

7 December 2006

Rumble in the jungle

Investment highlights

- Patersons attended a site visit at CMR's Rum Jungle Mineral District. We were impressed with the scale of the project, the company's aggressive exploration program and its solid development progress at Browns Oxide. The Browns Oxide project remains strongly leveraged to copper and cobalt prices, and their ongoing strength is essential to driving solid cashflows. We rate CMR as a HOLD with a 12-month price target of \$5.23/share.
- Construction underway** – the construction of the Browns Oxide plant is advancing well with the site cleared and the earthworks and foundations looking to be finalised before the approaching wet season commences.
- JVs implemented / de-risked** – CMR has entered into JV agreements with Hunan Nonferrous Corporation (HNC) for the construction of both its Browns Oxide and Sulphide plants. HNC will fund the development of each plant in return for a 50% interest in both projects (excluding uranium). This has effectively de-risked both projects financially.
- Uranium exploration to drive value** – CY06 saw the release of an initial Inferred Resource at Mt Fitch of 14.5Mlbs of U3O8. We have attributed A\$95m to CMR's uranium exploration interests, with the majority of this valuation credited to Mt Fitch. However, we believe that significant uranium upside lies with the Rum Jungle Creek South and Rum Jungle East prospects. This upside is further enhanced by CMR's retention of 100% of the uranium rights.
- Project funding for both the Browns Oxide and Sulphide projects is now secured. CMR has A\$74.7m in cash and budgeting for A\$4m exploration in CY07. We see it likely that CMR will be looking at potential acquisitions as a growth strategy.

Company	
Stock code:	CMR
Share price:	\$5.30
Recommendation:	HOLD

\$4.45 \$5.50

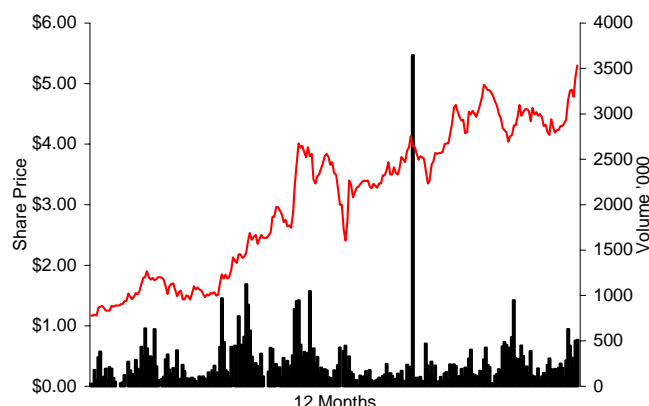


S&P/ASX 300 = 5447.7

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Company Statistics & Performance

Shares on Issue	129.0m	Daily Vol.	236,542
Market Cap.	\$714.6m	Debt	\$0.0m
52 Week Range	\$1.17 - \$5.30	Cash	\$74.7m



Investment Summary

Year End December 31	2005A	2006F	2007F	2008F
Reported Earnings				
Net Profit (\$m)	(1.1)	-1.1	9.1	28.2
EPS (cents)	(1.7)	-1.4	7.3	22.8
EPS growth (%)	nm	nm	nm	211%
PER (x)	(329.6)	-410.6	75.7	24.3
EBITDA				
EBITDA (\$m)	(1.1)	-1.2	13.1	40.3
EV/EBITDA (x)	(366.2)	-530.0	46.3	14.2
Cashflow Multiples				
Gross Cashflow (\$m)	(4.4)	3.4	12.7	40.1
GCFPS (cents)	(6.5)	4.4	10.3	32.4
PGCF (x)	(85.2)	125.9	53.9	17.1
Free Cashflow (\$m)	(3.1)	(16.6)	6.2	33.6
FCFPS (cents)	(4.6)	(21.2)	5.0	27.2
PFCE (x)	(119.9)	(26.2)	111.1	20.4
Dividend				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	na	na	na	na

Investment Thesis

CMR has slated first production at Browns Oxide in mid-2007. Browns Oxide is expected to be a precursor to development of a larger sulphide operation. CMR also has a number of prospective uranium targets that have the potential to significantly add value to the company.

With project funding now secured, we see several potential catalysts to support our valuation, including:

- Positive news flow from CMR's aggressive exploration program conducted over the past few months and a potential resource upgrade.
- Successful construction of the Browns Oxide plant and first production achieved on schedule.
- A 'stronger for longer' commodity price scenario to sustain attractive operating cashflows from a low-grade project.

