

Geograce Resources Philippines (GEO)**BUY**

Fulfilling the Promise

| | |
|------------------------|------|
| Price | 1.50 |
| Shares FreeFloat (b) | 2.35 |
| Shares Outstanding (b) | 2.52 |
| Market Cap (Pb) | 3.78 |
| 52 week High | 3.10 |
| 52 week Low | 0.64 |

Investment Highlights

GEOGRACE Resources Philippines (GEO) is one of the newest entrants into the recently revived Philippine mining industry. The Company aims to be the gateway for the Philippine mining industry, offering itself as the platform of choice for foreign and local partners in the exploration and development of mining assets throughout the country. In the near term, the stock provides investors with exposure to attractive nickel, chromite, gold and copper projects, with many more targeted this year.



Early in the Cycle: The recent Supreme Court ruling upholding the Mining Act of 1995 has resurrected activity in the industry, with opportunities for existing players and newcomers alike. The combined market cap of PSE-listed mining companies is about \$2 billion, a fraction of the country's estimated \$1 trillion in mineral potential.

Extensive Portfolio of Assets: GEO has exclusive access to over 140,000 hectares of nickel, chromite, gold and copper claims – arguably the largest portfolio of any mining company in the country. Expanding its portfolio is a continuing priority for the company, with diversification into iron and coal claims being contemplated.

Excellent Management: GEO's management team is the ideal combination of technical expertise, local knowledge, and entrepreneurial acumen. The company has successfully recruited key personnel with experience in the operational, regulatory and business aspects of mining that puts it at par with more established peers.

Partner of Choice: The depth of GEO's mining claims portfolio and its strength in incubating them on the technical and statutory level has proven attractive to both local claim-owners without sufficient capital to finance their own exploration and foreign mining majors aiming to expand their presence in the Philippines.

Favorable Commodities Market: Mineral prices are likely to remain high due to very strong demand from China and India as these economies continue to industrialize and adopt Western consumption patterns. The increasing attractiveness of commodities as an investment class among a wider base of investors has also played a role in pushing metal prices up.

Ready to Ship: GEO's is preparing to engage in its first full-scale production of nickel ore on the Botolan Nickel Project. GEO operates these claims under a profit-sharing agreement with NiHAO Mineral Resources International (NI), which will provide revenues for GEO in the very near-term.

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Company Overview

GEI Restructuring. GEO traces its roots to Global Equities, Inc. (GEI), a listed company whose business portfolio consisted of manufacturing, distribution, and real estate until mid 2006 when these assets were spun off after the entry of a new controlling shareholder group led by Mr. Jerry Angping. With Mr. Angping's entry, GEO changed its primary business to mineral exploration and development.

GEO Vision. GEO's vision is to serve as the primary gateway to Philippine mining and, together with critical partners, to be at the forefront of development of the country's mining industry. To realize this vision, the company has assembled a team of experienced geologists, mining engineers, legal advisers, and community relations experts. The focus is on acquiring or partnering with others to acquire, develop, and operate existing and new mining tenements. At present, the group owns or has exclusive rights to several highly prospective mining tenements with gold, copper, nickel, and chromite deposits.

The Philippine Mining Story

In the past two years, the mining sector has been one of the most exciting in the Philippine stock market in terms of price appreciation. In 2007, the mining index gained 85%, on top of the 63.3% gain posted in 2006. This compares favorably with the overall Phisix index gain of 21.4% and 42.3% in 2007 and 2006, respectively



This performance reflects the strong bullishness in the sector, primarily the result of a strong surge in global demand and pricing metals and significantly improved profitability of the leading counter in the sector, Philex Mining Corp (PX). However, the sector remains a relatively small component of the Philippine equities market. There is a dearth of mining issues for investors, due to the long industry slump leading to closure of several old mining companies to cease operations as well as scarcity in listings on the local bourse by new industry entrants.

