

20 August, 2007

Compass Resources NL (CMR)

Not Rated

The next base metals producer

Compass Resource's (CMR) Browns mine is scheduled to commence production at the end of 2007, producing copper, lead, nickel and cobalt from the oxide portion of the resource. In addition, the Company is presently considering spinning off their uranium resources into a separate vehicle. In the background, feasibility work is continuing on the sulphide component of the resource, which has the potential to become the third biggest lead mine in the world.

Despite the significant appreciation in the Company's share price over the last 18 months, the potential scale of the project's in the portfolio warrant increased attention as the price has come under pressure, potentially due to exposure to uranium and nickel, and the market generally. These commodities however only represent a small proportion of potential revenues from the projects, and the Company retains the relatively unique position in being exposed to a wide range of metals.

The first mine under construction is modest in scale when compared to the sulphide mine, with production set at 1.3mtpa to produce approximately 10kt of copper cathode in the early years, with minor nickel and cobalt. We anticipate in 2008 that the oxide project may generate EBITDA upwards of \$A80m.

We have refrained from giving too much attention to the uranium projects, due to uncertainties over the spinoff and potential mine timing, however with a 14.5mlb resource, and recent intersections including 40m@2.6lbs/t, the project certainly has the hallmarks of being one of the NT's future uranium mines.

The jewel in the crown for CMR investors may well be the sulphide deposit at Browns. Past skepticism has been focused on the metallurgical challenges of the deposit, however extensive metallurgical testwork indicates it will not be an impediment to development. A feasibility study to be funded by Hunan Nonferrous Metals Corp (HNC) will select the final processing route. Should the project go ahead at a potential rate of 4mtpa, then >110ktpa Pb, >30ktpa copper along with nickel and cobalt may be produced, generating revenues over A\$400m, and earnings exceeding A\$250m.

Whilst we have refrained from making a specific recommendation at this stage, we consider it likely the stock is undervalued, and we are hopeful of being able to make a recommendation following the potential de-merger and once additional information regarding the sulphide project comes to hand.

FY 30Jun	A\$M	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)
Mining Rate (mt)		1.2	1.3	2.8	4.3	5.3
Copper Prod. (kt)		23.1	23.5	48.2	73.5	90.2
Lead Prod. (kt)		0.0	0.0	41.9	83.7	111.6
Copper Price (US\$/lb)		3.37	2.99	2.53	2.00	1.80
Lead Price (US\$/lb)		1.28	1.08	0.83	0.55	0.55
Revenue (A\$M)		155	136	330	453	512
EBITDA (A\$M)		89	80	223	293	317
EBIT (A\$M)		70	61	176	220	231
EPS (cps)		25.8	16.1	62	83	96
PE (x)		18.6	29.8	7.7	5.8	5.0

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Investment Summary

Share Price \$ps	\$3.82
Target Price \$ps	NA
Materials	
www.compassnl.com.au	
Issued Capital M	132M
Market Cap \$M	\$504M
Gearing	NA
Analyst Name	Geoff Muers

Share Price Chart



Year Hi-Lo \$ps	\$6.25 - \$3.30
Avg Monthly Vol (M)	0.6

Shareholders

	%
HMC Investors LLC	11.0%
Citadel Investment Group LLC	8.2%
Wythenshawe Pty Ltd	8.0%

Company Activities

CMR is a uranium and base metals exploration and development company.



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HNC Agreement

Compass and Hunan Nonferrous Metals Corp (HNC) entered into an agreement in 2006 providing for the formation of three joint ventures (NT Oxide Mining Project, NT Sulphide Development and Mining Project, Regional Exploration JV), as approved by shareholders in a general meeting in October 2006. HNC is one of China's largest metal refining and trading companies. The joint ventures allow for HNC to take 50% of base metal production and to provide funding for development of the oxide plant. HNC may also fund feasibility work into the sulphide stage and sole fund the project up to a throughput of 4 mtpa, along with funding 70% of exploration costs for 5 years and 50% thereafter. HNC recently sold some equity in the Company in order to fund a recent payment for construction, resulting in a price fall in June, however recently committed not to sell down its equity stake again in the short term.



Browns SX/EW plant

Browns (Oxide), NT (50%)

Resources at Browns have previously been established at 9.4mt grading 0.82%Cu, 0.14%Ni and 0.14%Co. Total capex is estimated at around A\$80m, with a low cost, low strip ratio mine and simple processing involving SX/EW (adjacent photo) to produce copper cathode and a Ni/Co carbonate concentrate.