Browns Oxide

The CMR board approved the Browns Oxide project in January 2006. In August 2006 a detailed engineering and optimisation study was completed, increasing the process plant capacity to 1.3mtpa for a final estimated construction cost of A\$69m.

Under the Browns Oxide JV agreement, HNC are to fund the oxide plant cost to A\$72m for a share of 50% of the cashflow from oxide operations. Additionally, HNC will reimburse CMR approximately A\$11m for past exploration and development costs incurred. Uranium rights are specifically excluded from the JV agreement.

The construction of the Browns Oxide plant is progressing to plan with site clearing complete and the most time critical aspects, being earthworks and foundations, expected to be finalised before the upcoming wet season.

CMR has procured most of the plant and equipment, including the acquisition of a complete SX plant and much of the EW plant from the Cawse Laterite Nickel operation in WA. The Company has also acquired the bulk of the tankage and product filtering equipment.

Figure 1: SX-EW plant purchased from Cawse



Source: Compass Resources NL

All major suppliers have been identified and key staff have been recruited with the only exception of a Mining Engineer.

Pre-stripping is expected to start with the cessation of the 2006/07 wet season. It is planned that waste will be used for the tailings wall construction. Drilling is currently in progress at the Browns Western Extension (zinc zone) prior to a final decision being made for the tailings dam location.

Management anticipate that start-up and commissioning to full production will occur in mid-2007. The main risks to this schedule are access to the NT power grid and any unexpected delay from an extended wet season.

Mining will commence at Browns oxide and then progress to Area 55, which is within 2.5km trucking distance of the Browns Oxide processing plant. Life of mine for the oxide operations is expected to be 10 years at a throughput rate of 1.3mtpa.

This mine plan requires further additions to the current resource of 9.4mt at 0.82% Cu, 0.14% Co and 0.14% Ni, which management are confident of outlining.

Given the low-grade, strong commodity prices are essential to the drive the cashflow of the project. We have forecast EBIT for the oxide operations of A\$12.3m in CY07 increasing to A\$38.0m in CY08.

Our forecast free cashflow of A\$33.6m in CY08 is highly leveraged to copper and cobalt prices. By increasing our copper and cobalt price assumptions by 75% (i.e. US\$1.925/lb and US\$15.75/lb respectively) CMR's free cashflow in CY08 climbs 150% to over A\$80m.

Figure 2: CY08 Free Cashflow Sensitivity to Commodity Prices

Free Cashflow (A\$m)	Copper Price							
	33.62	-75%	-50%	-25%	0%	25%	50%	75%
Cobalt Price	-75%	-13.94	-1.74	10.47	22.67	34.88	47.08	59.28
	-50%	-10.29	1.91	14.12	26.32	38.53	50.73	62.93
	-25%	-6.64	5.56	17.77	29.97	42.17	54.38	66.58
	0%	-2.99	9.21	21.42	33.62	45.82	58.03	70.23
	25%	0.66	12.86	25.07	37.27	49.47	61.68	73.88
	50%	4.31	16.51	28.71	40.92	53.12	65.33	77.53
	75%	7.96	20.16	32.36	44.57	56.77	68.98	81.18

Source: Patersons Securities Estimates

The above scenario is not considered overly optimistic given that these price increases leave our long-term average copper and cobalt prices below current spot prices. It is also the scenario that the market is factoring in to arrive at CMR's current share price.

Figure 3: Forward Commodity Assumptions (Real)

		2005A	2006E	2007E	2008E	LT Average
A\$:US\$	Cents	0.762	0.75	0.75	0.74	0.71
Copper	US\$/lb	1.669	3.064	3.073	2.825	1.10
Lead	US\$/lb	0.443	0.584	0.662	0.603	0.30
Zinc	US\$/lb	0.625	1.482	1.688	1.399	0.52
Nickel	US\$/lb	6.688	10.880	12.320	10.532	4.00
Cobalt	US\$/lb	14.448	13.000	12.337	11.275	9.00

Source: IRESS, LME, Patersons Securities Estimates

Our base case assumptions result in an NPV of A\$78m for the Browns Oxide project or \$0.60/share.

No off-take for Cu cathode production is sought and CMR plans to market this product itself. Under the terms of the Browns Oxide JV agreement (which is pending formal execution), HNC has indicated it has a strong interest in the Co production and it is likely that they will take 100% of the Ni-Co concentrate. We note that when in full production the Browns Oxide project will produce near to 2.5% of the world's primary Co production.

