

COMPASS RESOURCES (CMR)

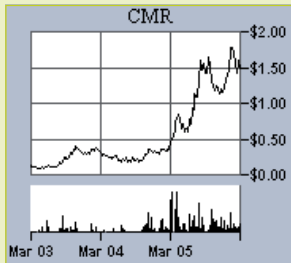
\$1.50

RECOMMENDATION: **SPECULATIVE BUY**



EMERGING BASE METALS MINER

NO. SHARES:	82.5m*
AVG. MONTHLY T/O:	4.4m
MKT CAP:	\$123.8m
LAST REVIEW:	7/12/05 (SCG381)
ROLLING YEAR HIGH:	\$1.97
LOW:	\$0.35
BUSINESS RISK:	High



* Includes 1.9m partly paid shares and 2.5m options.

F/Y	NPAT	EPS	%CHG	DPS	FR.%	YLD	PER
12/02(a)	0.0	-0.1	n/a	0.0	n/a	0.0	n/a
12/03(a)	-0.1	-0.1	n/a	0.0	n/a	0.0	n/a
12/04(a)	-0.6	-1.0	n/a	0.0	n/a	0.0	n/a
12/05(e)	-2.2	-2.9	n/a	0.0	n/a	0.0	n/a
12/06(e)	5.6	6.7	n/a	0.0	n/a	0.0	22.4
12/07(e)	39.6	48.0	+616.0	0.0	n/a	0.0	3.1

CMR is focused on development of its 90% owned Browns project in the Batchelor region of the Northern Territory. Cash flow could be positive by 4Q06 if construction begins at its base metal oxides project in 2Q06. At 6.7Mt and growing with A\$1.0bn in-ground value, oxide resources represent only 8% of the 84Mt total around A\$13bn in-ground value. This is an opportunity to participate in realisation of considerable value at advanced projects, royalties and exploration properties. We rate

CMR as one of the highest leverage plays to an extended China driven resources boom. CMR has no earnings history, is subject to development risk and low liquidity.

A month to oxide funding!

Regulatory approval is expected in early April for fast track development of the Browns Oxide project. Funding discussions are likely to dovetail with regulatory approval. This could see removal of the Speculative tag from our Buy recommendation within a month. The appointment of David Bo as CMR's senior Asia representative intrigues. He will investigate marketing and financing opportunities in China where his investment and consultancy head office is based. This could have implications for the much larger Browns sulphide project. CMR recently dusted off the sulphide model citing a \$350m/2.0Mtpa conventional concentrator generates 78ktpa of lead, 18ktpa of copper, 3.15ktpa of cobalt and 2.25ktpa of nickel. Its in-house NPV at an 8% discount rate is A\$698m using long run metal prices, or A\$957m using spot prices. Using our standard 10% discount rate would generate a long run metal price NPV closer to A\$550m or A\$6.70ps. To date we have conservatively credited CMR with A\$65m for its 90% share of the sulphides or just over 10% of

the potential worth. Sulphide resources are open at depth and expected to increase.

First things first, oxides! CMR acquired major second hand plant from the Cawse lateritic nickel operation late last year. Key pieces of grinding equipment have been optioned, substantially securing most major plant components. The acquisitions reduce the capital cost and provide greater certainty on construction timing. In a key positive, 30 year veteran Len Spencer has been appointed General Manager Development. He has held senior operating positions with WMC, Western Metals, Australian Nickel and Ashton.

Resource announcements on the way

CMR is to embark on its largest drilling program from end April/early May. Rigs have been secured to undertake 20,000m of RC and 5,000m of diamond drilling. Some 10,000m of drilling in FY05 generated a considerable volume of assay results from the Mt Fitch, Browns East and Area 55 base metal prospects and the Mt Fitch and Rum Jungle East uranium prospects. Resource upgrades are being compiled with the first, Area 55, likely in about two weeks. Area 55 comprises a 12.4Mt Cu-Pb-Co-Ni resource @ 1.9%Cu equivalent within which 2.6Mt Cu-Co-Ni @ 2.6%Cu equiv is oxide. Re-evaluation suggests a larger portion of the resource is oxidised with a potential higher grade zone. Re-drilling of an earlier drill hole doubled the copper and nickel grades to 3.5% and 0.5% respectively and increased cobalt grades four times to 0.74%. A review will examine if undue weighting of any 1950/60s drilling may understate resources. The Area 55 announcement is likely to be followed by resource upgrades at Mt Fitch uranium, Mt Fitch copper and Brown East base metals. Last year's drilling showed 1960s uranium data could be used in resource estimates where sufficient recent holes are available. CMR has hundreds of these old holes available including 80 at Mt Fitch.

The 2006 drilling schedule represents an accelerated uranium and base metal exploration program. The Mt Fitch base metal oxide resource is open to the north and south. Additional drilling will define the base metal oxide resource above the Browns East sulphide deposit of 30.5Mt @ 2.9%Cu equiv. The 2005 Mt Fitch South base metals sulphide discovery could be a major deposit and drilling will test its potential. Rum Jungle Creek South uranium mineralisation will be chased further to the north.

We expect significant oxide resource additions from Mt Fitch, Browns East and Mt Fitch South. In our last report we assumed oxide project life of 10 years or 10Mt, still below CMR's 12Mt target. Our 10Mt estimate could be bettered by gains at Mt Fitch South, Area 55 and the many kilometres of untested prospective ground. For now we leave our valuation unchanged at 3.10cps. Upside to this figure exists in potential for resource upgrades, particularly uranium where we have applied nil value. In addition, as the sulphides project is progressed, we will recognise increasing value. Exploration drilling should deliver further gains. CMR spent \$2.8m on exploration and evaluation in FY05. The company had \$15.2m in cash at the end of December after raising \$15.2m in placements.

Note: The author personally holds shares in CMR.