Production is estimated at 1.3mtpa producing some 10,000ktpa of copper cathode, 0.9kt of nickel and 1.0kt of cobalt. The project's operating costs should be quite modest, around A\$2.10-A\$2.40/lb Cu equivalent, potentially generating earnings at forecast buoyant commodity prices in 2008 exceeding A\$80m (EBITDA).

Commissioning is due to commence in October, with first production forecast by the end of the year.

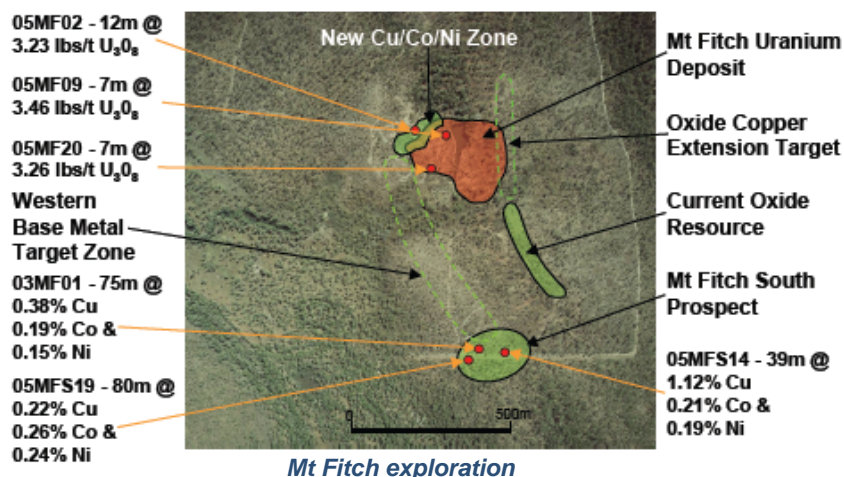
Browns (Sulphide), NT (50%)

Two ore types are outlined for the sulphide portion of the Browns deposit. A copper-rich sulphide, grading around 1%Cu and 3% Pb with minor nickel and cobalt (14.4mt), and a more lead rich ore grading 4.8%Pb with minor other metals.

In addition, the inferred resource at Browns east (30.5mt) grades 1.29%Cu, 1.28%Pb, 0.13% Ni, 0.13% Co and minor silver.

Whilst it is yet to be determined, we have assumed scheduling with regards to ore feed will seek to maximise cash flows in the early years, however there is little difference in ore value per tonne (US\$266 for Browns East vs US\$288 for Browns as at 14/08/07) even less so when our longer term price assumptions are utilised. We have assumed an average grade and recovery between the two deposits, with key determinants likely to be mining cost and metallurgy, results of which will come out of the feasibility study. The Company is still working on determining the optimum process route for the sulphides. We have allowed for the project to produce three products, copper metal, a Ni/Co concentrate and a lead concentrate.

Production is scheduled at 4mtpa in our model, commencing 3Q10, with a total mine life of 15-16 years, assuming 73mt of reserves. We have allowed for existing resources to be expanded to accommodate the increased mine life. Total operating costs are forecast at less than A\$40/t, with smelter/transport charges at A\$23/t equivalent. Allowing for a capital cost of A\$1bn, which is at the upper end of Company guidance, we achieve an NPV around A\$1bn. Annual revenues may exceed A\$400m, with earnings exceeding A\$250m. Based on our present assumptions, the capital cost/NPV ratio is not especially compelling.



Exploration

HNC will fund 70% of exploration costs for 5 years and 50% thereafter and will also refund \$11m for past exploration expenditure. Compass has several advanced exploration targets on its tenements, excluding targets beneath the existing defined resources at Browns.

The Mt Fitch and Mt Fitch south areas (adjacent) offer excellent potential to extend the known resources and add mine life to both the oxide and sulphide plants.

The grading of the Browns deposit changes towards the western end, with increasing zinc rich sections. Intersections include 20m@5.76% Zn, however it is too early to include any resource/production estimates for zinc.

