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- **Geovic Mining Special Report**

Geovic Mining (GMC,TSX) A *World Class Cobalt-Nickel Play*

www.geovic.net

I have been postponing my review on Geovic until the much anticipated feasibility study came out. The report was released in early December, a couple months late.

As you know, Geovic has been a top pick of mine since it started trading, because of its stellar economics, and the fact that it was the only primary cobalt play. Cobalt was just under $30 then, and now cobalt is trading at record prices of around $37. My big question was, would Geovic, with a 60% stake in what is being hailed as the world's largest primary cobalt deposit and with the lowest cash costs of production, still have great economics?

Given the new Final Feasibility Study (FFS) numbers, that's still the case!

The FFS numbers are still robust. In the first full year of production in 2011, Geovic's first deposit, Nkamouna, would be a stand-alone cash cow for most companies with a projected $98.4 million cash flow rising to $114.6 million in 2012.

It's important for investors to realize that the FFS calculations were done using $15 cobalt and $7 nickel prices. Using more current figures of $35 for cobalt and $12 for nickel the net cash flow to Geovic is $178.8 million rising to $187.2 million in 2012.

In view of these more representative numbers, Geovic more than ever is a stellar buy right now!

In fact, Geovic is positioned to become the world's largest producer of cobalt going forward with their seven deposits in Cameroon. As well the deposits are near surface so the cost of mining will be very low. For example, the Nkamouna deposit is less than 16 meters from the surface. Even using the new feasibility study numbers, net of nickel credits the cost per pound of cobalt is $3.12 – among the lowest cash costs in the industry. Given $37 cobalt, there's a lot of margin for profit.

However, the capital cost increases in the FFS prepared by an independent consultant, did reduce the economics of the mine, causing Mr. Market's knee jerk reaction to fearlessly sell the stock, knocking $1 off to hit a new low of $1.52.

Someone's loss at this level will be another's profit in the months ahead.

The major item which caused Mr. Market convulsions was the independent consultant's estimation that the capital cost of developing the mine would rise from $129 million to $398 million. I don't think anyone is surprised at the higher development costs; it's just the way of the world right now. Though this triple jump in costs needed a closer examination – it's actually not as bad as it looks, and this is our opportunity:

1. Part of the increased cost is because the mine is 33% bigger
2. Another part is that Geovic is adding a manganese circuit that management says will increase the bottom line – but that revenue generated by that cost was not included in the FFS.

The selling wave was a big over-reaction to this cost issue.

Right in the press release there is evidence that costs were grossly overestimated. As Geovic's COO David Beling stated "we *obviously* think we can reduce the (capital costs) significantly." He cited one example of a $30 million quote they received for a power and heating plant which was half the cost quoted in the study. Also the study stated costs for two major plant circuits that quoted equipment sizes and costs for twice the throughput Geovic would need to double production.

Geovic is not taking the FSS study as the gospel truth. The plan is to hire an experienced engineering group to optimize the study which will be completed by mid 2008. While advancing mine construction plans, lowering costs throughout the project will be examined.

Performance using 40% Equity and 60% Debt

Clearly, some shareholders have gotten whipsawed, buying at a higher price and selling low. That's unfortunate, though with Geovic having bounced off a low of $1.52 yesterday, the price certainly looks attractive to me right now.

This is particularly true given my performance numbers using what I think are more accurate assumptions of 40% equity and 60% debt. The internal rate of return (IRR) is the standard measure of profitability of a mine. It went from 76% to 33% under the new feasibility study, *on an all equity basis*. Most mines go into production with a 20% IRR, so this is still very good. But if you use debt – and Geovic should get at least half the capital needed to build this mine via debt – the IRR would jump to over 50%. Few mining assets in the world enjoy that.

After all this panic subsides, Geovic should start to trade towards new highs and once production starts (if it doesn't get bought out by an opportunistic major mining company), multiple times higher.

My conclusion, Geovic is the type of stock you can buy now while it's cheap and ride up in the years ahead as the cash flow and production start to build.

However the upside for Geovic is much much greater then just the Nkamouna deposit. There six other properties, all near-surface high grade deposits that could be even bigger in size.

To say the future looks bright for Geovic would be a gross understatement.

Cameroon

Cameroon is one of those countries most people couldn't identify on the map and that's because nothing bad ever happens there to warrant our attention. Located in West Africa, the country is politically and economically stable. They are also receptive to foreign investment. Aside from this cobalt deal, Exxon Mobil is building a billion-dollar pipeline in Cameroon which is a testament to the confidence in the government and the stability of the country.

The Properties

Geovic Mining holds a 60.5% interest in Geocam, a private Cameroon company which has the rights to the Mining Permit covering the 1,250 square km property that encompasses the seven deposits. The Cameroon government is the other majority shareholder of Geocam which bodes well for fast tracking regulatory mining matters.