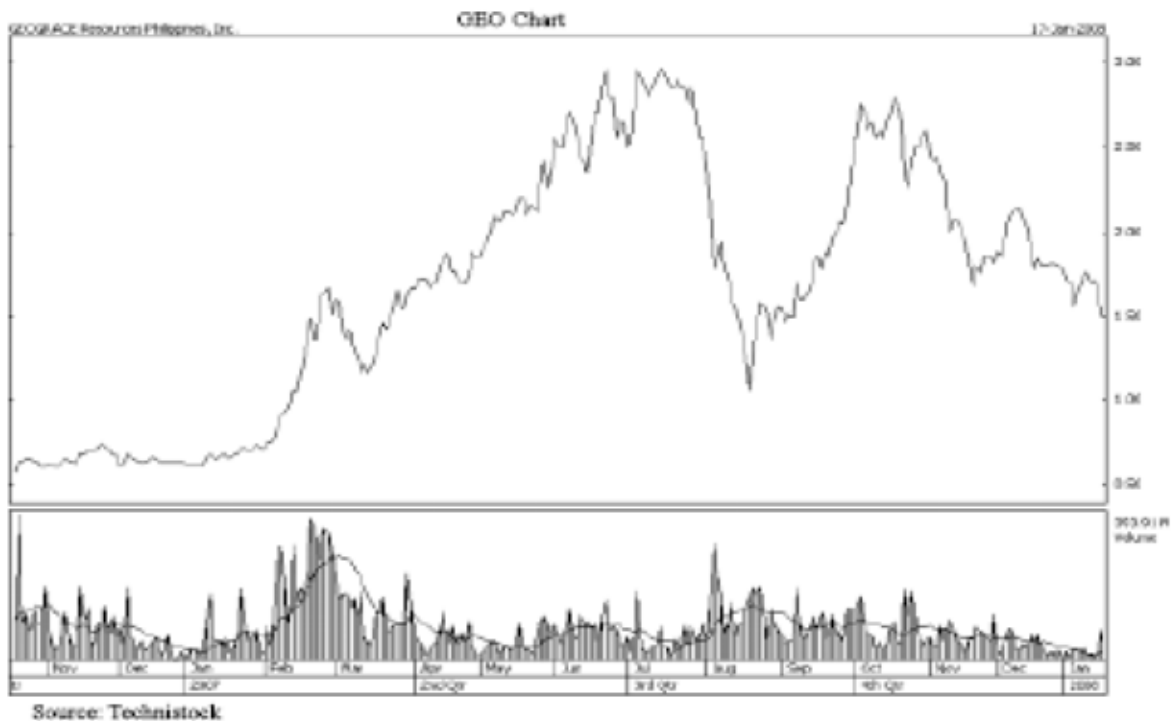
Nevertheless, we believe that the mining sector will become a more significant component of the local stock market, as the market capitalization of mining companies mirrors the growing importance of the mining industry in the Philippine economy. Recently, Oriental Peninsula Resources Group (ORE), a nickel mining company, undertook a successful initial public offering. Moreover, older listed companies with remaining claims are actively resurrecting previous exploration programs and shuttered mines. Finally, some dormant listed companies are being restructured as backdoor vehicles for the listing of new mining companies.

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Buying Into The Promise

The Run Up. Since declaring its new vision, the share price of GEO has surged by 157.1% year to date from its end-2006 price of P0.63. This makes GEO the 17th best performing stock out of 296 stocks traded in the Philippine Stock Exchange this year. From its 2006 low of P0.0735, GEO has risen by more than 2,100%. The surge in price was no fluke as average value turnover also surged by 498% from P24.5 million to P146.5 million. Last year also saw GEO conduct a very successful 1:3.5 stock rights offering, where they were able to raise P560.47 million.



Premises of the Promise

The positive market reaction to the GEO investment story reflects the following positive factors:

Sunrise Industry. Driven by the recent Supreme Court ruling upholding the Mining Act of 1995 and the surge in metal prices, the mining industry has become more attractive to investors. The government has estimated that the Philippines has mineral reserves of up to \$1 trillion that have yet to be tapped. The favorable environment has triggered significantly enhanced activities in mining exploration and development, both by exciting and new mining companies.

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Bullish Metals Markets. Global economic growth is at its strongest in 30 years for most developing countries. This has induced demand for metals, while inventories are near historical lows. For instance, nickel prices reached record levels in 2007, as mining companies failed to expand capacity to meet demand from stainless steelmakers in China. Most recently, commodities have also emerged as an investment asset class. Low global interest rates and underperforming stock markets in recent years have sent hedge funds and institutional investors in search for better yields to invest more aggressively in commodities.