CMR has no plans to hedge production, however management remains open to the option.

Browns Sulphide

The greatest upside to CMR's relationship with HNC lies in HNC's obligation under the Browns Sulphide JV agreement to fund the +A\$400m sulphide plant.

Nevertheless, with the deep drilling program still in progress, the ultimate value of the 50% of sulphide resources assigned to HNC under the agreement remains to be seen.

CMR plans to commission a feasibility study with HNC which is expected to take approximately 12 to 18 months. Ongoing definition drilling at Browns East is designed to upgrade the resource to an Indicated status.

Current sulphide resources at Browns, Browns East and Area 55 total 73.9mt and should be sufficient to underpin a 4mtpa operation for 20 years.

Using our base case assumptions, we derive an NPV of A\$205m for the Browns Sulphide project or \$1.59/share.

CMR commenced a deep drilling program in CY06 to evaluate the depth potential of Browns and Browns East and to also test the concept that the two deposits may join at depth forming a high-grade zone around a synclinal fold structure.

The objective of this program is to assess the possibility of establishing a major underground mine to follow on from the open pit sulphide operations.

This initial phase will consist of six diamond drill holes, four at Browns East and two at Browns. At Browns, results from the first hole returned a highly encouraging intersection of 50m at 0.87% Cu, 3.28% Pb and 0.154% Co. The second hole was perched at 400m at the time of our visit.

At Browns East a similarly encouraging intersection of 55m at 0.92% Cu, 4.68% Pb and 0.367% Co has been reported from the first hole. Although Cu grades were lower than the resource grade, significantly higher grades of Co and Pb were encountered. Two more holes have since been completed with results pending and a fourth hole was in progress.

Uranium

CMR's extensive holding over the former Rum Jungle uranium mining operation has undeniable uranium potential and we view this as a significant value driver for the company as exploration progresses and resources are built. This potential is further enhanced given that CMR retain 100% of the uranium rights under the JV agreements with HNC.

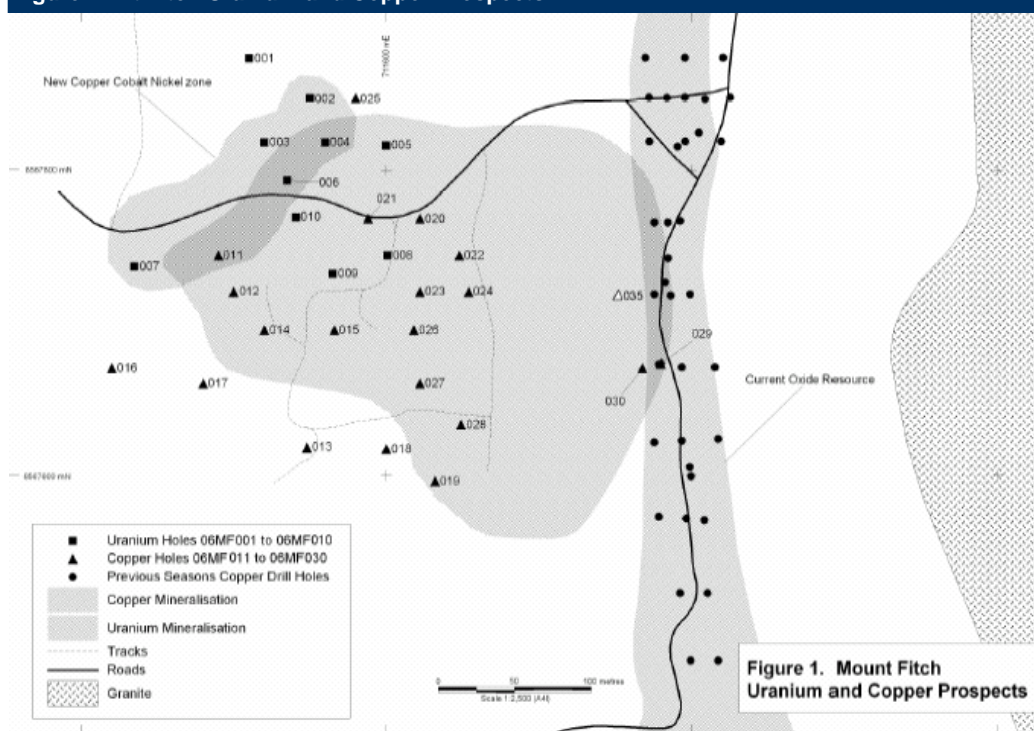
CMR's stated uranium resource target is over 50mlbs of U₃O₈ by 2009. Historic uranium production from the Rum Jungle District was 10.4mlbs.

