to the CTFC document detailing the incidents is available Exhibit A. We think that this is likely more evidence of issues with valuation; it certainly demonstrates a strong pattern of failing to provide investors with credible information on asset values. Financial statements became available in November 2010 according to GFC filings. However, they have not been made public.

A sweetheart deal for Stillwater general partners; terrible for GFC shareholders and Stillwater LPs.

Along with the acquisition of the assets, GFC also re-hired Stillwater to manage them. Thus, Stillwater gets to continue accruing and collecting fees which are to be based on a quarterly independently appraised NAV. If the company is indeed conducting such independent appraisals, it is not sharing them with its public shareholders. Further, Stillwater is first in line (after a 8% distribution to Gerova) to get any cash the portfolio generates and recoup over $24M of accrued fees. It's a great deal for Stillwater, the general partner; not so great for GFC shareholders or Stillwater limited partners.

Management obfuscation: the assets are likely worth a fraction of stated NAV.

Lastly, despite the availability of strong evidence indicating the Stillwater assets were deeply troubled, management did not make this information available to GFC shareholders. In our view, this goes beyond a lack of disclosure to obfuscation. Were the history of the Stillwater assets disclosed we find it difficult to believe that anyone with a modicum of fiduciary sense would purchase the assets; we further believe that if information on the assets were widely known, the GFC would be accorded a valuation significantly lower than it is today.

Asset Appraisal and Restricted Shares

Did GFC management make a commitment they knew they wouldn't keep?

At the time of GFC's purchase, Stillwater had not been able to complete an audit on at least some of the assets GFC purchased since 2007. Yet knowing this, SEC filings show GFC committed to have the assets appraised as of December 2009 by March 31, 2010 and provide quarterly appraisals following. Of course none of the appraisal commitments have been met. From the PWC audit information we

detailed above, we think know why this is the case: it is apparent to us that auditors do not believe the assets are worth what Stillwater says they are worth.

Stillwater locks-up LPs, likely without consent.

It is unclear whether the limited partners in these hedge funds consented to the GFC deal. We believe the onshore Delaware funds require majority consent with no appraisal rights afforded to limited partners who dissent from the merger transactions. However, the majority of the assets sit in the Cayman funds which we think require no consent of approval of the shareholders of the funds. Next time, before you consider investing in anything, read the docs carefully.

Insiders benefit from audit problems and opacity, in our opinion.

While the lack of third party valuation is shocking, in our opinion it is actually a convenient benefit for GFC management (if not for shareholders). Approximately 88% (prior to the recent acquisition) of GFC shares outstanding are currently restricted. We believe the majority of those shares are supposed to go to Stillwater and Wimbledon limited partners as compensation for the sale of the underlying funds to GFC. However, according to regulatory filings, the shares cannot be registered until an appraisal of the assets has been completed. Very convenient as there are at least $30M of unmet redemptions pending for which according to the company's admission "former investors may take legal action".

Bad news for shareholders, good news for insiders.

Delaying asset appraisal benefits GFC management and insiders in a number of ways, in our opinion, including:

- **Obfuscate GFC value.** A current appraisal of assets would allow investors to evaluate current company valuation. By our calculations, at $900 million market cap, GFC trades at an approximate $100-$150 million premium to stated NAV. We believe an audit would show the assets to be worth a fraction of stated value. The stock price would likely tumble were the information public.

- **Prevent stock sell-off.** With an appraisal, GFC would have to register the restricted shares. We believe registration would likely result in an avalanche of selling as long suffering hedge fund LPs race for the exits.

- **Use inflated currency.** It allows the company to take advantage of what we believe is an inflated valuation and conduct other transactions, such as the recently proposed acquisitions of Ticonderoga Securities and Seymour Pierce.

- **Accrue fees.** The managers of the assets (i.e. Stillwater) are able to collect or accrue management fees based on appraised NAV. Clearly, Stillwater GPs benefit; more clearly, GFC shareholders and Stillwater LPs pay the price.

- **Asset shuffle.** When shareholders do not know what assets they own, it is easer for management to transfer assets out of GFC to related-party entities. This is already happening.

GFC is the only NYSE-listed entity we know of with no financial information available.

As a result of the lack of asset audits, GFC has never published financial statements post merger. Therefore, there is no public financial information available on this company. It is incredible that an NYSE-listed company could go an entire year without releasing any financial information.

You Are the Company You Keep…and Don't Keep

Why pay someone over $4 million for a few months work?