China Factor. Reinforcing all those developments has been the spectacular rise of China as an economic power. China is a resource-poor giant whose insatiable appetite for commodities heralds a potential long-term commodities boom cycle. From a marginal player in the global economy 30 years ago, China is now the world's third largest trading nation, behind only the United States and Germany. China is also now the world's top consumer of aluminum, copper, lead, nickel, tin, zinc, iron ore, coal, wheat, rice, palm oil, cotton, and rubber. It has been the world's top consumer and producer of steel for a decade, producing a third of the world's steel. While its economy has been growing by 9 percent a year since 1990, its consumption of metals has increased 17 percent per annum. And China is only now reaching the stage of industrialization, urbanization, and infrastructure-building that is the most commodity intensive

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Attractive Economics for Nickel Mining. As a subset of the overall winning story, the nickel sector is one of the more attractive areas in Philippine mining today. This is because nickel is relatively easy to mine and does not require expensive and lengthy exploration. The capital requirement for the development of a nickel mine is also relatively low, given that the ore can be directly shipped to buyers abroad. This allows start-up companies with nickel properties, such as GEO, to undertake actual mining activities in a relatively short period of time. At present, nickel ore can be sold at \$26.50 to \$106, depending on the grade while production cost ranges from only \$15 to \$25 per ton.

Fulfilling The Promise

Acquired Assets. GEO has acquired five mining tenements located in Zambales, Bukidnon, and Palawan. The company obtained these tenements by acquiring Garnierite Mining, Inc. and Saprolite Mining, Inc. thru a share for share swap. In exchange for 100% of the shares of the two companies, GEO issued 173.74 million shares at par value of P1.00. The five tenements cover a total area of more than 30,000 hectares. Exploration at the tenements, which is ongoing, is expected to reveal nickel deposits. These tenements are the first step in building up GEO's portfolio and only serve to increase their potential future earnings.

GEO-owned Tenements:

| Tenement | Location | Hectares | Resource | Status |
|----------|----------------------------|----------|----------|-------------------------|
| Zambales | Botolan and Cabangan | 12,957 | Nickel | Pending EPA |
| Bukidnon | Malaybalay | 6,804 | Nickel | Pending EPA |
| Palawan | Narra | 6,051 | Nickel | NCIP Certificate |
| Zambales | San Felipe and San Narciso | 2,029 | Nickel | Pending EPA |
| Zambales | Cabangan and San Felipe | 3,474 | Nickel | Area & Status Clearance |

Operating Agreements. Moreover, GEO has also entered into Heads of Agreement (the mining industry term for Memorandum of Agreement) for the company to exclusively undertake the exploration and eventual development of many other mining claims. The operating agreements entered into by GEO give it access to 14 additional mining tenements located all over the Philippines. These tenements can be found in Negros Oriental, Iligan, Bukidnon, Samar, Davao Oriental, Zambales, Aklan, and Agusan. The tenements range in size from a mere 500 hectares to very large areas covering 16,000 hectares, with potential deposits of nickel, gold, copper, and chromite deposits. Preliminary geological testing has already commenced for some of the tenements, although most are in the process of securing an Exploration Permit.

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Tenements under Heads of Agreements

| Tenement | Location | Hectares | Resource | Status |
|-----------------|-----------------------------|----------|---------------------|---------------------------|
| Negros Oriental | Avunoon | 3,807 | Copper and Gold | |
| Negros Oriental | Avunoon | 505 | Copper and Gold | |
| Iligan | Iligan and Lanao Del Norte | 6,163 | Copper and Gold | Pending EPA |
| Bukidnon | Impasugong | 14,483 | Nickel | Pending EPA |
| Samar | Salcedo | 217 | Nickel | Pending EPA |
| Davao Oriental | Gov. Heneroso | 2,931 | Nickel | Area & Status Clearance |
| Bukidnon | Mandlo Fortich | 891 | Nickel | Pending EPA |
| Bukidnon | Palaulig and Tariac | 1,539 | Nickel | Pending EPA |
| Bukidnon | Impasugong | 15,309 | Nickel | Pending EPA |
| Bukidnon | Impasugong | 1,863 | Nickel | Pending EPA |
| Zambales | Palaulig and Tariac | 9,958 | Nickel | Pending EPA |
| Aklan | Tangalan, Makalo and Malnao | 2,389 | Nickel | Pending EPA |
| Bukidnon | San Fernando and Malaybalay | 13,142 | Nickel and Chromite | Pending EPA |
| Agusan | Santiago | 16,200 | Copper and Gold | DOA with Ophiolite Mining |

