

Mario Maia
Research Analyst
mmaia@mpsecurities.com.au

(02) 9222 9111

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Set to become a significant copper and cobalt producer from its Browns Oxide Project in NT.

Compass Resources NL (CMR)

KEY POINTS

- ❑ **CMR holds a highly prospective portfolio of exploration/ development projects for gold and base metals in Australia, US and Peru.**
- ❑ **Robust asset base with over A\$10 billion of in-ground value.**
- ❑ **CMR's appraised value in excess of A\$1.45ps fully diluted.**
- ❑ **1Mtpa targeted by 2006 to yield A\$32m pa EBIT from Browns Oxide.**
- ❑ **Potential to generate cashflows in less than 18 months.**
- ❑ **Several exploration programmes underway.**
- ❑ **Former AusIMM President Rod Elvish strengthens CMR's board.**

CAPITAL STRUCTURE

ASX Code	CMR
Share price	A\$0.31
Market cap. ¹	A\$19.5m
Ordinary shares on issue	65.6m
Partly paid shares ²	826,000
Options ³	1,000,000
12-mth low-high	0.18 – 0.43
12-mth volume	8.64m

¹Undiluted.

Source: IRESS

²Paid to 1c

DIRECTORS

Chairman	Malcolm Humphreys
Director (Exec)	Philip Cohen
Director (Non Exec)	John Chappell
Director (Non Exec)	Gordon Toll
Technical Director	Rod Elvish

Source: CMR

TOP 5 SHAREHOLDERS

Invia Custodians Pty Ltd	7.9%
Wythenshawe Pty Ltd	6.6%
Malcolm Humphreys	4.4%
Cairnglen Investments Pty Ltd	3.4%
Westpac Custodian Nom. Ltd	3.1%

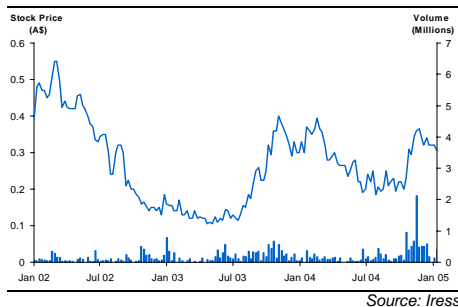
Source: CMR

REGISTERED OFFICE

Suite 4B, 384 Eastern Valley Way
 Roseville, NSW 2069
 Telephone: +61 (0)2 9417 3588
 Facsimile: +61 (0)2 9417 8750
 Email: admin@compassnl.com.au
 Website: www.compassnl.com.au

Source: CMR

36 MONTH PRICE CHART



Browns Oxide Project development underpins CMR's strategic plan to become a significant base metals producer within the Batchelor region in NT.

Browns Oxide Project, NT (CMR 90%). Current attributable resources are 53,500t Cu, 9,500t Co and 7,100t Ni. Development study for a low capital start-up 1Mtpa 5-8 years project is underway targeting a construction decision by JQ05. Copper, cobalt and nickel output should then commence in early 2006. Browns Oxide has a base case NPV_{10%} of around **A\$165m** or **A\$1.25ps** fully diluted.

Browns Sulphide Project, NT (CMR 90%). CMR's share of metal in-ground here is around 2,330kt Pb, 535kt Cu, 80kt Co and 76kt Ni or **A\$8.8billion** at forecast metal prices. An update of the sulphide resource estimate is now underway. Negotiations for a partner for the project are proceeding. Based on only 10% of the existing resource base, Browns Sulphide has a pre-tax NPV_{10%} of around **A\$74m**.

Base metal prices expected to remain strong in the foreseeable future, supporting the Browns Oxide start up project and allowing CMR to become a cash flow generator by 2006.

CMR is capitalised at only A\$20m, which represents less than 0.2% of Batchelor region's in-ground value of over A\$10billion.

Despite its recent share price rally CMR is still undervalued and offers outstanding value at a prospective FY07 earnings multiple of only 0.9 times.