GFC's associations are disturbing on a number of levels. First, the company hired well-known insurance executive Marshall Manley to run operations. However, Mr. Manley didn't stay with GFC long. He resigned as CEO in April 2010 shortly after the acquisition closed, after a little more than 3 months on the job. Following his very short tenure, Mr. Manley was awarded a very generous severance package, which included a $4 million payoff to be paid in $100,000 monthly installments. The only thing required of him – sign an air-tight confidentiality agreement.

In an interesting twist of fox outfoxes fox, according to documents filed with the US District Court, Southern District of Florida, Mr. Manley is suing GFC, alleging that the company failed to pay him his first payment which was due November 8, 2010.

Why would a cash-strapped company promise to pay such a large severance for such a short tenure? This is interesting given that as the former CEO of Ambase – an insurance company famous for going bankrupt on investments in "junk bonds" - he does not seem one to shy away from a little controversy and aggressive insurance company investment practices. It appears that even Mr. Manley held his nose at this series of transactions.

GFC's affiliates reads like a who's who of "investment world undesirables".

GFC management has a history of involvement with some of the darker elements of the "investment underworld". First, Jason Galanis is CEO of Gerova Advisors, a GFC subsidiary. Of course this is not disclosed in GFC filings. According to SEC litigation releases Mr. Galanis was sanctioned for accounting irregularities while at Penthouse and barred from being an officer or director of a US public company for five years. The SEC litigation release is available in Exhibit A

GFC Director Arie Jan Van Roon is a partner of both GFC President Gary Hirst and Jason Galanis. He is a partner with Hirst in Noble Investment Fund. In a Fund.com (a company associated with numerous GFC insiders) footnote, Roon is noted to have the power to vote Equities Media Acquisitions 28% position in the company. Equities is a Galanis company.

Galanis' connections to GFC management apparently run very deep. He is mentioned in the aforementioned fraud law suit against Taurus (TAG) as an associate of GFC advisory board member James Tagliaferri.

GFC insiders have strong ties to Westmoore's ponzi scheme.

Additionally, prior to the current acquisitions, GFC had tried to purchase ChinaTel (CHTL). Matthew Jennings and Westmoore Capital have a significant stake, many would say controlling, in the company. Jennings and Westmoore were shut down by the SEC in June 2010. The SEC litigation release describing the $53 million ponzi scheme is available in Exhibit A.

Additionally, Robert Willison, listed as a Gerova joint venture partner, is reported to have been the contact/IR person for Jennings' Westmore.

Lastly, Jennings affiliated company was apparently a Fund.com (FNDM.PK) investor. Current GFC managers Joseph Bianco, Michael Hvalsa, and Keith Laslop are all former employees or directors of Fund.com.

According to a FNDM 13-D filed in September 2010, Jennings transferred a purchase option for FNDM stock to a third party in January 2010. Interestingly, the transaction also included the ability of the third party to put the FNDM stock to RIGI. Mr. Hvalsa was the CFO of RIGI at the time and Mr. Bianco was the Chairman of FNDM.

Of course, there is nothing illegal about management's and GFC's associations with Galanis, Jennings and Westmoore. However, they seem to have been pretty careful to keep these associations out of GFC documents. In our opinion, GFC management clearly has deep ties with these individuals and groups, and it illustrates with whom GFC management chooses to conduct business.

GFC's ties with the investment "underworld" appear sadly representative of company practices.

Given what we consider is mounting evidence that GFC is more a smoke screen than an operating company, we find these associations profoundly troubling and in the best case scenario indicative of poor judgment.

The Game Continues: the Asset Shuffle

Insiders now own around 9.5% of GFC according to its only 20F filing which at current valuation levels equates to more than $75M, which gives an additional "haircut" to the hedge funds' limited partners. Unfortunately, the dilution and transfer of assets does not stop there.

GFC's deal with Westmoore Ponzi scheme alum.

In GFC's 20-F, the company states that it entered into a real estate joint venture with Planet Five Development Group, Robert Willison (of Westmoore) and an undisclosed third party to form Net Five Holdings. GFC contributed all of the real estate acquired with Stillwater funds for a 49% interest in the JV. The partners are supposed to contribute

$100 million NAV of properties. I don't know how shareholders can verify the contribution. My guess is they cannot. Gregory Laubach is noted as a member of the board of managers for the company. Mr. Laubach is also the CEO of WMLG Holding, a company part of what we consider another related-party transaction discussed below.

Pushing assets off the books – but why?

It is difficult to determine the economic benefit of the Planet Five transaction for GFC shareholders. It appears as if management traded 100% ownership in the assets for a 49% non-controlling interest. Not only does this dilute GFC shareholder interest, but as a non-consolidated entity, it puts the operational and financial management of the assets beyond shareholder view.