During CY06, CMR released an initial Inferred Resource for Mt Fitch of 18.3mt at 0.036% for 14.5Mlbs of U₃O₈. The deposit remains open in a number of directions and management believe there is a strong likelihood to increase the current resource on receipt of results from the current round of drilling.

CMR has recently appointed Westech International to carry out the Preliminary Development Study and Cost Estimate for Mt Fitch. Westech has experience in designing and commissioning uranium plants in South Africa.

Potential also exists for a new Cu-Co-Ni resource in this area along the western margin of the uranium deposit. With a number of drill holes intersecting oxidised copper mineralisation, we highlight the potential for a satellite resource.

Figure 4: Mt Fitch Uranium and Copper Prospects



Source: Compass Resources NL

Mt Fitch is only one of CMR's uranium exploration prospects in the Rum Jungle District.

We have attributed A\$95m to CMR's uranium portfolio with the majority of this valuation credited to Mt Fitch. Our valuation applied A\$5.00/lb to the Mt Fitch Inferred Resource.

However, we note that management believe the greatest uranium upside lies with the Rum Jungle Creek South prospect where the strike extensions of the former mine are currently being drill tested. Accordingly, we have credited an additional 10mlbs of uranium resource and applied a A\$2.50/lb value.

Historic uranium production from Rum Jungle Creek South was 6.8mlbs grading at 0.36% U3O8. It is understood that mining ceased prematurely owing to the completion of Government sales contracts suggesting that considerable potential remains.

CMR's other highly prospective uranium projects include the Rum Jungle East prospect, which is located between the old Whites and Dysons open pits, and the Kylie prospect.

Exploration

At the time of the site visit, CMR had two RC and two diamond drill rigs on site. These rigs were located at Brown Western Extension (zinc zone), Browns Deep, Browns East Deep and Rum Jungle East.

The scope of the project and the company's aggressive exploration program is impressive. With the loss of one drill rig during CY06, CMR's drilling campaign is slightly behind schedule and likely to be halted shortly by the imminent wet season. Results from the current drilling programs will provide a steady flow of news over the coming months.

CMR's total exploration budget for CY07 is A\$4m to be funded from cash.

Financing

Recent equity issues include A\$45m from Harbinger and Citadel in April 2006 and A\$30m from HNC in July 2006. These raisings have provided CMR with cash at bank of A\$74.7m (at 30 September 2006).

Subsequent to these equity issues, CMR's top three shareholders are HNC with 9.3% and Harbinger and Citadel with 8.6% each.

With project funding for the Browns Oxide and Sulphide projects now secured, these projects have effectively been de-risked financially.

Valuation and sensitivity analysis

Our DCF derived NPV for CMR at a discount rate of 10% is A\$450m or \$3.49/share. The Browns Oxide and Sulphide projects together contribute 63% of this value, with the remaining primarily made up of uranium exploration projects and cash.

Consequently, a greater portion of our valuation hinges on highly leveraged base metal operations. Demonstrated below in Figure 5 is the NPV sensitivity to copper and cobalt prices (our price assumptions can be seen above).

Figure 5: NPV Sensitivity to Commodity Prices

		Copper Price						
NPV	3.49	-75%	-50%	-25%	0%	25%	50%	75%
Cobalt Price	-75%	1.17	1.67	2.16	2.66	3.15	3.64	4.14
	-50%	1.45	1.95	2.44	2.93	3.43	3.92	4.41
	-25%	1.73	2.22	2.72	3.21	3.71	4.20	4.69
	0%	2.01	2.50	3.00	3.49	3.98	4.48	4.97
	25%	2.29	2.78	3.27	3.77	4.26	4.76	5.25
	50%	2.56	3.06	3.55	4.05	4.54	5.03	5.53
	75%	2.84	3.34	3.83	4.32	4.82	5.31	5.81

Source: Patersons Securities Estimates

We value CMR's uranium exploration at A\$95m, and with the company's resource target of over 50mlbs U3O8, we recognise significant upside to this.

We have attributed no value to CMR's other base metals and gold prospects in NSW and Peru. Therefore, any positive developments at these projects could add an immediate increment to our valuation.

