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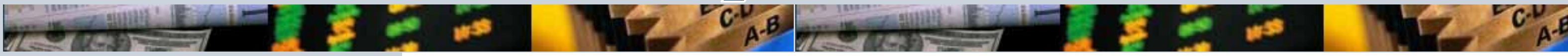
StockAnalysis

By Peter Strachan



This Week

Is Compass Finally Finding its Way?

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Page 2

Is Compass Finally Finding its Way? (CMR)

StockAnalysis has been watching Compass Resources NL for so many years; he is beginning to feel like Chance the Gardener! We first visited CMR's Browns project area in 1996 and made an additional visit the following year. The project has a fascinating multi-element deposit which stirs up the metallurgist lurking within your correspondent.

Compass is the custodian of one of the largest, undeveloped polymetallic deposits in the world. Its 90% owned Browns and Area 55 deposits near Batchelor, one hour drive south of Darwin in the Northern Territory, contains over 2.5mt of lead, 655,000 tonnes of copper, 100,000 tonnes of cobalt and a slightly smaller amount of nickel, before allowing for its considerable zinc and silver content. Regionally, resources stand at 82mt of mineralisation, made up of:

- 6.6mt of oxide resource grading 0.94% Cu, 0.16% Co and 0.15% Ni plus
- a copper resource of 14.3mt grading 0.96% Cu, 2.99% Pb, 0.13% Co and 0.11% Ni along with 13 g/t Ag and
- a lead resource of 36.7mt grading 0.46% Cu, 4.76% Pb. 0.11% Co and 0.09% Ni plus 14g/t Ag.

The company listed prior to the crash of 1987, when it thankfully raised $10m and ever since has been a survivor but has never thrived. Compass has a loyal and very patient shareholder base, headed by Goldman Sachs JB Were investment fund Invia with 7.9%, legendary WA based geologist Josh Pitt holds 6.6% and former Head of Were's research team, Peter Woodford has 3.4%. The company's MD, Malcolm Humphreys holds 4.4% of the company's 65.6m fully paid shares.

By 1996 Compass was on a roll. Having expanded its resource base it began to look at processing routes, focusing on potential for open pit mining of sulphide resources. With the help of the world's largest lead producer The Doe Run Co, Compass developed a novel metallurgical processing option involving concentration of sulphide ore followed by an innovative lead recovery process, high temperature acid pressure leach of concentrate and recovery of copper metal along with high value hydroxides of cobalt and nickel. The drawback was an insurmountable upfront capital cost, involving somewhat unproven, innovative processing technology just at a time when metal prices began to fall.

Lead fell from US37cts/lb to below US20cts/lb and copper fell from US$1.30/lb to US$0.68/lb during the slump in 1998, which also took cobalt from heights of US$28/lb down to around US$8/lb. Under these circumstances, it was inevitable that development of the project stalled.

So what's happening to catch StockAnalysis' eye. Firstly metal prices are up and looking good for the longer term. The copper price has jumped to around US$1.50/lb, nickel is trading at US$6.80/lb, lead has risen to US43cts/lb and cobalt has risen to US$25/lb and then settled back at around US$18.70/lb.

The project now envisaged, relies heavily on the sale of cobalt, which is used as an alloying element for hardening steel and finds a growing demand in the manufacture of batteries for cell phones and IPods. Much of the world's cobalt supply is sourced from Zambia and Zaire, which have not proven to be the most reliable of suppliers, so global consumers are looking for more stable suppliers. Demand for copper has been boosted by new users in China while few new mined sources have emerged and lead inventories have vanished over the past 2 years to stand at remarkably low levels, all of which supports the longer term picture for the metals which Compass hopes to produce.

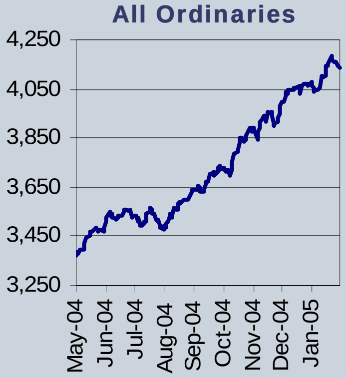
(Continued on page 2)