Yet another undisclosed related-party transaction.

GFC recently completed another slightly disguised related party transaction of questionable economic benefit to GFC shareholders. GFC purchased shares in nearly bankrupt WMLG Holding (WHLX.OB) for $500,000. WHLX then used the cash to purchase a piece of real estate in Florida. The transaction is detailed a WHLX SEC filing, though not in a GFC filing. However, what the filing does not disclose is the seller. According to the online database of Osceola County, FL, Stillwater is the owner of the real estate being purchased, hence the seller to WHLX. Mr. Laubach of GFC JV Net Five was installed as WHLX CEO when the transaction occurred.

Did GFC just purchase real estate…from itself?

This transaction is similar to RIGI's purchase of Amalphis. With the Amalphis transaction, a Hirst entity provided financing to RIGI so RIGI could purchase Amalphis from another Hirst related entity. In this case, GFC financed WHLX's real estate purchase from either GFC or Stillwater. We consider this a related-party transaction thinly veiled by an intermediary. How GFC shareholders benefit from this admittedly small transaction is unclear. It appears to us that these relationships are used to shift assets out of GFC to related, but not consolidated, entities. Neither of the discussed transactions are what we could consider "arms-length" transactions.

The Proposed Transactions

A use for bad assets: regulatory capital.

On December 7th, GFC announced the proposed acquisition of Ticonderoga Securities and Seymour Pierce, a UK based brokerage. Not surprisingly, the businesses require regulatory capital. The terms of the deals were not disclosed, though according to the Financial Times, Seymour Pierce is valued at approximately $60 million with GFC's stock price around $27. Interestingly, Seymour Pierce was rumored to have issues with regulatory capital prior to the announcement.

Needless to say, given GFC has little if any cash, both of these will be all stock transactions.

On January 4, 2011, GFC announced that it acquired $1.2 billion life settlements portfolio of the HM Ruby fund for $94 million in stock and $11 million cash, which was obtained through a credit facility. Life settlements has been another extremely difficult ABL field. Additonally, the area is rife with controversy as discussed in the Boston Globe article that is linked in Exhibit A.

Per Stillwater: Life settlement are an unmitigated disaster.

To give an example of just how bad the insurance finance industry is we quote Stillwater Capital's June letter to shareholders, which was published as part of the Matrix Structured Products Limited's letter. Sadly, this information was not made available to GFC shareholders. Stillwater more or less confesses that the sector is a disaster. Here we quote:

> As in 2009, the severely negative performance in this sector is due to write downs in the Insurance Premium Finance (IPF) and Life Settlement markets as a result of two actuarially companies (AVS and 21st Services) having increased their life expectancy expectations. These increases in life expectancy estimates suggest that market participants will factor in longer premium payment periods, which in turn lowers the value of related collateral. Additionally a ***completely dysfunctional secondary market has resulted in complete illiquidity and further reduction in values***. Finally, the Funds that held life insurance policies (the majority of Multi-Strategy ABL Funds unfortunately did Insurance Finance as well) did not have the liquidity to pay premiums, ***were forced to have their policies lapse and have incurred permanent losses***.

Management stonewalling and obfuscation.

It is impossible to determine the economic benefits of these transactions for GFC shareholders with publicly available information. However, Stillwater's reports to other fund investors indicate that Stillwater assets and the life settlements areas are unmitigated disasters. Unfortunately, though GFC recently hosted a conference call on the (Seymour Pierce and Ticonderoga) acquisitions, management did not allow a Q&A session; additionally, our request for a private conference call with management to discuss these and other issues has gone unanswered.

Connecting the Dots: Corporate Ties, Personal Profits

The complex web that makes up GFC and affiliates makes one question who profits and how. There seem to be a number of recurring patterns:

1. Salaries – although there is no public information except for Mr. Manley's golden (if unpaid) handshake, directors (other

than Manley and Doueck) are paid $150K a year and Mr. Hensley was hired in April for a salary of $400K plus a targeted bonus of 100%. Not bad for a cash-strapped entity.

2. Shares. GFC management has received shares and has an unpublished but approved stock incentive plan that allows up to 4 million shares to be issued (that's over $100M at current prices). Additionally, the general partners or managers of the funds, i.e. Stillwater and Weston, receive shares for putting the deals together.