Recommendation: Strong Buy

Financial forecasts

		2004E	2005F	2006F	2007F	2008F
Revenue	A\$m	0.0	0.0	22.7	68	123
Net Profit	A\$m	(0.15)	(4.2)	5.2	31	29
EPS	A¢	-----	-----	6.9	38	33
PER	times	-----	-----	4.6	0.9	1.0
Shares on issue	millions	65.6	84.1	89	97	105

Fig1.1

Source: MPS Research

COMPASS RESOURCES NL – IN PROFILE

CMR is a Sydney based minerals company holding a diverse portfolio of base metal and gold exploration projects and a potentially valuable gold royalty in NSW, a development stage polymetallic resource in the Northern Territory, an advanced gold project in California and an epithermal gold project in Peru.

The Company was incorporated in Queensland in August 1984 as Compass Resources NL, an unlisted company focused on the minerals exploration of various projects in Australia. CMR listed on the ASX in 1987.

Initial tenements in the Batchelor region were acquired from Cameco in 1989. CMR subsequently acquired the Browns leases in March 1995 and by 2000 the company had increased base metal resources on its tenements by 400% to 82Mt.

CMR concentrated on feasibility studies to develop Browns and brought in the world's largest primary lead producer, The Doe Run Co., to assist the project. The agreement with Doe Run was conditional upon funding support and completion of its financial restructure by August 2002. However, this was not achieved and due to the low metal prices prevailing at the time the feasibility study was suspended.

The Company refocused on exploration in 2003 and introduced new joint venture partners to progress exploration at the Browns Project in NT and the Worldbeater Gold Project in California, USA.

Following the resurgence of metal prices CMR adopted a strategy in 2004 designed to fast track its development of copper, lead, cobalt and nickel resources in the Batchelor region of NT. The strategy involves the development of a low cost start-up project exploiting CMR's significant oxide resources in the area.

In November 2004 CMR signed an agreement with Territory Iron Pty Ltd for the exploration, development and mining of several small iron ore deposits within CMR's Batchelor region tenements. In December 2004 the Company completed a A\$3.5m capital raising for the completion of the Browns Oxide Project testwork and engineering study.

Batchelor Region Oxide Copper/Cobalt Resources

Deposit	Status	Total Ore Mt	Grade % Cu	Grade % Co	Grade % Ni	Grade % Cu Equiv
Browns	Measured	2.8	1.1	0.12	0.11	3.0
Area 55	Indicated	2.6	1.0	0.17	0.18	3.9
Mt Fitch	Indicated	1.3	0.6	0.21	0.20	4.0
Total		6.6	0.9	0.16	0.12	3.4
Contained Metal (t)			59,400	10,600	7,900	

Fig 1.1

Source: CMR

Batchelor Region Total Resources

Deposit	Total Ore Mt*	Grade % Cu	Grade % Pb	Grade % Co	Grade % Ni
Browns	40.0	0.50	4.52	0.11	0.09
Browns East	30.5	1.29	1.28	0.13	0.13
Area 55	12.4	0.56	-	0.14	0.13
Total	82.9	0.79	3.12	0.12	0.11
Contained Metal (t)		655,000	2,587,000	99,500	92,000

Fig 1.2

*Including inferred, indicated and measured resources

Source: CMR

Top 10 shareholders

Holder name	Shares	%	Holder name	Shares	%
Invia Custodians Pty Ltd	5,165,067	7.88%	National Nominees Ltd	1,587,083	2.42%
Wythenshawe Pty Ltd	4,334,000	6.61%	ANZ Nominees Ltd	1,155,553	1.76%
Malcolm Humphreys	2,885,820	4.40%	Philip Cohen	1,137,571	1.73%
Cairnglen Investments Pty Ltd	2,235,040	3.41%	Nefco Nominees Pty Ltd	1,105,291	1.69%
Westpac Custodian Nominees Ltd	2,003,333	3.05%	The Doe Run Resources Corp	1,052,717	1.61%

Fig. 1.3

Source: CMR

Directors and management

Executive Chairman: Malcolm Humphreys, senior executive with extensive mining industry experience.

