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## QUARTERLY REPORT FOR THE PERIOD TO 30 JUNE 2006

### Highlights:

- Richard Swann appointed Managing Director
- Construction started on base metals oxide project
- HNC due diligence completed.
- Public Environmental Report approved by Northern Territory and Commonwealth
- 14.5 million pound Uranium Resource outlined at Mt Fitch
- Purchase of Guardian and its interests (10%) in the Northern Territory projects approved by CMR Shareholders.
- New Uranium prospect identified at Area 55 West
- 2006 Exploration Drilling started with 3 rigs operating

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## **CORPORATE**

A number of significant corporate actions were taken and concluded during the quarter:

- A further 11 million shares were issued to the two New York based investment funds, and 2.3 million shares to the two Hong Kong based investors following required shareholder approval in the General Meeting on 10 May, 2006. This raised a further \$24.6 million capital reserve.
- A share subscription agreement was concluded with Hunan Nonferrous Metals Corporation (HNC) in May providing for a further \$30 million capital injection with the issue of 12 million shares. The required FIRB approval was given on 23 July and funds will be received and shares issued this week.
- HNC also entered into a Letter of Intent in May to form certain Joint Ventures with Compass with the purpose of developing the Northern Territory base metal cobalt and nickel assets of the company. Successful completion of these joint ventures will see HNC funding 100% of the Browns Oxide Project and the proposed Browns area sulphide metals project as consideration for a 50% joint venture interest in the projects. Additionally, for the first 5 years of these Joint ventures HNC will fund 70% of base metals cobalt and nickel exploration and thereafter 50%. Detailed drafting of agreements covering these ventures is well advanced and final negotiation with HNC's senior personnel is due to proceed in Australia in coming weeks. HNC have completed their due diligence on Compass relative to proceeding with the envisaged Joint Venture enterprises.
- The Company's Annual General Meeting was held on 31 May 2006. All resolutions put forward were passed and the 2005 Financial Statements and Remuneration Report were adopted.
- On 14 June, 2006 the Company concluded an agreement with Guardian Resources Pty. Ltd. and its shareholders to acquire 100% of Guardian thereby securing ownership and control of Guardian's 10% interest in the Northern Territory joint venture properties, in consideration of the issue of 8.25 million ordinary fully paid Compass shares. Compass shareholders approved this issue in a General Meeting on 28 July 2006, and the transaction will be finalised this week. This represents a very significant simplification of the ownership structure of the Company's mineral assets in the Northern Territory

### **Managing Director**

The Company appointed Mr. Richard Swann as its Managing Director effective 21 August 2006, following a nine months search process.

Richard is an internationally experienced mining engineer who has had senior responsibility for the development and operation of several major mines. He will be based in Darwin and drive the transition of Compass from an exploration company through development to a mid-tier mining company.

## **Management Information Systems**

The company has purchased the “Pronto” mine management information system. Installation was started during the quarter and is now well advanced. Exploration, Construction and Operations will use the system in all major management activities including personnel, procurement and materials management and accounting functions.

## **OXIDE BASE METAL PROJECT**

Progress on development of the Northern Territory Oxide Base Metals Project continued during the quarter:

- Site work started with removal and stockpiling of topsoil almost complete in preparation for plant foundation earth works.
- Detailed engineering packages are being completed in sequence as required and procurement of all major components is on schedule.
- The Northern Territory and Australian Commonwealth Governments both approved the project's Public Environmental Report clearing the way for submission of Compass's Mine Management Plan to the Northern Territory Department of Mines.
- HNC completed their field due diligence relative to the completion of Joint Ventures for the development of the oxide and sulphide base metals cobalt and nickel resources on Compass tenements in the Northern Territory
- Metal prices, particularly nickel and cobalt maintained upward momentum during the quarter and copper prices remained well in excess of US\$3.00 per pound. Most industry analysts have significantly revised upward their price forecasts for all base metals.

## **URANIUM PROJECT and SULPHIDE BASE METALS PROJECT**

Work progressed on scope details for and selection of engineering contractors for the Mt Fitch Uranium project and a major base metal project based on the company's large base metals, cobalt and nickel sulphide resources.

Uranium prices continued to move up during the quarter and now stand at US\$45.50/pound. It is anticipated that 2006 drilling will add to Uranium resources at Mt Fitch and elsewhere. The identification of another uranium prospect at Area 55 West further validated the concept of a central uranium processing plant serving multiple ore bodies in the North Batchelor region.