Risks

Commodity prices – by far the greatest risk to CMR is a downturn in commodity prices.

JV structure risk – CMR is still to finalise its three JV agreements with HNC, being the Browns Oxide JV, the Browns Sulphide JV and the Regional Exploration JV.

Clauses in these three JV agreements allow CMR to retain 100% of the uranium rights at all projects. It is envisaged by management that the costs of production for principally base metals with uranium credits will be split evenly between the parties. On the other hand, if there is an identifiable increment to operating costs due to extracting the uranium, it will be allocated to CMR.

However, in the absence of the JV agreements being formally executed a number of issues remain to be resolved, such as (1) if uranium is being processed through the sulphide plant can HNC clawback a portion of the capex which they initially funded, and (2) will HNC take the Ni-Co concentrate from the oxide operation and what will the payability rate be.

Metallurgy – Metallurgical characteristics of the sulphide ore are yet to be fully understood and accordingly potential processing issues remain to be a risk. To date several processes have been successfully evaluated to treat the bulk concentrate and produce Cu and Pb cathodes, and Ni and Co concentrates.

Management – with the inevitable retirement of former Managing Director, Malcolm Humphreys, and Exploration Manager, Max Boots (who have both been with CMR from its formation in 1987), we consider there to be a management changeover risk. For that reason, CY06 saw the appointment of a new Managing Director, Richard Swann, in August 2006 and new Exploration Manager, Tim Major. Malcolm and Max still remain heavily involved in the business.

Disclosure: Patersons Securities Limited acted as lead manager to CMR's share placement of up to 12.1m shares at \$1.25 per share to raise A\$15.1m in November 2005. It received a fee for this service.

Compass Resources NL

\$5.30

Profit & Loss (\$m)	1H/06A	2H/06E	1H/07E	2H/07E
Sales Revenue	0.0	0.0	0.0	26.6
Other Income	0.6	1.7	1.5	1.4
Operating costs	0.0	0.0	0.0	12.3
Depn & Amort	0.0	0.1	0.1	0.1
Exploration Exp.	0.0	0.1	0.5	0.5
Corporate/Admin	1.2	2.2	1.5	1.5
EBIT	(0.6)	(0.6)	(0.7)	13.6
Interest	0.0	0.0	0.0	0.0
Operating Profit	(0.6)	(0.6)	(0.7)	13.6
Tax expense	0.0	(0.2)	(0.2)	4.1
Abnormal Losses	0.0	0.0	0.0	0.0
NPAT	(0.6)	(0.4)	(0.5)	9.5

Normalised NPAT (0.4) (0.4) (0.5) 9.5

Cash Flow (\$m)	1H/06A	1H/06E	1H/07E	2H/07E
Adjusted Net Profit	(0.6)	(0.4)	(0.5)	9.5
+ Interest/Tax/Expl Exp	(0.2)	(0.1)	0.3	4.6
- Interest/Tax/Expl Inc	0.0	0.5	0.7	0.7
+ Depn/Amort	0.0	0.1	0.1	0.1
+/- Other	0.0	5.2	0.0	0.0
Operating Cashflow	(0.8)	4.3	(0.8)	13.5
- Capex (+asset sales)	3.9	2.3	2.0	2.0
- Working Capital Increase	3.4	10.4	1.3	1.3
Free Cashflow	(8.1)	(8.5)	(4.0)	10.2
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	45.0	30.0	0.0	0.0
+ Debt drawdown (repaid)	(0.0)	(0.1)	0.0	0.0
Net Change in Cash	36.8	21.4	(4.0)	10.2
Cash at End Period	52.1	73.5	69.4	79.6
Net Cash/(Debt)	52.1	73.5	69.4	79.6

Production Summary

	1H/06A	1H/06E	1H/07E	2H/07E
Browns Oxide (CMR %)				
Copper (t)	0	0	0	2,147
Nickel (t)	0	0	0	191
Cobalt (t)	0	0	0	243

Realised Copper Price (A\$/lb)	0.00	0.00	0.00	4.00
Realised Nickel Price (A\$/lb)	0.00	0.00	0.00	5.05
Realised Cobalt Price (A\$/lb)	0.00	0.00	0.00	10.46
Total Cost (A\$/lb Copper)	0.00	0.00	0.00	0.97

Balance Sheet (\$m)