Executive Director: Philip Cohen, solicitor with over 30 years of experience in the fields of resource and mining law.

Technical Director: Rodney Elvish, past president of the Australasian Institute of Mining and Metallurgy.

Non-Executive Director: John Chappell, director with mining experience in Africa, Europe and Central America.

Non-Executive Director: Gordon Toll, Deputy Chairman of Ivanhoe Mines with 30 years of international resources experience.

Financial history

Year end 30 th June		1999	2000	2001	2002	2003	2004*
Cash	A\$m	2.28	0.55	0.77	(2.57)	1.17	5.26
Gross assets	A\$m	11.97	13.67	18.15	18.12	19.74	23.20
Net assets	A\$m	11.50	12.90	17.35	17.45	19.27	22.80
Shares on issue	millions	31.4	31.5	40.3	40.6	53.3	65.6**

Fig. 1.4

Source: CMR

*As at 10 December 2004 (Following the issue of 12.08m shares to raise A\$3.5m)

INVESTMENT REVIEW

CMR is set to become a significant copper, cobalt and nickel producer from its Batchelor Oxide project in the Northern Territory. Strong cashflows expected by mid 2006 should support the development of CMR's major Browns Sulphide project as well as further exploration of its highly prospective gold and base metals assets.

Browns Oxide Project – Batchelor Region, NT (CMR 90%, Guardian Resources 10%)

The project involves three main deposits namely Browns, Area 55 and Mt. Fitch within the Batchelor region of the Northern Territory. CMR's attributable resources are around 53,500t Cu, 9,500t Co and 7,100t Ni, which at current commodity prices and forex represent over **A\$680m** of in-ground value.

A development plan for the project is expected to be completed by mid 2005. MPS has estimated production to commence in mid 2006 at 500,000tpa, yielding around **A\$8m pa** EBIT. Output figures are then expected to ramp up to 1Mtpa, generating annual operating earnings of around **A\$32m** by FY07.

Based on an A\$40m 5-year 1Mtpa operation, Browns Oxide has a base case NPV_{10%} of around **A\$165m** pre-tax. This represents **A\$2.51ps** on the current diluted equity capital or **A\$1.25ps** after the raising of the new project equity at the time of development. MPS's valuation has assumed a mix of equity, convertible notes and debt to fund the project's A\$40m capital requirement. It has also been assumed that lead recovery will only occur during the "sulphide stage" of the Browns project.

Browns Oxide – Key Parameters

Production Figures								
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Ktpa	500	1,000	1,000	1,000	1,000	1,000	-	-
Grade								
Ni %	0.09	0.09	0.09	0.09	0.09	0.09	-	-
Cu %	1.10	1.10	1.10	1.10	1.10	1.10	-	-
Co %	0.12	0.12	0.12	0.12	0.12	0.12	-	-
Recovered								
Ni	405	810	810	810	810	810	-	-
Cu	4,950	9,900	9,900	9,900	9,900	9,900	-	-
Co	540	1,080	1,080	1,080	1,080	1,080	-	-

Assumptions								
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
US\$/A\$	0.80	0.80	0.80	0.80	0.80	0.80	-	-
Interest Rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	-	-
Tax Rate	30%	30%	30%	30%	30%	30%	-	-
Prices US\$/t								
Ni	12,500	12,500	12,500	12,500	12,500	12,500	-	-
Cu	2,500	2,500	2,500	2,500	2,500	2,500	-	-
Co	35,000	35,000	35,000	35,000	35,000	35,000	-	-

Earnings Figures								
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Revenue A\$m	0	23	68	91	91	91	91	45
Operating Costs A\$m	0	11	26	30	30	30	30	8
EBIT A\$m	-1	8	32	51	51	51	52	31
Shares on Issue	84	89	97	105	132	132	132	132

Cashflow Figures								
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Cashflow Surplus	0	11	42	61	61	61	61	38
Capex	40	3	3	3	3	3	3	2
Exploration	1	1	1	1	1	1	1	1
Net Cashflow	-41	6	27	40	40	40	43	27