These tenements increase the total area of GEO's mining exposure by an impressive 100,000. The agreements also allow the company the option to purchase the claims in the future. GEO can finance the acquisition of the said tenements either through the issuance of new shares or through cash. The cash flow from the nickel operations, which commence this year, will give GEO flexibility in choosing whether to issue shares or not. These mining claims will be acquired subject to proper legal and technical due diligence, fair third-party valuations and regulatory approval before they are injected into GEO.

Besides its nickel claims, GEO is also accumulating mining tenements with potential for gold and copper deposits. While nickel is easily mined and shipped, gold and copper deposits require extensive exploration, substantial mine development, and large-scale processing facilities which are capital-intensive but have the potential to provide world-class net asset valuations in the hundreds of millions of dollars once deposits are verified. GEO is planning to reinvest its profits from nickel mining into further exploration on its gold-copper assets, as well as finalizing partnerships with some of the global mining giants to share the capital expense in return for surrendering a stake in the project.

Finally, GEO has entered into a Heads of Agreement with NIHAO Mineral Resources International, Inc. (NI), another listed company controlled by Mr. Jerry Angping, for GEO to explore and develop NI's nickel project in Botolan, Zambales.

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Excellent Management Team. An extensive and impressive portfolio is not GEO's only weapon. What truly makes GEO a company to watch out for is its management team. GEO's lineup of senior managers compares very favorably with its peers in the local mining industry. The company engages GEO Management Services Ltd (GMS) for some of its upper leadership functions. Heading GMS is its chairman, Michael Defensor, the former Secretary for Environment and Natural Resources. Mr. Defensor returned to the private sector after 15 successful years serving both in Congress and as a Cabinet member, where he promoted mining investment and activity during his tenure. GMS CEO Johan Raadsma has been engaged in the mining industry for over 30 years in the United States, Australia, and the Philippines. He was head of Technical Services for N.M. Rothschild & Sons Ltd., an investment bank in Australia with heavy exposure to mining investments, before moving back to the Philippines to become the CEO of Filminera Resources, the local subsidiary of Canadian mining company CGA Ltd. Mr. Raadsma was instrumental in pushing forward the development of Filminera's \$100 million investment to develop the 2 million ounce Masbate gold-copper project before joining GMS.

GEO's Chairman is Atty. Renato Puno, who heads the Puno Zulueta Law Firm as Managing Partner and leads the company's legal team, having been a practicing lawyer for over 23 years. Atty. Puno is the brother of Secretary Ronaldo Puno of the Department of Interior and Local Government. Finally, GEO's president and chief shareholder is Jerry Angping. Mr. Angping received his MBA from the Harvard Business School and is a proven entrepreneur with business interests in trucking, property development and stock broking. He is concurrently the President of the Harvard Business School Association of the Philippines and of the Harvard Club of the Philippines. Mr. Angping also serves as the Vice Chairman of First Metro Investment Corporation, one of the largest local investment houses in the Philippines, and has sat on the boards of various listed companies including the Philippine Stock Exchange and Lepanto Consolidated Mining Company, where he gained his initial exposure to the mining industry.

Competent Persons. Under the Philippine Mineral Reporting Code (PMRC), mining companies will need to employ certified Competent Persons (CPs) starting next year. This will ensure that ore deposits claimed are real and also lessen speculation on GEO's projects that are still in exploration. GEO has put together a talented and experienced technical team, most of which are obtaining their certifications as CPs. The company's team of geologists collectively has over 150 years of experience in mineral exploration and tenement claims, with members coming both from local and international mining companies as well as the government's Mines & Geosciences Bureau (MGB). GEO's geologists include Dr. Fernando Sajona, who took his doctorate and post-doctorates in France, and Dr. Rogel Santos, who received his doctorate in Japan, as well as Lino Coloma, who formerly headed the MGB's tenement approvals division.