	2005A	2006F	2007F	2008F
Cash/Bullion	15.2	73.5	79.6	113.3
Total Assets	37.2	103.8	118.7	162.2
Total Debt	0.0	0.0	0.0	0.0
Total Liabilities	1.1	-6.2	-0.4	15.0
Shareholders Funds	36.1	110.0	119.0	147.2

Ratios

Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	na	na
Return on Equity (%)	na	na	7.6	19.1

Reserves & Resources

Browns	Mt	% Cu	% Pb	% Co
Measured	12.2	0.54	3.76	0.12
Indicated	10.1	0.34	4.77	0.11
Inferred	17.7	0.55	4.93	0.10

Browns East	Mt	% Cu	% Pb	% Co
Indicated	30.5	1.29	1.28	0.13

Area 55	Mt	% Cu	% Pb	% Co
Indicated	12.2	0.49	0.56	0.14

Mt Fitch	Mt	% Cu	% Pb	% Co
Indicated	1.3	0.60	na	0.21

Total 84.0 0.78 0.10 0.12

Year End December 31

Profit & Loss (\$m)	2005A	2006F	2007F	2008F
Sales Revenue	0.0	0.0	26.6	72.5
Other Income	0.0	2.2	2.9	4.5
Operating costs	0.0	0.0	12.3	33.0
Depn & Amort	0.0	0.1	0.2	0.0
Exploration Exp.	0.0	0.1	1.1	0.6
Corporate/Admin	1.6	3.3	3.1	3.1
EBIT	(1.1)	(1.2)	12.9	40.3
Interest	0.0	0.0	0.0	0.0
Operating Profit	(1.1)	(1.2)	12.9	40.3
Tax expense	0.0	-0.2	3.9	12.1
Abnormal Losses	0.0	0.0	0.0	0.0
NPAT	(1.1)	(1.1)	9.1	28.2

Normalised NPAT -0.8 -0.9 9.1 28.2

Cash Flow (\$m)	2005A	2006F	2007F	2008F
Adjusted Net Profit	(1.1)	(1.1)	9.1	28.2
+ Interest/Tax/Expl Exp	(0.3)	(0.3)	4.9	12.7
- Interest/Tax/Expl Inc	2.9	0.5	1.4	0.8
+ Depn/Amort	0.0	0.1	0.2	0.0
+/- Other	0.0	5.2	0.0	0.0
Operating Cashflow	(4.4)	3.4	12.7	40.1
- Capex (+asset sales)	0.7	6.2	4.0	2.1
- Working Capital Increase	(2.0)	13.8	2.5	4.4
Free Cashflow	(3.1)	(16.6)	6.2	33.6
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	14.4	75.0	0.0	0.0
+ Debt drawdown (repaid)	(0.1)	(0.1)	0.0	0.0
Net Change in Cash	11.2	58.3	6.2	33.6
Cash at End Period	15.2	73.5	79.6	113.3
Net Cash/(Debt)	15.2	73.5	79.6	113.3

Production Summary

	2005A	2006F	2007F	2008F
Browns Oxide (CMR %)				
Copper (t)	0	0	2,147	6,201
Nickel (t)	0	0	191	553
Cobalt (t)	0	0	243	702

Realised Copper Price (A\$/lb)	0.00	0.00	2.00	3.77
Realised Nickel Price (A\$/lb)	0.00	0.00	2.53	4.52
Realised Cobalt Price (A\$/lb)	0.00	0.00	5.23	9.97
Total Cost (A\$/lb Copper)	0.00	0.00	0.48	0.88

Valuation

	A\$m	A\$/sh
Browns Oxide	78	0.60
Browns Sulphide	205	1.59
Forward Sales	0	0.00
Uranium Exploration	95	0.74
Cash	75	0.58
Unpaid Capital	9	0.07
Corporate	(12)	(0.09)
Debt	0	0.00
Total @ 10% Discount Rate	450	3.49
Price Target (1.5 x DCF)		5.23

Directors

Name	Position
Gordon Toll	Executive Chairman
Richard Swann	Managing Director
Malcolm Humphreys	Executive Director
Rodney Elvish	Executive Director
John Chappell	Non-Executive Director
Phil Cohen	Executive Director & Company Secretary

Substantial Shareholders

	Shares (m)	%
Hunan Non Ferrous	12.0	9.3
Harbinger	11.0	8.5
Citadel	11.0	8.5
Wythenshawe & Associates	9.9	7.7
Fraserview & Associates	8.7	6.8

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