Valuation			
		EBIT	EBIT per share
NPV	16%	125	0.95
	14%	137	1.04
	12%	150	1.14
	10%	165	1.25
	8%	182	1.38

* On a fully diluted basis including MPS estimates for Browns
A\$40m capex funding: A\$20 convertible, A\$5m equity and A\$15m debt

Source: MPS Research

INVESTMENT REVIEW - CONTINUED

MPS valuation has also used a conservative **A\$30/t** unit cost for the project based on a conventional acid leach operation. CMR has the potential there to improve margins by implementing an agitated leach operation and reducing its operating cost base. Every **A\$1/t** reduction in operating costs represents a 2% increase in margins or some **A\$1m** in savings per annum.

Additional value for the project should also arise from further exploration success. On a comparison basis, a 1 year increase in mine life could add around **A\$26m** to the project pre-tax value.

Importantly, the majority of the existing resources have been discovered as a by-product of delineation of the large sulphide dominant ore deposits in the area. The potential therefore for the discovery of additional oxide resources with an oxide focused exploration programme is very favorable.

Browns Sulphide Project – Batchelor Region, NT (CMR 90%, Guardian Resources 10%)

CMR's share of metal in-ground is currently 2,330kt Pb, 535kt Cu, 80kt Co and 76kt Ni or over **A\$8.8billion** at forecast metal prices. However, these figures are likely to increase as the company continues its exploration activities targeting a new sulphide resource estimate.

MPS has estimated a 10-year 1Mtpa plant to be operational by mid 2008. Assuming A\$250million in capex and operating costs averaging A\$75/t, EBIT for the project is expected to yield around **A\$21m** in FY09. MPS has a conservative base case NPV_{10%} for the project of around **A\$74m** pre-tax, based on less than 15% of the current resource base attributable to CMR.

	Project Life	Change (%)	NPV _{10%}	NPV _{10%} per share*	Change (%)
Base Case	10	-	A\$74m	A\$0.56	-
Upper Case 1	12	20%	A\$105m	A\$0.79	41%
Upper Case 2	14	40%	A\$121m	A\$0.95	69%
Upper Case 3	16	60%	A\$136m	A\$1.07	91%

*On a fully diluted basis

Source: MPS Research

Major exploration targets for further extension of the Browns resources include Mt Fitch South, Mt Fitch North, Mt Fitch and Mt Burton. Drilling programmes to test new and existing targets are expected to commence in early 2005.

Browns Iron Ore Project – Batchelor Region, NT (CMR 90%, Guardian 10%)

CMR has recently entered into an agreement with Territory Iron Pty Ltd for the exploration, development and mining of several small iron ore deposits within CMR's Batchelor region tenements. Territory has now the right to purchase iron ore at A\$1/t ± iron ore grade adjustment from the tenements area. Initially Territory is expected to focus on further exploration aiming to delineate a JORC resource estimate for the project.

Trewilga Project – Lachlan Fold Belt, NSW (CMR Royalty Interest, Alkane 100%)

Prospective for gold mineralisation, Trewilga covers the highly prospective Wyoming and Tomingley deposits which are currently being explored by Alkane Exploration Limited. At Wyoming, a pre-feasibility study is in progress and a development decision is expected in 2005. Based on a 500,000tpa ore mining operation, MPS has estimated CMR's royalty revenues to be around A\$0.38m by FY07 and A\$0.65m by FY08.

Base Metals Projects – NSW (Compass 80%, Bohuon Pty Ltd 20%)

CMR acquired Exploration Licenses covering 540km² in northwest NSW in early 2004 based on recently released NSW Government air magnetic data. CMR believes that an entire Cobar style copper province may be concealed beneath cover rocks and will test a number of magnetic anomalies in 2005 to test this concept. Although higher risk if successful this could add substantial value to the Company.

