

## COMPASS RESOURCES NL (CMR) \$0.60

Emerging Base Metals Miner

Recommendation: Speculative Buy

No. Shares: 67.65m\*

Avg. Monthly t/o: 1.0m

Mkt Cap: \$40.6m

Last Review: 12/1/05 (SCG354)

Rolling Year High: \$0.73

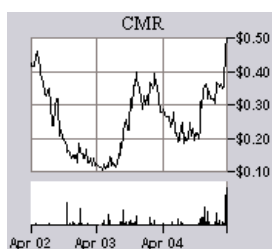
Low: \$0.18

Business Risk: High

Price Risk: High

\*Includes 2.0m partly paid shares.

F/Y	NPAT	EPS % Chg	*DPS	Fr.%	YLD	PER
12/02(a)	0.0	-0.1	n/a	0.0	0.0	n/a
12/03(a)	-0.1	-0.1	n/a	0.0	0.0	n/a
12/04(a)	-0.6	-1.0	n/a	0.0	0.0	n/a
12/05(e)	-0.7	-1.0	n/a	0.0	0.0	n/a
12/06(e)	30.8	45.6	n/a	0.0	0.0	1.3
12/07(e)	36.0	53.3	n/a	0.0	0.0	1.1



CMR is an emerging base metals miner focused on the development of its 90% owned Browns project in the Northern Territory. The company could be cash flow positive by 1H06 if oxide development is given a green light around mid 2005.

CMR represents an opportunity to participate in the unlocking of considerable value in both 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, should that eventuate. However, this is not an investment for conservative investors and CMR has in the past been relatively thinly traded.

### What's it worth?

The strong appreciation in CMR's share price has forced us to review our recommendation. This is not an unpleasant task given that the stock has tripled from 20cps in October. Our previous recommendation was "Speculative Buy - Happy to pay up to 50cps". The price has soared past this level and the all important question is where can it go? At this stage of the game, we derive a \$3.05ps valuation. This may sound generous, but there is potential for that figure to grow substantially. We have built in a number of conservative parameters:-

- 1) We ignore the opportunity to increase oxide resources at Batchelor;
- 2) We use conservative long-term price assumptions well below spot;
- 3) We halve our Browns sulphide project valuation and conservatively assume that less than 20% of the resource will be mined. We ignore that the resource is open at depth. We assume the more expensive Australian based processing option is taken and ignore potential to expand capacity beyond 1.0Mtpa.
- 4) We attribute little value to the company's promising uranium prospects.
- 5) The value of CMR's other gold and base metals

assets, royalty interest and iron ore agreement has been understated.

It is important to remember that CMR is "Speculative" and not for conservative investors. The company has no cash flow and will need to pass numerous milestones (including funding) to achieve its potential. In a bull market it is important to remember rapid sentiment changes can have real consequences for capital and debt financing. CMR has been a relatively illiquid stock. That said, we retain our "Speculative Buy" recommendation on an undervalued company.

### CMR Valuation

	Equity	(\$m)	(\$ps)
Browns Oxide Project	90%	202.0	2.99
Browns Sulphide Project	90%	65.0	0.96
World Beater1	60%	3.0	0.04
Wyoming Royalty2	3-5%	3.0	0.04
Territory Iron Agreement3	-	2.0	0.03
Other Exploration	-	6.0	0.09
Corporate - Included Tax		-80.0	-1.18
Net Cash		4.9	0.07
TOTAL		205.9	3.05

1. 60% interest reducing to 40%.

2. 5% of minerals after first 150koz gold.

3. A\$1 per tonne.

### Browns Oxide on Schedule

The Browns Oxide project is on track for a mid 2005 go ahead. We derive a post-tax NPV of \$145m or \$2.14ps. The figure in the valuation table is pre-tax. The slightly higher valuation is due to the resource upgrade, but more shares on issue reduces the per share value. We assume that the more expensive \$40m tank leach process route is selected. We include 100% of the 6.7mt oxide resource given the likely oxide resource upgrades. CMR intends to drill shallow holes at Mt Fitch South targeting high-grade supergene copper oxide mineralisation. We assume long term prices of US\$1.10/lbCu, US\$12.50/lbCo, US\$5.50/lbNi, FX of A\$/US\$0.70 and a 10% discount rate. Using spot prices gives a higher post-tax NPV of \$184m or \$2.80ps.

### Browns Sulphide - All or Nothing

CMR has reported the NPV for a 1Mtpa Australian project at \$220m. The NPV rises by \$138m to \$358m assuming offshore treatment of concentrate. Metal prices and exchange rates as before and US\$0.35/lb for Pb. Only 20% of the 84Mt resource was included, however a discount rate of 7.5% was used, lower than our standard 10%. Metallurgical and funding hurdles make valuing the sulphide project difficult. However, the valuation could be multiples higher if the project is scaled up and more of the resource is included. For the moment we credit a value of \$65m or \$0.96ps. We assume an Australian based 1Mtpa project with the same long-term metal prices and exchange rates but apply a 10% discount rate. We halve the valuation to account for dilution in the event of a JV partner farming-in and other contingencies. Ironically, a credible JV partner is more likely to boost the share price.

## Other Exploration - Hidden Gems

We assign \$9m to CMR's exploration activities including a 70% interest in the Nangali gold project in Peru and a diluting to 40% interest in the 160koz World Beater gold project in California.

CMR recently reported its granted tenements and new applications in the Batchelor region give it control of the majority of the Rum Jungle uranium field. The 10Mlbs of uranium that was historically mined was done so on a "cost plus" contract basis by Territory Enterprises, an offshoot of CRA. Uranium remains in and around the old production pits but CMR has not released the resource estimate as work has not yet confirmed it to JORC standard. There is also evidence of supergene enrichment that may yield higher grade ore.

CMR has compiled data from exploration programs from the 1950s to the 1980s. Intercepts include both narrower high grade zones like 3.3m @ 2.05% U<sub>3</sub>O<sub>8</sub> (45.2lb/tonne) at Whites Extended, and broader lower grade areas such as 42.1m @ 0.09% U<sub>3</sub>O<sub>8</sub> (1.9lb/tonne) at the Mt Fitch/Tamblyns Prospect.

Anything over 1lb/tonne in the open cut environment is significant and 0.15-0.25% U<sub>3</sub>O<sub>8</sub> (3.3-5.5lb/tonne) is likely to be economic if the tonnage is large enough. At the current contract price of approximately US\$25/lb, ore in that bracket would be worth US\$80-140/tonne, equivalent to a copper grade of 3-5%.

Not only does CMR have uranium near the old mines it has a number of seemingly very attractive exploration prospects where no mining has previously occurred.

The Kylie prospect has a number of features similar to the big East Alligator River deposits such as Ranger and is a priority exploration target. We apply almost no value to these assets, but uranium alone could justify the current share price. CMR intends to drill uranium targets this field season which commences in May.

Geophysics is underway at Bogan East, 20km north of the Northparkes mine in NSW and has been completed over the Styles and Croakers Prospects near Forbes. CMR expects to be drilling within a month. RAB drilling last year returned anomalous copper and gold results. The target is a Northparkes look-alike.

Later in the year geophysics is planned for the company's western NSW projects where it is chasing a repetition of the Cobar base metal and gold district beneath cover rocks. This is higher risk exploration but the size of the prize sought is also very large. CMR also holds a substantial royalty interest over Alkane's Wyoming gold discoveries. The development of Wyoming is in Alkane's hands but with over 600koz in resources the CMR royalty interest could be significant.