## EXPLORATION

The 2006 field exploration programme has commenced with drill programmes underway on Northern Territory base metal and uranium prospects and New South Wales gold and copper prospects. Three rigs are currently active and this will be increased to four or five rigs by the middle of August. Data compilation and resource estimate work continued including the release of a uranium resource estimate for Mt Fitch and the identification of a number of attractive new uranium and base metal targets.

## URANIUM

### Mt. Fitch Uranium Prospect Resource

During the quarter an initial resource was estimated at this prospect. The estimate was completed by Knox Partners using a database comprising 186 drill holes. Of this total Territory Exploration (TEP) a subsidiary of Rio Tinto drilled 145 holes in the period 1955-1969. Most of these holes were radiometrically logged and some were assayed. Some holes were not logged due to such things as breakdowns of the radiometric logging equipment. In this early data assaying and logging were often averaged over wider drill intervals than modern methodology employs. It therefore has a tendency to record larger but lower grade mineralisation intervals.

Apart from this deficiency in the definition of higher grade mineralisation the Compass drilling in 2005 showed that the TEP data was reliable and highlighted the probability of higher grades of uranium mineralisation existing within the wide intervals of lower grade mineralisation reported by TEP. This data comparison also showed that some intervals not logged or assayed by TEP may contain uranium mineralisation. In consequence it was concluded that the TEP drill data and therefore the resource estimate is most reliable using lower cut off grades and assessing a bulk lower grade minable resource.

At a cut off of 0.75 lbs/tonne U<sub>3</sub>O<sub>8</sub> an indicated and inferred resource totalling 8.9 million tonnes at a grade of 1.01 lbs/tonne (0.046%) U<sub>3</sub>O<sub>8</sub>, containing 4,050 tonnes of U<sub>3</sub>O<sub>8</sub>, has been estimated for the Mt. Fitch Uranium Prospect. The resource increases to 14.5 million pounds, 6,500 tonnes, U<sub>3</sub>O<sub>8</sub> using a lower cut off grade of 0.50 lbs/tonne U<sub>3</sub>O<sub>8</sub>.

### Mt. Fitch Uranium Resource

Cut off lbs/tonne U <sub>3</sub> O <sub>8</sub>	M. Tonnes	% U <sub>3</sub> O <sub>8</sub>	lbs/tonne U <sub>3</sub> O <sub>8</sub>	M. lbs Contained U <sub>3</sub> O <sub>8</sub>
>0.75 lbs indicated	4.6	0.047	1.03	4.8
>0.75 lbs inferred	4.2	0.044	0.98	4.2
<b>Total &gt;0.75</b>	<b>8.9</b>	<b>0.046</b>	<b>1.01</b>	<b>8.9</b>
>0.50 lbs indicated	10.0	0.037	0.81	8.1
>0.50 lbs inferred	8.3	0.035	0.77	6.4
<b>Total &gt;0.50</b>	<b>18.3</b>	<b>0.036</b>	<b>0.79</b>	<b>14.5</b>

(after Knox Partners)

The Mt. Fitch deposit has not been closed off by drilling and will be further evaluated during the 2006 field season. Potential exists to increase this resource in several directions and at depth. This potential is illustrated by an RC hole originally drilled for copper-cobalt by Compass in 1998. The stored assay pulps from this hole, FRC45, were re-assayed last month and the uranium mineralisation intercepts from the hole are summarised in the table below.

#### New Uranium Intercepts from Drill Hole FRC 045

	From (m)	To (m)	Width (m)	% U <sub>3</sub> O <sub>8</sub>	lbs/tonne U <sub>3</sub> O <sub>8</sub>
	11	51	40	0.12	2.60
including	24	43	19	0.21	4.60
including	29	31	2	0.87	19.25

The closest TEP hole (DD 931) to FRC 45 is located approximately 15 metres further to the east. It was not assayed above 54.6 metres depth and appears to have passed through the potential uranium mineralisation zone recorded in FRC45 in the precollar section of the drill hole. It did however record a 14.3 metre intercept from 68.9 metres that averaged 1.09 lbs/tonne (0.05 %) U<sub>3</sub>O<sub>8</sub>. It is believed FRC 45 which was completed at a depth of 59 metres did not test this deeper zone.