INVESTMENT REVIEW - CONTINUED

World Beater Project – California, USA (CMR 60%, MBA Gold Corp 40% right to increase to 60%)

Partner MBA is earning up to 60% interest by funding feasibility work in the project. Discussions with MBA are underway towards funding more drilling to increase the project's current 160,000oz resource rather than proceeding to pre-feasibility study provided for in the JV agreement. MPS has estimated a NPV_{10%} of **A\$4.8m** for CMR's interest assuming 40,000ozpa production over 5 years at US\$400/oz and A\$/US\$ 0.75.

Nangali Project – Peru (CMR 70%, AKD 30%)

Nangali is a highly prospective epithermal gold vein system with a number of defined but undrilled targets. Previous drilling returned assays of 98.2g/t Au and 814g/t Ag. CMR believes the system has potential for up to 2Moz of gold.

Valuation

MPS has estimated the proposed Browns Oxide operation to have a NPV_{10%,30%tax} of around **A\$115m or A\$0.88ps fully diluted**, which represents a **160%** premium over CMR's current share price of just A\$0.31ps. Including Browns Sulphide, the valuation is at a premium of over **250%**.

After estimating the likelihood of the company achieving its exploration, development and production goals, MPS has an appraised value for CMR of **A\$195m or A\$1.47ps fully diluted** (including Browns equity capital raising).

Year end 31 December EBIT	Equity %							Book value*		Appraised value*	
		2004E	2005F	2006F	2007F	2008F	2009F	A\$m	A\$/sh	A\$m	A\$/sh
Browns Oxide Project	90	-	-1.0		33	52	52	14.5 ^a	0.12	165	1.25
Browns Sulphide Project	90	-	-	-	-	-6	21	-	-	74	0.56
World Beater Project	40	-	-	-	-	-	-	-	-	5	0.03
Trewilga Project	Royalty	-	-	-	1	1	1	0.1	0.00	5	0.03
Nangali Gold Project	70	-	-	-	-	-	-	0.1	0.00	2	0.02
Browns Iron Ore Project	90	-	-	-	-	-	-	-	-	1	0.01
Exploration Projects	Various	-	-	-	-	-	-	3.0	0.03	4	0.03
Net 'Other Items'		-0.2	-0.6	-0.6	-1	-1	-1	-0.1	0.00	-4	-0.03
Net Interest		0.1	-2.6	-2.9	-1	-13	-6	4.9	0.03	5	0.04
Pre-tax		-0.1	-4.2	5.6	32	34	67	21.0	0.18	257	1.94
Income Tax		0.0	0.0	0.0	0	-4	-12	-	-	-62	-0.47
After tax		-0.1	-4.2	5.6	32	30	55	21.0	0.18	195	1.47

* On a fully diluted basis including MPS estimates for Browns equity capital raising

^a It includes Browns Oxide, Sulphide and Iron Ore

Source: MPS Research

Based on MPS' valuation matrix above, CMR's current share price does not reflect:

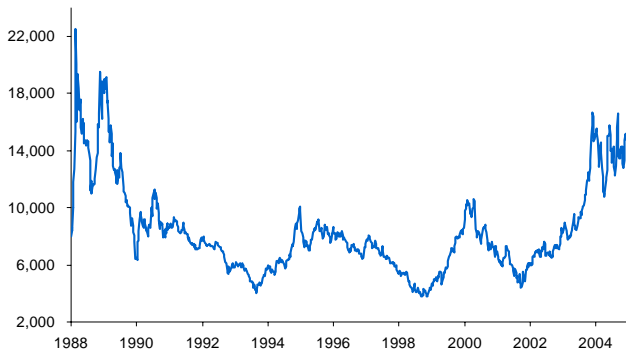
- ❑ the true potential of the Browns Oxide project, which alone equals more than 4 times the current stock price;
- ❑ Browns Sulphide's over A\$8.5billion of in-ground value; and
- ❑ the prospectivity of its gold, base metals and iron ore exploration projects.

On this basis, CMR is considerably undervalued and a further share price re-rating is expected once the market realises the potential of the company's asset portfolio.