Indices & Prices

All Ordinaries	4136.30
Energy Index	7616.10
Brent US$/bbl	47.45
AUS$/US$	0.7853

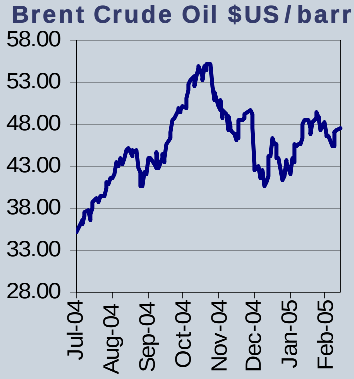
As at Close Feb 15th

All Ordinaries

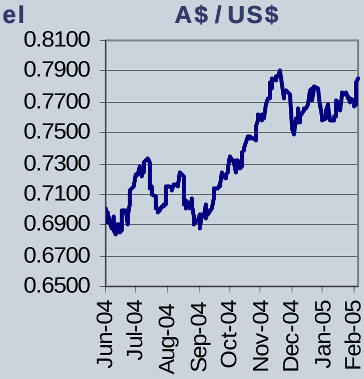


S&P ASX 200 Energy Index

Brent Crude Oil $US/barrel



A$/US$



Vol 1, Issue 39
16th February 2005
Page 2

Compass Resources NL

ASX Code	**CMR**
Current Price	0.36
Number Shares (mil)	65.5
Market Cap (mil)	23.58

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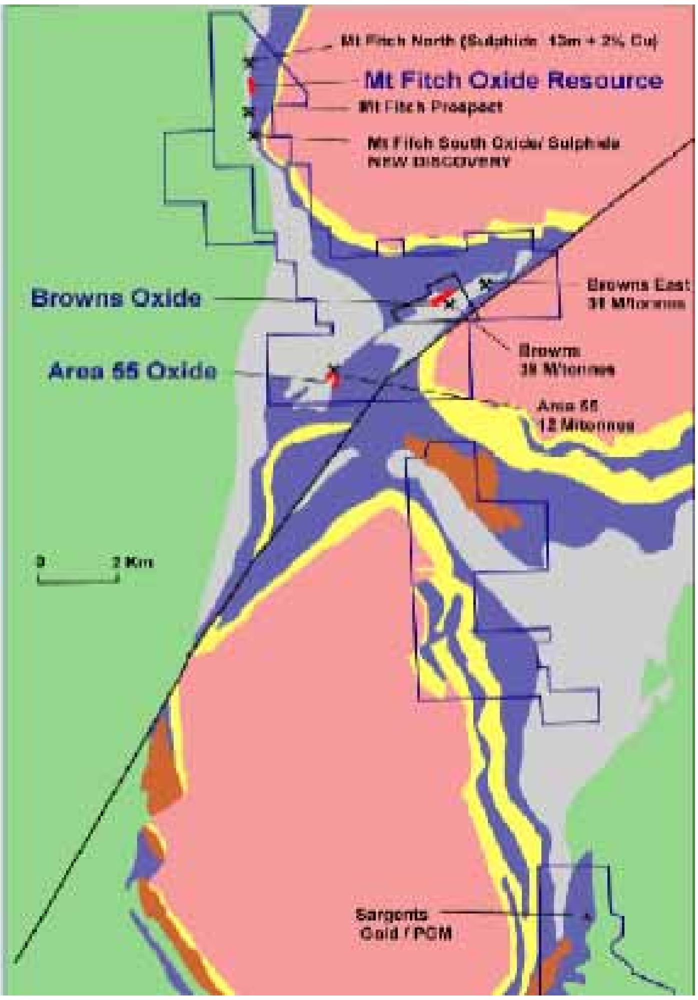
Next, Compass has begun to look at what is possible, appointing its long-time metallurgical consultant, Rod Elvish as its Technical Director. It also raised $3.5m to fund a feasibility study into processing over 6.5mt of oxide mineralisation and has appointed well respected mining identity and former Newcrest MD, Gordon Toll to its Board.

In the past, oxide mineralisation in and around the Browns deposit was outlined as a by-product of exploration for sulphide mineralisation. Treatment of oxide material was initially contemplated using acid produced as a by-product of the treatment of the sulphide ore, but never considered as a standalone concept. The project now proposed looks likely to come within Compass' financial grasp with a capital cost of around $40 million and not the multi hundred millions required for a sulphide treatment process. The oxide metallurgical processing route is very simple, involving a simple acid leach followed by solvent extraction and electrowinning to produce cathode copper plus high value compounds of cobalt and nickel, while storing lead tailings for possible latter processing.