Community Relations. Mining not only entails securing permits from the government but also forming mutually beneficial relations with the communities that live near or on the different mine site. For this purpose, GEO has formed a Community Development Council. The Council's task will be to deal with the communities every step of the way, from exploration to operation. The Council will engage in talks with the communities for agendas such as access to land, cultural heritage issues, employment opportunities, environmental concerns and other significant matters. This is not only a means of preventing problems from brewing but a way for GEO to give back to the communities.

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Critical Partnerships. GEO's attractive portfolio of mining tenements and its team of experienced geologists have allowed it to engage various potential partners in extensive discussions for possible modes of cooperation. These potential partners include international mining institutions like BHP Billiton and Brazil's CVRD (now renamed Vale), as well as large Chinese mining companies such as the Jinchuan group. The possible transactions with these prospective partners range from short-term offtake arrangements to more significant and capital intensive joint ventures such as the establishment of a nickel processing plant in the country.

Obtaining Permits. The acquisition and perfection of exploration and mining licenses can be a complicated and difficult process in the Philippines. One of the key strengths of the GEO group is the ability to effectively navigate through this process. Aside from having an experienced legal team and management familiarity with the system, it has also established a network of relationships among local government officials, key regulatory agencies, and various communities and non-government organizations that allow the company to obtain its applications for mining licenses and permits in an efficient and timely manner.

Heads of Agreement with NiHAO Mineral Resources

Botolan Nickel Project

Minerals: Nickel, Chromite

Tenement Size: 6,843.575 has

Reserve Target (non-JORC)

2.75 million DMT @ 1.2% Ni

Resource Target (non-JORC)

30 million MT at 1.2% Ni

On January 9, 2008, GEO signed a Heads of Agreement with NiHAO Minerals Resources International, Inc. (PSE: NI), a listed company affiliated with Mr. Jerry Angping. The agreement provides GEO with the exclusive right to explore, develop and operate NiHAO's nickel laterite property in Botolan, Zambales. GEO and NiHAO will share equally in the profits arising from the operation of the mining tenement.

High Prospectivity. The Botolan tenement is located in one of the country's top five nickel rich regions. Under several small-scale mining permits (SSMPs), and with assistance from BHP

Billiton (the world's largest mining company), the GEO/NiHAO team has accomplished preliminary exploration of Botolan with impressive results. With less than 1% of total hectareage under consideration, the preliminary estimates indicate reserves of 2.75 million DMT with average grade of 1.2% (1% cut-off grade), or approximately 33,800 MT contained nickel. Another 1,000 hectares (out of 6,829 hectares) are deemed highly prospective.

Alliance with BHP Billiton. NiHAO has an existing memorandum of agreement with BHP Billiton (through QNI, its local Philippine subsidiary), wherein BHP will provide NiHAO with valuable technical assistance in the exploration, mine planning and development of Botolan. The involvement of BHP Billiton will bring foreign expertise to GEO/NiHAO efforts and is a strong affirmation of Botolan's potential. BHP also has the option to enter into an off-take agreement for 500,000 MT of Botolan's nickel output based on a formula indexed to London Metal Exchange (LME) prices. The off-take agreement will last for five years after the drilling and exploration program is completed.

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Production Imminent. Upon approval of its exploration permit (targeted by 1Q08) and MPSA (target 3Q08), GEO and NIHAO can engage in largescale mining on the Botolan tenement. In fact, the Company is already targeting shipments as early as February using allowances under its SSMPs.

We project Botolan mine production of 850,000 DMT or approximately 30% of the Company's target reserves for fiscal year 2008. Nickel ore grades range from 1.3% (370,000 DMT) to 1.6% (480,000 DMT). Calculation of US\$ pricing per DMT is as follows:

2008E Revenues

| | Mid Grade | Low Grade | Total |
|----------------|-----------|-----------|---------|
| Volume (DMT) | 480,000 | 300,000 | 780,000 |
| Avg. Grade | 1.6% | 1.3% | 1.5% |
| Est. Price (1) | \$67.84 | \$44.79 | \$58.97 |
| Revenues (mln) | \$32.6 | \$13.4 | \$46.0 |

(1) Assumes LME of \$26,500 and 10x payable premium.

$$LME\ Nickel\ Price \times Nickel\ Grade \times (Nickel\ Grade \times Payable\ Premium)$$