Exploration - Continued

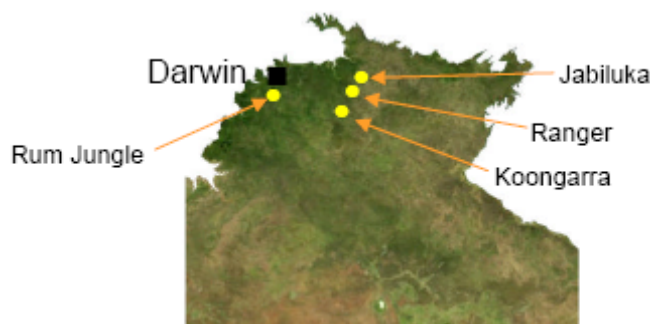
In addition to local areas, Compass has a royalty interest in the Wyoming deposit held by Alkane (ALK) where it is entitled to A\$0.75/c of dry milled ore and a royalty ranging from 3 to 5% of gold recovered. In addition to owning some tenements around Wyoming and in Western NSW, CMR purchased the Nangali gold project in Peru from Newmont in 2006. The target is an epithermal gold/silver system, however the Company has conducted minimal exploration to date. The Company maintains a 70% interest.

Uranium, NT (100%)

The uranium properties of Compass are centred around the Batchelor area in the NT, home to the historical Rum Jungle uranium mine (4700t production), within close proximity to Compass' base and specialty metal resources. The geological setting has similarities with both the Alligator River province in the NT (Ranger, Jabiluka) and the Athabasca Basin in Canada (McArthur River, Rabbit Lake). The Company presently has a **resource of 18.3mt grading 0.036% U₃O₈, or 0.8lb/t for 14.5mlbs U₃O₈** at the Mount Fitch uranium prospect (cu-off of 0.5lbs/t).

Several promising prospects are located within the tenements, including Kylie where intercepts include 8m@0.55% U₃O₈ from 64m depth.

The Company will shortly commence work on a Definitive Feasibility Study (DFS) for the Mt Fitch uranium project.



Location of Rum Jungle district compared to other NT uranium deposits

Board/Management

Compass is led by Richard Swann, a mining engineer with extensive business qualifications and international experience in the resources sector. Chairman is Gordon Toll, non-exec Chairman of LinQ Resources Fund. Dr Malcolm Humphreys is a non-executive director and founder (ex-Exxon), along with Phil Cohen (Company Secretary, exec. Director)

Two recent Board additions are Dr Thomas Girgensohn (Chairman of Stemcor, Savage River) and Phillip Wood (CEO of Intec Ltd).

Valuation Methodology

As with any mineral company in the development phase, there are inherent risks with attempting to place a definitive value on the equity. Uncertainties with mine timing and costs are typical, however with Compass the sulphide and uranium projects are not at the BFS completion/funding stage and therefore additional risk relating to resource/reserve conversion, metallurgy and process applies.

Despite the limitations, it is possible to make a number of assumptions and come up with an approximate potential value for the Company, assuming the projects are realised. We value CMR's share of the oxide project at approximately \$1.32ps, based on full production being achieved early in 1Q08 at a rate of 1.3mtpa, mine life of 8-9yrs (reserves of 11mt), \$A80m capex and A\$23/t operating cost.

Commodity assumptions are shown adjacent, however we have allowed for a small amount of hedging which is not the Company's current intention.

The value of the sulphide component is a little more difficult, due to inherent uncertainty with regarding to mining and processing costs, capex and scheduling. Assuming a rate of 4mtpa, opex of A\$36/t and capex of A\$1bn, we come up with an NPV valuation at a 10% discount rate of approximately A\$3.87ps. This assumes first production in 3Q 2010.

Based on existing arrangements for the oxide deposit, the capex may be entirely funded by HNC. For uranium, we attribute a notional A\$15/lb for resources, based on recent market transactions. It is worth noting whilst we have attributed a valuation for \$1.67ps to the uranium properties, the Company's NPV from the preliminary scoping study attributed a value of A\$207m NPV based on an average uranium price of US\$80/lb, above our long term price assumption of US\$50/lb. We note the favourable jurisdiction of the deposit and exploration potential.