As I just reviewed, the **Nkamouna deposit** is the first of seven deposits to be developed. Production is slated to start in Q2 of 2010.

The payback on the Nkamouna mine alone is only 2.9 years and it would be operating for 19 years. The operating costs are only $3.12 per pound, net of nickel credits.

Immediately north of the Nkamouna deposit is the **Mada** deposit which has a 43-101 resource of 145 million tons with a grade of .21% cobalt and .48% nickel. This area has not been fully drilled in strike length or to depth. Geovic's management believes they could triple the resource on this deposit.

In addition there are *five other deposits*, so this project will be around for a long time – <u>*beyond anyone's lifetime*</u>!

The unique characteristics of the cobalt make this project a world class deposit:

The cobalt mineralization in Cameroon is higher grade then any other laterite cobalt deposit in the world. The cobalt itself has large grains which are unusual. Given the unique structure of the cobalt and the ease of mining it, the ore is increased by a factor of 3 by using low cost mining methods which triples the rate of return for the company and the net present value.

After processing the course concentrate on site, the end product would be pure enough to send directly to a battery manufacturer or other industrial user.

The Supply and Demand of Cobalt

The supply side of cobalt is extremely tight right now. All the production now mined is immediately bought up in the market which has left inventories empty. Not surprisingly, the price of cobalt has recently hit a new historic high of $37 on November 29th – up 40% since the beginning of 2007.

Demand should stay strong for years to come. In my mind, the biggest reason for this revolves around our favorite mode of transportation, the car.

Today the world produces 60 million cars and light trucks per year. In 25 years that will number will grow to over 90 million.

Now with oil and gas prices at much higher levels and with air pollution creating health concerns in major cities around the world, the auto industry and governments alike are pushing toward hybrid vehicles. And cobalt is a key ingredient needed to make the batteries in hybrid cars.

Japanese car manufacturer Daihatsu Motor Co recently unveiled its new fuel cell technology that eliminates the need for platinum in electrode catalysts. By changing from acidic to alkaline electrolyte membranes it can replace the costly metal with cheaper and less corrosion resistant metals such as cobalt or nickel.

When you consider today's already tight cobalt market, there won't be enough supply to handle those projected demands except Geovic has deposits which could double, triple or quadruple production very quickly going forward.

Cameroon and Geovic could very well become the world's "swing producer" of cobalt in the same way that Saudi Arabia turns on the oil taps when global supplies get tight.

Cobalt is also used in the construction of jet engines, batteries for cell phones, laptops and other battery devices.

Last year the market for cobalt was 55,000 tonnes and this demand is expected to increase to about 95,000 tonnes over the next decade according to the number crunchers who are not projecting the rapid production rise of hybrid cars.

Byproducts will enhance the Share Value

Sky rocketing demand for manganese has prompted Geovic's management to include the production of high-purity manganese carbonate. International demand grew significantly in early 2007 thanks partly to China's demand for steel which shot up 18%. Over the first half of 2007, manganese prices rose 20%.

In addition, Geo Cam has also successfully tested methods to produce a limited byproduct called scandium, a mineral used for strengthening aluminum alloys used in the aerospace industry.

Geovic stated in news release that "Technical and economic studies of these potential additional byproducts are in progress and will be included in final engineering, construction and operation of the project."

The Nkamouna Projects alone is estimated to contain 53 million tonnes of ore grading 1.22% manganese.

Conclusion

Geovic is in the enviable position of having the world's largest primary cobalt deposit with the lowest cash costs of production then any other cobalt mine in the world.

The recent feasibility study by the Washington Group suggested that the pre-production capital costs have risen from $129 million to $398 million and operating costs would rise from 96 cents to $3.12 per pound. The market sold the stock, and Geovic's share price has been hit hard recently.

What the market failed to consider was that the parameters of the study are different. The mine is slated to be 33% larger, manganese will be mined which were not included in the cash flow numbers. Also some of the cost estimates by WGI seem to be overstated.

Investors need to realize that the first year after tax cash flow from this project using today's cobalt and nickel will be nearly $180 million! This is outstanding and clearly a number of investors have let their emotions get the better of them without stopping to analyze the facts.

I believe this has created a fantastic buying opportunity. . The recent sell-off frenzy will soon form a new floor for the price and the opportunity to bottom fish this stock is looking good.

Given my projected first year after tax cash flow of nearly $180 Million, the prospects for Geovic going forward as they develop their other six properties look very positive.

The rest of the district has potential of one billion tonnes, though not compliant numbers, the upside is potentially very blue sky while the downside risk is virtually zero.

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