METALS: PRICE AND INVENTORY 1988 -2004

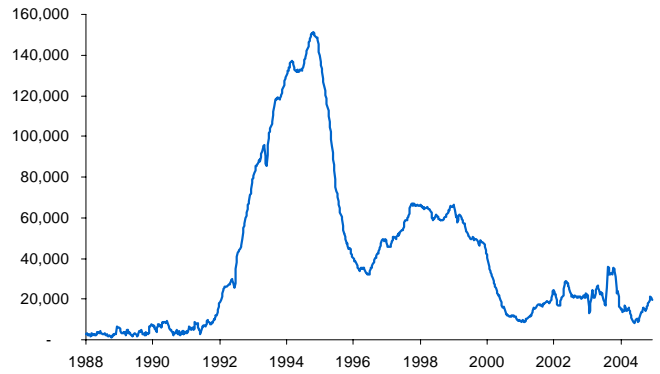
Nickel

LME Price - US\$ / tonne



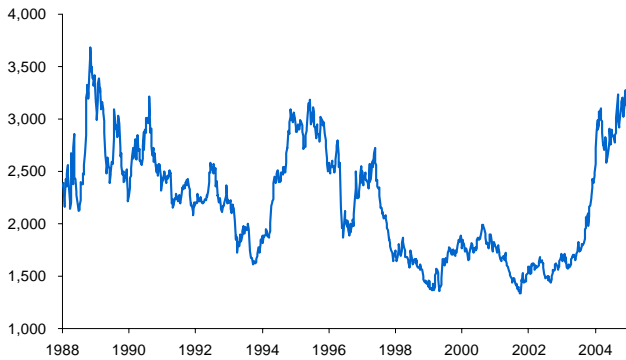
Nickel

LME Stock Levels - Tonnes



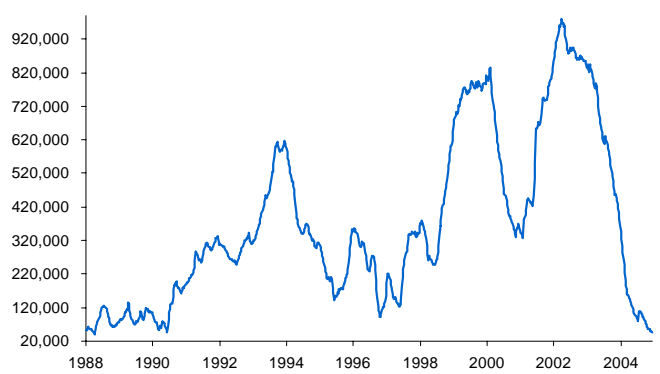
Copper

LME Price - US\$ / tonne



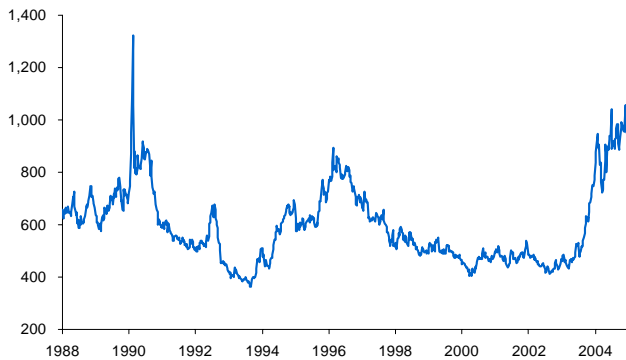
Copper

LME Stock Levels - Tonnes



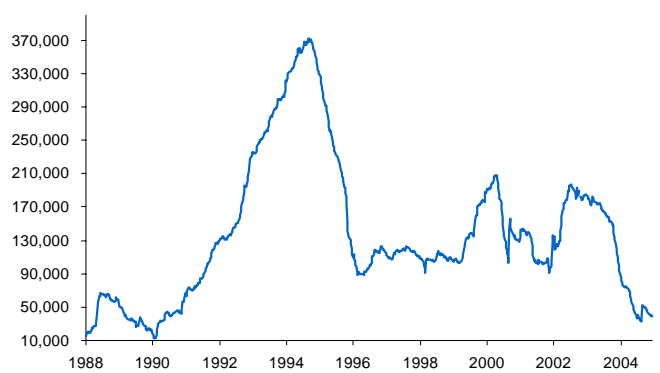
Lead

LME Price - US\$ / tonne



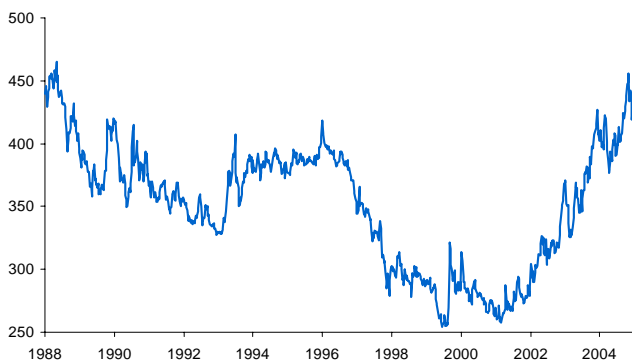
Lead

LME Stock Levels - Tonnes



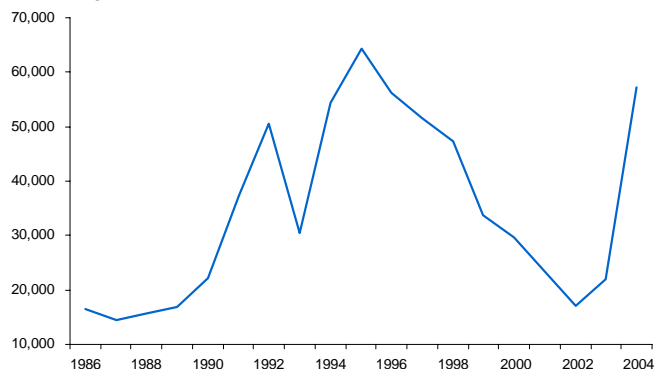
Gold

NY Price - US\$ / oz



Cobalt

Average Annual Price - US\$ / tonne



MARTIN PLACE SECURITIES PTY LIMITED

ABN 30 094 927 947
AFSL 247 404
Licensed Dealer in Securities

MANAGEMENT

Barry Dawes	Managing Director	+61 (0) 2 9222 9111	bdawes@mpsecurities.com.au
David Sutton	Executive Chairman	+61 (0) 2 9222 9111	dsutton@mpsecurities.com.au

INVESTMENT BANKING

Barry Dawes	Managing Director	+61 (0) 2 9222 9111	bdawes@mpsecurities.com.au
David Sutton	Executive Chairman	+61 (0) 2 9222 9111	dsutton@mpsecurities.com.au