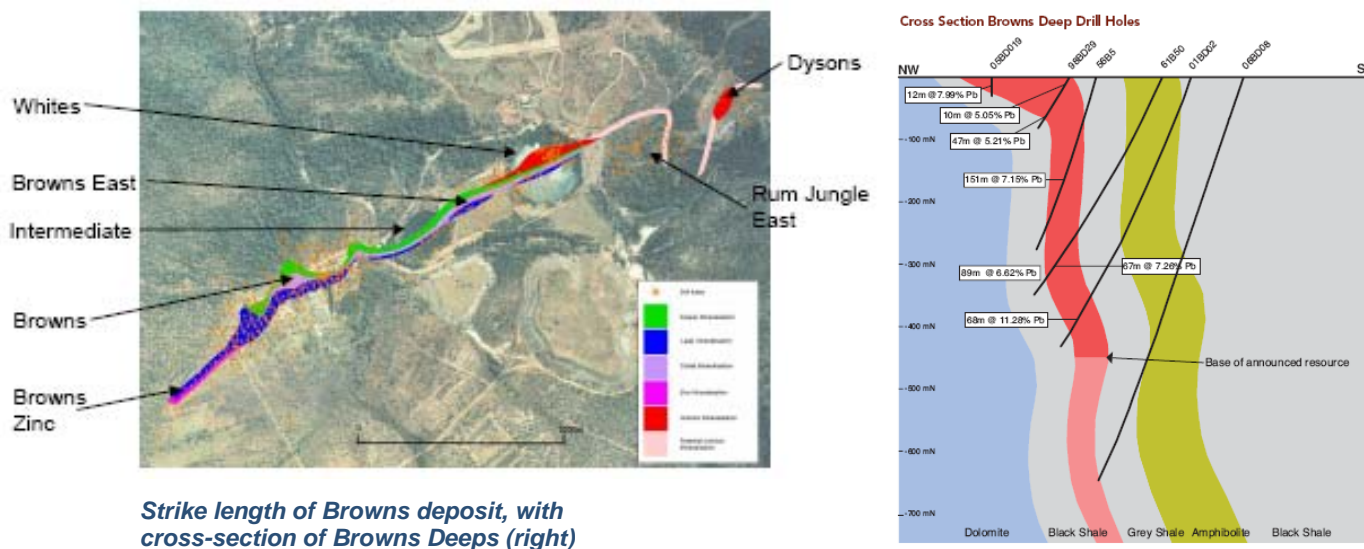
Whilst our total valuation is presently around A\$6.00ps, there is a high degree of risk in the assumptions utilised, due to uncertainty.

Upside relates to ongoing exploration success and additional positive clarity regarding costs of the sulphide component of the proposed mining operations, including zinc revenue streams and likely head grades.

NPV Summary

	A\$/share	A\$m
Browns Oxide (50%)	1.32	345.1
Browns Sulphide (50%)	3.87	1,011
Uranium Properties (100%)	1.67	217.5
Exploration	0.15	20.0
Cash	0.23	30.0
Debt	0.00	0.2
Tax/Corporate (50%)	-1.28	-332.88
Total	\$ 5.97	\$ 1,291

	2008	2009	2010	2011	2012
Cu US\$/lb	3.37	2.99	2.53	2.00	1.80
Ni US\$/lb	11.69	10.34	8.68	6.81	6.81
Co US\$/lb	23.0	18.0	15.1	11.8	11.8
Pb US\$/lb	1.28	1.08	0.83	0.55	0.55



Conclusion

We believe the market has been appropriately discounting the risk relating to CMR to a degree, as it heads towards production later this year, however recent selling may be overdone. Once more information emerges regarding the sulphide project however along with first cashflow in 2008, we expect the stock may be re-rated accordingly.

A fair discount to NPV is warranted at this stage due to the uncertainty around the proposed sulphide process and costs, however there may be potential for both cost reductions and positive feasibility results to emerge in 2008. From an earnings perspective, in our view near-term PE ratios are not compelling, and the sulphide project would not reach full production until 2011.

Whilst we are prevented from making a specific recommendation, due to insufficient information about the Company's projects, we may be in a position to provide more guidance following the potential de-merger, and once additional information is available on the sulphide project. We find the mix of commodity exposures quite attractive, due to the different demand drivers, which may serve to reduce the risk.

It is worth mentioning there is a degree of pricing risk relating to our commodity price assumptions, notably copper, which despite recent analyst upgrades, may be prone to selling in the short term due to speculation in the metal markets.

RISK STATEMENT The analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their SHAW advisor before making any investment decision.

Company Directors

Mr Gordon L Toll (Ch)
Mr Richard Swann (MD/CEO)
Mr Philip Cohen
Dr John Chappell

Dr Thomas J Girgensohn
Mr Philip R Wood
Dr Malcom Humphreys

Company Activities

Compass Resources NL (CMR) is a uranium and base metals exploration and development company. Production from the Browns Oxide project is scheduled to start late 2007. The company is becoming increasingly focused on uranium exploration and development, with a scoping study completed on the Mt Fitch Uranium project in the Northern Territory.

Information for Company Activities is sourced from Huntley Investment Information Pty Ltd.

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