The Mt. Fitch uranium resource remains open in a number of directions. A drill programmed scheduled to commence in August will evaluate the extension of this deposit.

At current tonnage and grade the Mt. Fitch uranium resource is considered to be potentially commercial given that the average grade of 0.79 lbs/tonne at the lower 0.50 lb/tonne cut-off represents an in-situ value over A\$45 per tonne at current U<sub>3</sub>O<sub>8</sub> prices (over A\$60/lb). Taking into account the Company's plans to develop copper-cobalt-nickel resources in this area, and the likely benefits of shared infrastructure, the development potential of uranium resources in this area is high.

Samples of the uranium mineralisation from the Mt Fitch prospect are currently being collected for initial extractive metallurgical test work. A parcel of potential uranium ore from Mt. Fitch was extracted and tested in the late 1960s and was reported to give "uranium recovery better than 85% with acceptable acid consumption". It seems therefore that extraction of uranium will be achieved at acceptable reagent cost. Preliminary open pit and process plant engineering studies are expected to be completed before the end of 2006.

#### **Regional Data Compilation.**

Compilation of the Rum Jungle Mineral Field data incorporating exploration results from the 1950s up to Compass' current programme continued. This work is helping to better define existing drill targets and is identifying new ones. It is also forming the basis for new and revised resource estimates such as those released this year for Area 55 for base metals and Mt. Fitch for uranium.

As an example of new targets emerging, recently recovered data from archives identified a number of uranium intercepts from drill holes completed in the 1950s at the Area 55 West Prospect. This Prospect is located approximately 1 kilometre west of the Area 55 base metal resource.

#### Area 55 West Drill Results

Hole	From (m)	Width (m)	% U <sub>3</sub> O <sub>8</sub>	lbs/t U <sub>3</sub> O <sub>8</sub>
DD543	23.8	6.4	0.03	0.76
DD581	24.4	3.7	0.12	2.58
and	40.2	2.4	0.04	0.86
DD582	25.0	1.8	0.04	0.98
DD607	96.6	5.5	0.03	0.65

### BASE METAL EXPLORATION

The prolonged "wet" season and high rainfall toward the end of the "wet" delayed the start of Compass' 2006 Northern Territory drill programme. In addition to the delayed start up, the heavy rains created an abnormally high water table in places which led to access and drill problems. For these reasons drill programmes to date have concentrated on four targets, Browns East, Browns Deeps, the Browns West zinc extension and Mt. Fitch copper cobalt prospect.

A total of 30 holes have been completed to date for 2,553 metres of RC drilling and 1 hole in progress for 229 metres of core drilling. Ground conditions have now significantly improved and extra drill rigs will be added in August as well as some double shifting to accelerate the programme back to the planned schedule.

#### **Browns Deeps**

A number of holes are planned to evaluate the Browns deposit at depth. The objective is to evaluate the potential for extension of the Browns sulphide deposit for future underground mining. Hole 06BD08 is planned to intersect the Browns deposit approximately 100 metres vertically beneath 01BD02, the deepest hole drilled by Compass into this deposit to date. This hole intersected 63 metres at 0.37% copper, 11.95% lead, 0.11% cobalt and 0.09% nickel including 21 metres of 17.96% lead and individual metre samples exceeding 30% lead. Several other deep holes are also planned. Currently the hole has reached a depth of 310 metres.

#### **Browns Western Extension**

Increased metal prices have led to a re-assessment of the western extension of lead and zinc lenses beyond the current Browns resource. A total of 10 RC holes for 853 metres have been completed and show that moderate grade lead zinc mineralisation continues at least 200 metres further west of the existing resource.

As anticipated, cobalt and nickel values have decreased, however silver values have increased. These intersections may well extend the sulphide body and proposed mining area well to the west of its current plan. Although assays are pending, the deepest RC hole completed in this zone also appears to have intersected significant base metal sulphide mineralisation, suggesting grades and mineralisation width may be increasing at depth. One RC hole requires a diamond tail to complete the initial testing the target zone.

## Browns Western Lead Zinc Extension

Hole	Interval (m)	From (m)	Pb%	Zn%	Co%	Ni%	Ag g/t
06BD01	7	9	4.45	0.16	0.01	0.01	9
06BD02	18	27	1.37	3.39	0.03	0.03	17
06BD03	16	32	1.05	4.42	0.03	0.03	18
06BD04	3	6	4.25	0.96	0.03	0.04	4
06BD05	17	29	4.64	1.26	0.04	0.04	13
	including 5	40	9.26	1.90	0.07	0.07	16
	10	60	5.20	2.68	0.07	0.07	21
	12	73	0.78	3.56	0.02	0.02	17
06BD06	4	44	6.48	1.79	0.05	0.07	13
	7	54	1.06	4.08	0.03	0.03	11

Results to date have led to planning further follow up drilling at this prospect.