3. Consulting fees. We expect GFC management has varied and sundry contract to extract fees from various entities. Obviously, this becomes a great deal easier when assets are moved off the books into unconsolidated entities, such as GFC's real estate JV. We give an example of how this might work below. It is also conceivable that at least part of the staggering $23.5M that the company paid to close the acquisitions in attorney, accountant and other advisors' fees were somehow directed to benefit the insiders. One would think that for $23.5M one can get a decent set of audited statements these days.

4. Locking in investors and extracting fees. The limited partners of Stillwater and Wimbledon funds are locked in until their shares in GFC are released. In the meantime, the general partners have negotiated favorable management contracts with GFC where they are first in the waterfall of funds (after an 8% payment to Gerova) and are allowed to extract current fees based on appraised NAV plus $24 million in accrued fees. Thus, the value to both the fund limited partners and GFC shareholders erodes steadily.

Fund.com's 2009 10-K shows how fees can be funneled to insiders and related parties. We use FNDM as an example because at least five GFC insiders and affiliates were been paid by the company in 2009. The 10-K notes that:

- Fund.com purchased Joseph Bianco's Whyte Lyon Socratic for 500,000 shares and $250,000 for working capital and subsequently made Mr. Bianco Chairman. Whyte provides online educational programs for investors. We were unable to locate any information on Whyte.
- Fund.com paid Chairman Joseph Bianco's firm $300,000 base fee for strategic consulting.

- Weston Capital, which was purchased by Fund.com, pays Joseph Bianco $100,000 for consulting services.
- Fund.com paid a firm owned by Darren Rennick, a Hirst associate, $12,500 a month for consulting services.
- Issuing shares. Fund.com has issues shares to various insiders for a variety of reasons, including to satisfy accounts payable (Bianco) and notes payable (Jason Galanis' company Equities Media.

Why doesn't the company disclose affiliations, payments, salaries, etc?

We expect similar consulting and share arrangements to be present in GFC. However, it is difficult to determine exactly what goes where and to whom because of the lack of transparency. The company can easily dispel these suspicions by opting to disclose the information.

Large owners can sell GFC stock without filing with the SEC.

An important aspect to GFC and its workings lies in the structure. As a foreign private issuer, the company is exempt from a number of critical disclosures US investors take for granted. The most obvious is the exemption from quarterly filings. As a foreign private issuer, GFC must only file a 20-F in June for the prior year. Thus, GFC shareholders will theoretically get financial statements long after the year has ended. But that is not all. GFC's 20-F notes that the company is:

- Exempt from filing forms 3, 4, and 5. These forms are required filings for 10% owners of US corporations that require public filings stating ownership and changes of ownership.
- May disclose much less regarding executive compensation than US corporations.
- Exempt from US requirements detailing the content of proxy statements. This is likely how the company approved the share incentive, because if it was published to be put to a vote, we couldn't find it.
- Exempt from most NYSE rules surrounding corporate governance.

Shareholders beware: it is difficult to protect your interests!

GFC notes ominously in the 20-F that because of the exemptions above, "our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a U.S. company." I have no doubt.

SEC has already inquired about the foreign private issuer status of the company. We hope they keep up with their efforts in protecting the public shareholders.

GFC's trading patterns over the last year have been another interesting phenomenon to observe. Given the large percentage of restricted shares, its tightly held float tended to move up and down rather conveniently with acquisition events. It has ranked as the largest percentage gainer/loser on NYSE on a number of occasions. The worst part is that following the addition to the Russell 3000 at the end of June paved the way for a whole new class of ETF and pension fund investors to enjoy the wonderful investment management services of Gerova and its team.

Conclusion: When Will GFC Fall and How Hard?

GFC is a long and sometimes difficult story to digest. The detective-work required to begin to unravel the complicated scheme is extensive; information can only pieced together via a web of connected companies and individuals. However, the more one digs, the more it becomes apparent to us that GFC is a company of smoke and mirrors.

We believe asset values and information regarding historical problems with assets are being deliberately kept from public shareholders. Additionally, the lack of disclosure regarding what we consider a bevy of related-party transactions is highly problematic. Importantly, we suspect management and affiliates are able to profit as assets are sold and contributed to related entities and JVs.

How long can regulators ignore GFC?

To us, GFC looks like a pink-sheet stock scam writ large. It has a market value of almost $1 billion and an NYSE listing to give the cover of respectability, but we do not believe the story.

We have no idea how long the shell game can continue to fool investors as well as the regulatory authorities in Bermuda, the US and if the acquisitions close, the UK. However, at some point we believe that the light of day will shine on GFC's activities and the story will unwind in a spectacular fashion and the stock will collapse. The only question we have is whether or not the insiders will unload their shares prior to fall and laugh all the way to the bank.

