

COMPASS RESOURCES (CMR) \$0.30

Resource Junior

Recommendation: Speculative Buy

No. Shares: 54.1m*

Avg. Monthly t/o: 0.6m

Mkt Cap: \$16.2m

Last Review: 13/10/04 (SCG349)

Rolling Year High: \$0.44

Low: \$0.18

Business Risk: High

Price Risk: High

*1 Includes 0.826m partly paid shares, excludes 1m options.

Investment Overview



CMR's Browns oxide project alone could end up being worth over A\$2 per share, more if further oxide reserves can be found. This is exclusive of the Browns sulphide potential for which the company has derived an additional NPV of over

A\$200m or A\$3.70ps. For the moment, we will be sticking with our "happy to pay" level of A\$27m or 50cps. This has been derived by conservatively applying a value of A\$16m for Browns and its environs, A\$4m for World Beater and other projects in the Americas, A\$4.0m for the Wyoming royalty, and A\$3m for NSW exploration areas. Upgrades to our valuation are likely as and when key project milestones are met. CMR has no cash flow as yet, is speculative and is not for conservative investors. Further, with a cash balance of A\$1.2m, it is likely that the company will need more cash in the near future. That said the company could represent one of the highest leverage plays to an extended China driven resources boom, should that eventuate.

Oxide Resource Estimate Released for Browns Project

CMR has released a measured and indicated resource for its 90% Browns oxide project, 100km south of Darwin. The ore comprises 5.8Mt @ 0.9%Cu, 0.16%Co and 0.12%Ni contained within three zones including 2Mt of measured resource at Browns, 2.5Mt of indicated resource at Area 55 (2km SW of Browns) and 1.3Mt of indicated resource at Mt Fitch (8km NW of Browns). The copper equivalent grade is 3.3%, ignoring operating cost disparities with a single commodity mine. The in ground value of the oxide resources using today's prices is approximately A\$1 billion. Using CMR's longer term trend prices for copper US\$1.10/lb, cobalt US\$12.50/lb, nickel US\$5.50/lb and A\$/US\$ 0.70, the value is A\$680m. Further, there is every chance the size of the oxide resources could grow with exploration. The prospective black shale/dolomite contact hosting the deposits has a strike of many kilometers on CMR's leases and remains substantially untested.

Considerable test work has already been completed on the oxide resources indicating the ores will leach efficiently using conventional sulphuric acid treatment. The JV is proceeding immediately with a detailed development plan to be complete by mid 2005. Fast tracking construction could lead to production startup in

1H06. At CMR's preferred scale the project would produce 9,700t Cu, over 1,000t Co and 700t Ni annually. A small drill program is planned this month to provide additional material from Area 55 and Mt Fitch for leach variability tests on the deposits. In addition a new hole will also be drilled at Mt Fitch North, 2km north of Mt Fitch. Drilling some years ago at this site returned intercepts including 15m @ 1.9%Cu and 13m @ +2%Cu. Mt Fitch North is a "copper sulphide only" play and we keenly await the results.

We have completed a preliminary valuation of the oxide project and derive a post tax NPV of A\$124.0m for CMR's 90% share, equivalent to A\$2.29 per share. Our model assumes an A\$40m capital cost with annual throughput of 1Mtpa and unit costs of A\$36/tonne. This assumes that the more expensive tank leach option is taken rather than heap leaching. We employ a discount rate of 10% and the longer term trend commodity prices mentioned above. At full production, our figures generate an NPAT of over A\$36m or A\$0.67ps placing CMR on a prospective FY07 PE of less than one.

Newly appointed technical director, Rod Elvish, will progress the oxide project through to a construction decision. He has first hand experience in bringing projects into production. The experience of fellow director Gordon Toll could also be invaluable. Gordon who is Deputy Chairman of Ivanhoe Mines, has had a wealth of hands on project construction experience including the recent development of copper heap leach operations in Myanmar. CMR's Browns oxide project should not be confused with the much larger sulphide resources mentioned in our previous report. This combined resource is 82Mt @ 0.8%Cu, 2.3%Pb, 0.1%Co and 0.1%Ni. The company is likely to release an updated sulphide resource estimate taking into account drilling completed subsequent to the old resource calculation. A number of new drill holes has improved intersections which should improve the numbers. We don't necessarily expect a huge jump in tonnes or grade. However, the upgrade is likely to lead to the potential for high grading the deposit in the early years of any operation which would accelerate project payback.

Near Term Things to Watch:-

1. An upgraded resource estimate for the Browns sulphide project, expected in approximately three weeks;
2. Start of Mt Fitch North drill hole, 9km NW of Browns, in two weeks;
3. Progress on discussions between Chinese groups and CMR as to exploitation small iron ore deposits within CMR's Batchelor Region (Browns) tenements;
4. Progress on a new JV partner for the Browns sulphide project; and
5. Results from diamond core holes being drilled to test the down dip extent of high grade shoots at Alkane's 500koz Wyoming gold project where CMR has a substantial royalty interest.