A planned 1mt pa plant could be in operation by late 2006 if all goes according to plan, producing about 10,000tpa of copper metal (valued at A$38m), 1,000tpa of cobalt (valued at A$51m pa) and 800tpa of nickel. This oxide project has recently received environmental approvals from the Northern Territory Government. At modest metal prices, the company estimates that the project would produce and EBIT of over $30m pa for six years, sufficient to fund development of a $270m sulphide plant, plus exploration for additional oxide ore to extend the oxide project's life beyond 6 years. **At current metal prices, the project would generate an EBITDA of around $47m pa for Compass.**

CMR's Tenement Position at Batchelor in the Northern Territory



Source: Compass Resources NL

The project involves importation of sulphuric acid to leach oxide ore in agitated tanks, followed by solvent extraction of metals and electrowinning to produce copper metal. Sufficient power and water is available locally for this stage of development.

A sulphide circuit would require construction of an acid plant, which would feed into an extended oxide treatment operation plus additional power supply, which could be developed using natural gas from the Timor Sea.

Project areas around Brown's hold significant exploration appeal. Several targets have produced excellent copper/cobalt drill intercepts in oxide material which should convert to additional resources once funding for drilling is available, thus extending the project's life.

To achieve development of its first stage oxide plant, Compass will need to raise at least $16 million, if not slightly more, which might involve the issue of 50 million new shares. ***StockAnalysis values Compass at 69cps, fully diluted for additional shares, solely on the basis of the potential of its oxide project. Development of a sulphide circuit plus exploration appeal for additional oxide ore add to this valuation giving an upside target to $1 per share.***

Compass also holds a valuable royalty position over Alkane Exploration's promising Wyoming gold deposits, where recent work has expanded the high-grade ore potential within a total resource of about 0.5m oz of gold. Additionally, the company is a 40% partner in the 228,000 oz World Beater, hydrothermal gold deposit in California.

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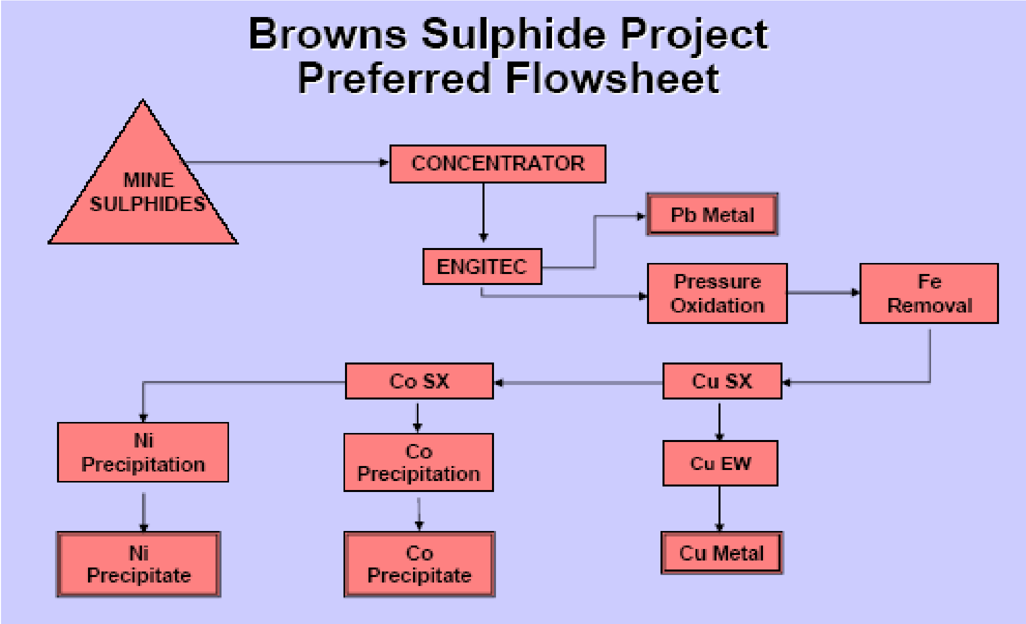

Source: Compass Resources NL

Compass has potential to become a major cobalt and lead producer in the longer term, but its immediate plans for copper, cobalt and nickel production should see earnings of 13cps by 2008. **CMR is a speculative BUY**

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