Gaius King	Corporate Advisor	+61 (0) 2 9222 9111	gking@mpsecurities.com.au

RETAIL DEALING

David Sutton	Executive Chairman/Client Advisor	+61 (0) 2 9222 9111	dsutton@mpsecurities.com.au
Peter LeMessurier	Consultant – Adelaide	+61 (0) 8 8267 5533	whisecurities@firstavenue.com.au
Alan Beasley	Senior Advisor	+61 (0) 2 9222 9111	abeasley@mpsecurities.com.au
Rob Towner	Consultant - Perth	+61 (0) 8 9322 3888	rtowner@ozemail.com.au
Ben Michael	Client Advisor	+61 (0) 2 9222 9111	bmichael@mpsecurities.com.au

RESEARCH

Barry Dawes	Managing Director	+61 (0) 2 9222 9111	bdawes@mpsecurities.com.au
Mario Maia	Resources Analyst	+61 (0) 2 9222 9111	mmaia@mpsecurities.com.au

ADMINISTRATION

Rosemary Courtney	Company Secretary	+61 (0) 2 9222 9111	rcourtney@mpsecurities.com.au
Lucinda Mortimer	Retail Dealing/Research	+61 (0) 2 9222 9111	lmortimer@mpsecurities.com.au
Karen Blenkinsop	Retail Dealing - Adelaide	+61 (0) 8 8267 5533	whisecurities@firstavenue.com.au

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