

# Compass Resources

08 April 2005

Huge leverage to firmer metal prices makes Browns project look very attractive

**Recommendation: Speculative Buy**

**ASX Code: CMR**

## Investment Rating

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, which we believe is set to sustain metal prices at well above their averages of the past decade.

## Event

CMR is an emerging base metals miner principally focused on the development of its 90% owned Browns project in the Northern Territory. The Browns project is a very large but unusual polymetallic deposit principally containing lead, nickel, cobalt copper and silver. The deposit has a near surface oxide component that would be the focus of an initial mining and processing operation and a larger (and potentially very large) deeper and more metallurgically complex sulphide component that would require more expensive processing. The company could be cash flow positive by about mid 2006 if development of the Browns oxide component is given the go-ahead by around mid 2005.

The Browns project is essentially made up of low grade deposits and it has been known about for a long time, having been previously evaluated by RIO until they sold out to CMR in 1995, and it has really been waiting for a major change in economics either by way of metal prices or a revolutionary, very low cost treatment method. While some advances have been made on the metallurgical front, we understand they are relatively minor and it is just the sheer move in metal prices that has turned the project from at best a very marginal situation to a potentially very economic one.

CMR has other mineral exploration and development interests including iron ore (Territory Iron agreement covering several deposits) and uranium and gold (recently granted large tenements containing the majority of the old Rum Jungle uranium mine and other related deposits and prospects) in the Northern Territory, gold in NSW (principally the large Wyoming deposit royalty interests and the Worldbeater project in California, USA) and several other exploration interests.

## Impact

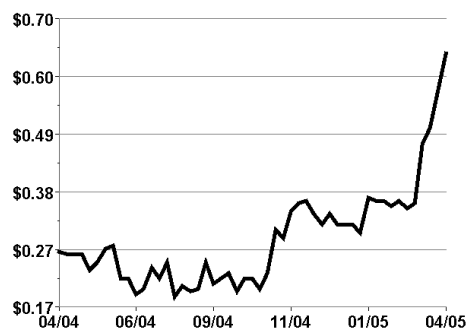
We have calculated a NPV-based valuation for CMR of around \$3 per share on the basis of what we consider are longer term commodity prices and exchange rate generally below currently prevailing prices. This valuation may sound generous, but there is potential for that figure to increase substantially, especially if the full potential of the Browns sulphide deposit is realised. Our current valuation only considers 50% of the Browns sulphide project valuation by conservatively assuming that less than 20% of the resource will be mined and are not ascribing any potential for the resource continuing at depth, which it seems to be doing. We have also assumed the more expensive

Last Price	\$0.74
Market Cap.	\$49 million
52 Week High	\$0.83
52 Week Low	\$0.18
Shares on Issue	65.6 million
Sector	GICS - Materials
<b>Risk (beta)</b>	Company Market Sector
	0.76 1.00 1.02

Year-end Dec	2003A	2004E	2005E	2006E
NPAT (\$m)	0	-1	-1	31
EPS (¢)	-0.1	-1.0	-1.0	45.6
EPS Growth (%)	0.0	0.0	0.0	0.0
PE Ratio (x)	0.0	0.0	0.0	1.7
DPS (¢)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0

Source: Intersuisse estimates

## 1 Year Price Chart



## Business Description

Compass Resources NL (CMR) is a base and precious metals exploration and development company based in Australia. The company is focused on the development of the Brown's Project in the Northern Territory and exploration for copper/gold in Central New South Wales.

Australian-based processing option is taken and ignore potential to expand capacity beyond 1.0Mtpa. In our total valuation, we have attributed little value to the company's promising uranium prospects as more work needs to be done to bring the resources and information up to an acceptable standard and there is still uncertainty over future uranium project development in the Northern Territory. We have only ascribed a notional value to CMR's other gold and base metals assets, royalty interests and iron ore agreement, and believe some of these could have significant value.

We believe CMR represents an opportunity to participate in the unlocking of considerable value across a range of advanced projects, royalties and exploration projects.

It is important to remember that CMR is 'Speculative'. The company has no cash flow and will need to pass numerous milestones (including funding) to start unlocking its full potential. In a strong market for resources as we are currently seeing, it is important to remember rapid sentiment changes can have real consequences for capital and debt financing. CMR has until relatively recently been a relatively illiquid stock. We rate CMR as one of the highest leverage plays to an extended China driven resources boom, should that eventuate as we expect it to as China (and possibly India and other developing countries like Brazil) undergo industrialisation. While we believe CMR is an attractive and undervalued situation, it is not without risks, and may not be a suitable investment for conservative investors.

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## Event Analysis

### 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 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 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% U3O8 (45.2lb/tonne) at Whites Extended, and broader lower grade areas such as 42.1m @ 0.09% U3O8 (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% U3O8 (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.

## Business Summary

Compass Resources NL (CMR) is a base and precious metals exploration and development company based in Australia. The company is focused on the development of the Brown's Project in the Northern Territory and exploration for copper/gold in Central New South Wales but also has interests in gold projects in the USA and Peru.

### Browns Development Project (90%):

The project is located in the Browns/Mt Fitch District in NT and contains the Browns, Browns East and Area 55 deposits. Resources as at April 2003 were estimated at 81.8Mt @ 2.28% Pb, 1.76% Cu, 0.12% Co, 0.11% Ni and 8.4g/t Ag for 1.87Mt Pb, 1.44Mt Cu, 98,000t Co, 90,000t Ni and 22.0Moz Ag. The company is looking for a strategic partner to reactivate the feasibility study.

### Browns Embayment Project (100%, diluting to 30%):

The project covers a portion of the Embayment Structural Area, which hosts the Browns, Browns East and Area 55 deposits. These deposits are excluded from the JV, however some extensions at depth and along strike may be included. Phelps Dodge (70%) may assign strategic partner Red Metals 30% of its interest in the project. Drilling has returned 14m @ 2.03% Cu

### Central NSW Projects:

CMR has a number of projects located in central NSW are prospective for copper and gold. The Trewiliga project (CMR has up to 5% royalty interest) had a contained resource as at December 2003 of 5.26Mt @ 2.76g/t Au for 466,529oz, using a 1g/t Au cutoff. At Alectown East (CMR 25%), previous drilling has intersected 26m @ 0.29g/t Au and 0.52% Cu. Drilling at the Tomingley West, Idaho and Ironbark projects has returned low grades of gold and copper. Other specific projects include Oregon, Kaiser/Bodangora (92%), Mt Stromolo, Turon (50%), Tiwana (75%) along with a number of other gold and copper projects in the Lachlan Fold Belt.

### Worldbeater (70%, diluting to 40%):

The Worldbeater Gold project is a joint venture with MBA Gold located in California USA. Resources as at April 2003 were estimated at 1.93Mt @ 3.2g/t Au for 199,000oz of gold.

### Mt. Fitch South Prospect (90%):

Mt. Fitch South Prospect is located in the NT. Drilling has returned 50m @ 0.5% Cu, 3.7% Pb, 0.2% Co and 0.16% Ni.

### Nangali:

The Nangali project is located in Peru and prospective for gold and silver. In June 2004 CMR and AKD Ltd entered into an agreement to purchase the project, with CMR to take 70% interest. Assays have returned up to 98.2g/t Au and 814g/t Ag.

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