

## COMPASS RESOURCES NL (CMR) \$0.73

Emerging Base Metals Miner

Recommendation: Speculative Buy

Buy: Below \$2.65

Accumulate: \$2.65-\$3.00

Hold: \$3.00-\$3.40

Reduce: Above \$3.40

Mkt Cap: \$50.7m

Last Review: 31/03/05 (SCG 359)

Rolling Year High: \$0.95

Low: \$0.18

Business Risk: High

Price Risk: High

1. Includes 2.0m partly paid shares and 1.7m options.

F/Y	NPAT	EPS % Chg	*DPS	Fr.%	YLD	PER
12/02(a)	0.0	-0.1	n/a	0.0	n/a	0.0
12/03(a)	-0.1	-0.1	n/a	0.0	n/a	0.0
12/04(a)	-0.6	-1.0	n/a	0.0	n/a	0.0
12/05(e)	-0.7	-1.0	n/a	0.0	n/a	0.0
12/06(e)	18.1	26.1	n/a	0.0	n/a	2.8
12/07(e)	33.3	50.9	n/a	0.0	n/a	1.4



CMR is focused on the development of its 90% owned Browns project in the Northern Territory. The company could be cash flow positive by 2H06 if oxide development is given a green light early 4Q05. CMR represents an opportunity to

participate in the realising of considerable value at its advanced projects, royalties and exploration projects. We continue to rate CMR as one of the highest leverage plays to an extended China driven resources boom. However, CMR is not for conservative investors. It has a lack of earnings history and is subject to development risk and low liquidity.

### NT Drilling Starts

The long awaited dry season exploration campaign has started at CMR's 90% owned NT tenements targeting base metals and uranium. Exploration should continue for about five weeks before the focus shifts to infill resource drilling at the Browns and Mt Fitch oxides. Exploration will primarily target base metal oxides at the Browns East and Mt Fitch South prospects. CMR already has 6.7Mt in oxide resources at Browns and environs. There is an excellent chance of additional oxide resources boosting our \$2.10 per share project NPV valuation.

### CMR Drill Targets

	Ore Type	Type	Comment
Exploration			
Browns East	Cu, Co, Ni	Oxide	20 holes
Mt Fitch South	Cu, Co, Ni	Oxide/Sulph.	20 holes
Mt Fitch Extensional	Cu, Co, Ni	Oxide	n/a
Mt Fitch	Uranium	Oxide	400m
Rum Jungle East	Uranium	Oxide	2 holes
Infill/Appraisal			
Browns	Cu, Co, Ni	Oxide	n/a
Mt Fitch	Cu, Co, Ni	Oxide	n/a

Approximately 20 holes will target near surface oxidised

copper, cobalt and nickel mineralisation east of the Browns deposit between the old Whites and Intermediates open pits. CMR has already defined 30.5Mt @ 1.29%Cu, 1.28%Pb, 0.13%Co and 0.13%Ni sulphide resources at Browns East. Drilling is simply testing whether this same mineralisation extends to surface as occurs elsewhere.

Drilling will then shift 7km NW to the Mt Fitch South prospect where electro magnetic work suggests that mineralisation continues approximately 200m further south from the last promising drill hole. Significantly it indicated a strengthening in grade to the south and depth. Approximately 20 holes will target extensions to the sulphide and test whether it is capped by oxide.

Focus will then transfer to uranium. CMR's tenements now cover almost the entire Rum Jungle uranium field, which was mined between 1953 and 1963.

Mineralisation occurs adjacent to and/or beneath all three former producing mines. A number of prospects with encouraging drill intercepts require follow-up. Results comprise both narrow high-grade zones at Whites Extended and broad zones of lower grade at Mt Fitch/Tamblyns. CMR plans 400m of drilling to test uranium mineralisation at the Mt Fitch prospect. In addition, two holes are planned to target uranium east of Whites at the RJ East prospect.

### Historical U3O8 Mining

	U3O8	Grade	Period
	(Mlb)	(lb/t)	
Whites	2.4	6.1	Mid 1950s
Dysons	1.2	7.7	Late 1950s
Rum Jungle Creek South	6.8	8.5	Early 1960s
TOTAL	10.4	7.9	

Anything over 1lb/tonne in the open cut environment is significant and 3.3-5.5lb/tonne is likely to be economic if the tonnage is large enough. Exploration drilling will be followed by resource definition drilling at Browns and Mt Fitch base metal oxide deposits. Mt Fitch will include some step out holes.

### Push to Oxides Production Continues

CMR is now finalising the Public Environmental Review (PER), process design, completing the detailed engineering and sourcing second hand equipment for parts of the plant. Financing and offtake discussions have commenced in parallel. The final investment decision is expected 4Q05 with the objective of carrying out any critical site work ahead of the wet season although the location chosen for the plant makes the wet season less critical than originally thought. We have conservatively pushed out expected first production by one quarter to 3Q06.

The bulk of the oxide resources at Browns are in Whites Formation black shales. When leached in sulphuric acid excellent recoveries into solution of copper (94.5%) and cobalt (93.9%) have been achieved, with good nickel recovery (79%). Work is now focussed on optimisation of a second supergene ore type, typically of higher

cobalt and nickel grade but lower in copper. Encouraging cobalt recoveries to solution of over 75% are being achieved by applying a simple oxidising reagent to the material. Satisfactory leaching of the copper and nickel to solution is being optimised. Test recoveries are higher than those used in our NPV model and there is potential upside to our numbers.

### **NSW a Sleeper?**

A distinct chargeability anomaly has been defined at the Bogan East prospect near Peak Hill. The anomaly remains open and aircore drilling continues to define its trend ahead of a planned reverse circulation drilling program. The nearby Northparkes and Wyoming deposits are models. South of Forbes at Croakers, encouraging gold mineralisation was intersected at a discrete chargeability anomaly. In Western NSW, CMR has highlighted a Cobar gold and base metal mining district look alike. Ground geophysics is in progress. Prefeasibility studies continue at Alkane's Wyoming project where CMR has a royalty interest.

Elsewhere CMR has withdrawn from its long held but non core Worldbeater project in California. The project's dropping, in conjunction with the issue of 1.7m new employee options and our delaying Browns oxide start-up by a quarter has reduced our CMR valuation 3% from \$3.05 to \$2.96 per share. Our FY06 earnings forecast has been reduced as well. The appointment of Gordon Toll to the Chairman's role effective 1 August 2005 is seen as a positive. Gordon was Deputy Chairman of Ivanhoe Mines with hands on experience in developing copper heap leach operations. We retain our Speculative Buy recommendation. The speculative tag is likely to be dropped once funding has been secured for the Browns oxide project.