Exhibit A

The hyperlinks below lead to texts referenced to in the body of this report. They are presented in the order mentioned.

Article regarding allegations of fraud with Tagliaferri:
http://www.paulickreport.com/news/ray-s-paddock/ieah-investor-tagliaferri-sued-for-fraud/

Complaint against James Tagliaferri
https://docs.google.com/viewer?a=v&pid=explorer&chrome=true&srcid=0BwOmWr6p2atROTBhMjA1ZGQtNjM0MC00OWZiLTk4MDEtNDQxZjk4OTUxYTJl&hl=en

Ohio Dispatch Articles on Stillwater's problematic real estate loans
http://www.dispatch.com/live/content/local_news/stories/2007/08/23/flipped.ART_ART_08-23-07_A1_PK7MLGN.html

http://www.dispatch.com/live/content/local_news/stories/2008/12/13/FIREFOLO.ART_ART_12-13-08_B4_5IC7LCK.html

http://mobile.dispatch.com/articles/190040317

Ohio Court Document Search
http://fcdcfcjs.co.franklin.oh.us/CaseInformationOnline/acceptDisclaimer?-6o18g1g3hip0c

CTFC's Sanction of Stillwater for failure to file financial statements
http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfstillwaterorder092408.pdf

SEC press release sanctioning Jason Galanis
http://www.sec.gov/litigation/litreleases/2007/lr20110.htm

SEC press release shutting down Matthew Jennings' Westmoore Capital
http://www.sec.gov/litigation/litreleases/2010/lr21561.htm

Boston Globe article on Life Settlements
http://www.boston.com/business/personalfinance/articles/2009/09/13/despite_their_growing_popularity_ghoulish_life_settlements_are_ripe_for_fraud/

Exhibit B

Putting the Puzzle Together: Who's Who in the GFC Galaxy

One aspect of the GFC story that is impressive is the sheer scope and complexity of the scheme. Given the highly selective disclosure and outright obfuscation in GFC documentation, it is difficult to keep all the parties and companies straight. In effort to clarify the relationships, we have constructed the table below detailing, in part, who is who in the constellation of GFC affiliated companies and people

	GFC
CEO Gerova Financial	Joseph Bianco
President Gerova Financial	Gary Hirst
CFO Gerova Financial	Michael Hlavsa
CEO Gerova Advisors	Jason Galanis
COO Gerova Financial	Keith Laslop
JV Partner	Robert Willison
JV Partner	Gregory Laubach
GFC Director	Jack Doueck
Board of Advisors	James Tagliaferri
Director	Arie Jan Van Roon

	NatProv
Affiliates:	Gary Hirst
	James Tagliaferri
What:	Both contributed assets to finance Amalphis

	Amalphis Allied Provident
What:	GFC insurance subsidiary
	Financed, bought and sold several times in related-party transactions

	Net Five Holdings
Affiliates:	Robert Willison
	Gregory Laubach
What:	49% owned GFC real estate company

	Rineon Group (RIGI.PK)
Affiliates:	Michael Hlavsa
	Keith Laslop
	Gary Hirst
Action 1	Purchased Amalphis from NatProv
How:	Gary Hirst financed transaction
Action 2	Sold Amalphis to GFC
How:	Share deal

	Fund.com (FNDM.PK)
Affiliates:	Joseph Bianco
	Michael Hlavsa
	Keith Laslop
	Jason Galanis
	Darren Rennick
What:	Purchased Weston Capital as such is a GFC shareholder

	Weston Capital
Affiliates:	Joseph Bianco
	Fund.com
What:	Sold funds to GFC, itself to Fund.com

	Westmoore Capital
Affiliates:	Robert Willison
	Matthew Jennings
What:	Shut down by SEC as a ponzi scheme

	WMLG Holding (WHLX.OB)
Affiliates:	Gregory Laubach
	GFC
What:	Purchased FL property from Stillwater/GFC
How:	GFC purchased stock of WMLG, WMLG purchased property

	Taurus Advisors (TAG)
Who:	James Tagliaferri
What:	NatProv shareholder, sued for $60M fraud

	Stillwater Capital
Who:	Jack Doueck
What:	Sold funds to GFC
	Currently manages funds for GFC

	Equities Media Acquisition
Who:	Jason Galanis
	Arie Jan Van Roon
What:	Significant owner of Fund.com

	Noble Investment Fund
Who:	Arie Jan Van Roon
	Gary Hirst
What:	Owner of GFC stock

Disclosures

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For Further Information:

Dalrymple Finance, LLC

Info@DalrympleFinance.com