Based on this formula, and assuming LME Nickel Price of \$26,500 and payable premium of 10x, the selling price of ore ranges from \$44.79 (low grade) to \$67.84 mid grade. This translates to approximately \$46 million in gross revenues for FY 2008. Projected revenues of \$87.7 million in FY 2009 are based on a doubling of production volume through definition and mining of reserves from the rest of the tenement. EBITDA of \$22.8 and \$46.2 million for 2008 and 2009, respectively assume direct costs of \$25 / DMT and approximately \$4.0 million in corporate overhead. A 30% tax rate was assumed in the calculation of \$16.0 million and \$32.4 million of net income. Given GEO's 50% share of the net income and assuming exchange rates of P40.00 to \$1.00, we project EPS of P0.13 in 2008 and P0.26 in 2009, implying 2008E P/E of 11.8x and 2009E P/E of 5.8x.

2008-2009 Projections

US\$ or PhP in millions except per share

| | Revenues | EBITDA | Net Inc. | GEO 50% Share | EPS | | Forward P/E |
|----------|----------|--------|----------|------------------|---------|-------|----------------|
| | | | | | US\$ | PhP | |
| FYE 2008 | \$46.0 | \$22.8 | \$16.0 | \$8.0 | \$0.003 | P0.13 | 11.8x |
| FYE 2009 | \$87.7 | \$46.2 | \$32.4 | \$16.2 | \$0.006 | P0.26 | 5.8x |

Value Added Processing. Our projections do not take into account the potential for building value-added processing to increase the price of the final product.

GEO plans to put up a pilot electric arc furnace ferronickel smelter by the end of 2008 and follow up with three expansion plants in the succeeding years. The Company is currently undergoing a feasibility study to determine optimal location, size, and capital costs for the pilot plant. GEO is also studying various processing options including heap and vat leach technologies.

Smelting Process

Smelting refines the ore into a combination of iron and nickel at high concentrations of both elements, with little residual moisture. The output, known as ferronickel, can be sold at a premium due to its higher grade, lower shipment cost, and demand from steel producers.

Geograce Resources Philippines (GEO)

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Based on the above considerations, we believe that GEO is an attractive issue to include in a well-balanced portfolio of investments in the Philippine mining sector. With a market capitalization in the area of US\$92 million, the potential that GEO holds given its access to an extensive portfolio of mining tenements is very significant and could continue to create tremendous value for investors, particularly under the scenario of a sustained and dramatic boom in the Philippine mining sector. Moreover, given its prospects for early development and production in some of its sites, GEO is in a position to convert some of this potential into real cash flows in the near term.

An Emerging Benchmark. The rapid transformation of GEO into a fully-fledged exploration and mining company in 2008, in time to take advantage of the global boom in commodities prices, is a testament to its management's vision and skill in seizing the opportunities presented by the country's rich mineral potential. As GEO continues to expand and develop its portfolio of mineral properties, the entrance of world-class joint venture partners for its projects will put GEO on an equal footing with its more established peers on the Philippine Mining Index in terms of operational scale and potential net asset values. Allied with strong and healthy near-term cashflows from its nickel operations this year, GEO continues its emergence as a leading light in the country's mining industry and local bourse.

There Are Risks. Investing in GEO entails some significant risks, however. One of the main risks is that the terms and conditions for the infusion of the mining assets into the company are not yet established. Based on discussions with management, however, this risk is mitigated by the group's clear appreciation of this concern and the group's commitment to structure the infusion of the mining assets under such terms that will sustain the value of the company.

Another risk is the early stage of exploration activities for most of the mining tenements, thus holding the possibility that actual mineral reserves may be significantly lower than expected. This risk, however, is mitigated by the extensive portfolio of the GEO group and its continuing activities to acquire new claims, giving it a more substantial buffer to absorb the risk of tenements with unsatisfactory economics or deposits.

Finally, the other main risk is that notwithstanding the current optimism on the sector, the development of the Philippine mining industry will again be negatively affected by a variety of possible reasons, including extraneous factors such as global commodity prices and internal issues such as adverse changes in the policy environment or general opposition to mining activities in the country. Unfortunately, these risks are difficult to mitigate and are necessarily part of the game (and the excitement) of investing in the Philippines, particularly in a sector as volatile as mining. Nevertheless, for those investors who have made the determination that these risks are worth taking given the very attractive potentials that Philippine mining has to offer, GEO is definitely one stock to seriously consider.