### **Browns East**

Eleven holes were completed at the Browns East Prospect for 1,070 metres. Considerably more drilling is planned for this prospect but high water flows have to date limited the effectiveness of RC drilling. Consequently a number of drill holes have been suspended awaiting diamond tails. Assay results are awaited but deeper holes that have passed at least in part through the target zone and show visible sulphide mineralisation.

### **Mt Fitch Oxide Copper**

Drilling has commenced south of the currently defined southern end of this prospect to determine if mineralisation continues in this direction. Highly ferruginous muds and gossanous material have been intersected in many of the holes completed, assay results will be required to determine if this material contains significant grades of copper, cobalt and nickel.

A substantial amount of drilling is planned for the Mt. Fitch area to test for oxide and sulphide base metals and uranium. To date 8 RC holes have been completed for 540 metres.

## **EXPLORATION – NEW SOUTH WALES**

### **Ironbark (EL 6090) (Compass 100%)**

One 252m precollared diamond drill hole has been completed at the Croakers gold prospect to test an induced polarisation (IP) anomaly located immediately to the east of the old workings. The hole intersected significant zones with up to 10% sulphide and quartz-carbonate veining between 130 and 205 metres. The core is currently being cut and will be assayed for gold and other metals.

Drilling of a diamond hole at the Styles Prospect has commenced, the target is again an induced polarisation anomaly located below the eastern zone of old gold workings.

### **Tomingley West (EL 6080) (Compass 100%)**

Two fences (of 2RC holes and one diamond hole) have been planned and marked out in the field at the Bogan East Prospect. These fences of holes are located 150m apart along strike, and cover a prospective zone carrying anomalous gold and arsenic values, quartz veining and porphyry intrusives in altered andesitic volcanics. This drilling is scheduled to start early in August following completion of the Ironbark Project drilling.

### **Trewilga Project EL 5675 (Compass Royalty Interest)**

No new assay results have been reported this quarter, however Alkane have announced that the Wyoming Gold Project would proceed to a definitive feasibility study.

The Compass royalty interest in the Trewilga tenement (that covers the Wyoming gold deposit and a substantial surrounding area) comprises “75 cents per dry tonne of ore treated for the first 500,000 tonnes, thence 3% of gold and other minerals recovered until 150,00 ounces are produced, thence 5% of gold and other minerals recovered.”

### **Alectown East JV EL 4752 Compass 90%, EL 5563, ELA 2764 Compass 100%**

These tenements cover the Buryan Porphyry Prospect and surrounding ground. Assay results from drill hole RCDAT058 (which was completed in the march quarter) were received, the highest gold values were 2m at 0.62g/t (362 to 364m) and 2m at 0.48g/t (539 to 541m).

Newcrest Mining Limited notified Compass during the quarter that it were withdrawing from the joint venture. Ownership of EL 4752 has reverted to Compass Resources and Metallic Resources. Ownership of EL5563 has reverted to Compass Resources who have applied for an EL adjoining the granted tenements. A review of all existing data will be undertaken to determine the next exploration stage.

### **Cuttaburra (EL 6224), Yancannia (EL 6225) (Compass 80%)**

Drilling at these projects is scheduled to follow testing of the Bogan East Prospect. The target at Cuttaburra comprises a magnetic anomaly associated with a bedrock EM (electromagnetic) anomaly. The same rig will also be used to evaluate a magnetic anomaly within the Yancannia tenement. Both anomalies selected for evaluation constitute conceptual base metal targets of the Cobar type in an area with no outcrop and no previous exploration.

*The information in this report relating to exploration results, mineral resources, or ore reserves is based on information compiled by Dr M.K. Boots, a full time employee of the Company, who is a fellow of Aus. I.M.M. and who consents to the inclusion in this report of the information as presented. Dr. M.K. Boots has sufficient experience relevant to the style of mineralisation/type of deposit under consideration and to the relevant activity to qualify as a Competent Person as defined in JORC Code 2004 edition.*