•

*July 20, 2007 01:09am AEST*

# North by northwest

CRITERION
Tim Blue | *July 20, 2007*

**Compass Resources (CMR) $5.17**
**COMPASS Resources has learned the hard way that the comrades in the People's Republic of China are just as happy to take a profit along the road to socialist nirvana as anyone else.**

Its shares took a dive when Chinese joint venture partner Hunan Nonferrous Metals Corporation sold a 5 per cent stake in the company at a deeply discounted price of $4.10. That was about half of Hunan's holding after taking a placement at $2.50 a share about a year ago.

But Compass has since bounced back, helped by some very good drill results from its Browns East Prospect in the Northern Territory that revealed high-grade copper and uranium. It has found high grades of copper and uranium about 100m underground with associated cobalt and lead.

Stockanalysis.com principal Peter Strachan says it has an in situ value of about $1650 a tonne at today's metal prices, made up of about $600/t each for copper and uranium and about $300/t for cobalt content at that high grade of 0.46 per cent cobalt. The market has decided this is good news, especially since mining approvals in the Northern Territory are controlled at the federal level.

StockAnalysis has a valuation target of about $10 a share for Compass, nearly $6 of which is ascribed to its sulphide project. The company is scheduled to crank up its oxide project in October to produce copper, nickel and cobalt, and work is under way on the sulphide project.

Yet there are other considerations when looking at Compass. It is talking of splitting itself into three entities covering base metals, exploration activities in NSW, and uranium. Criterion wonders if this is necessary and merely adds complications.

Details of the floats have yet to be finalised, but Compass hopes to offer guidance in a few weeks.

Compass is sitting on a 6500-tonne uranium resource near Rum Jungle in the Northern Territory, but it's the Browns base metals project, also in the Top End, that promises immediate revenues.

The Browns project is an intriguing mix of cobalt, copper, nickel, lead and zinc in oxide and sulphide form. The mineralisation is discrete, but most of the different ore bodies would need to be mined contemporaneously.

Compass reports the construction for the first plant is "well advanced", with the project on track for commissioning in October. Even at the oxide stage Compass envisages some serious output: annual production of 10,000 tonnes of copper cathode, 1000 tonnes of cobalt and 700 tonnes of nickel over a 10-year life.

Back in February, Criterion rated Compass as a speculative buy. We are happy to maintain the rating.

**Exco Resources (EXS) 37c**

ANYTHING that interests Canadian mining entrepreneur Robert Friedland has to interest your columnist, and Exco Resources is exactly that. Friedland, a nickel king, is planning to list the Cloncurry assets held in Ivanhoe Mines under Ivanhoe Australia.

Two months ago Ivanhoe Australia bought 12.2 per cent of neighbourhood explorer Exco Resources for $7.9 million and was given about 21 million options exercisable at 35c before June 2008, as part of a larger $12.25 million placement.

Included in the deal was a joint venture over 715sqkm held by Exco adjacent to tenements held by Ivanhoe Australia. By spending $5 million over three years, Ivanhoe Australia can earn 80 per cent of the ground.

This week Exco Resources revealed that it has a fair bit of uranium in its E1 and Monakoff copper deposits, with 3477 tonnes of uranium oxide at an average grade of just 0.27 pounds/tonne.

Stockanalysis.com's Peter Strachan says this is not a startlingly commercial grade, but at a uranium oxide price of US$129/lb, it adds a remarkable, average in situ value of around $40 per tonne to Exco's 100 per cent-owned copper-gold ore.

Extracting uranium from flotation tailings should be a fairly low-cost affair, considering that Exco will already be planning to go to the expense of mining, crushing and grinding this ore in order to float off a concentrate containing the sulphide minerals of copper and cobalt plus most of the gold," he says.

"Most of the cost associated with recovering uranium will actually be carried by base metals and gold, so extracting say $30 per tonne of uranium from the tailings product should keep everyone happy, including the mines department."

Exco managing director Michael Anderson said the latest funding would help his company proceed with its exploration plans. It already has 345,000 tonnes of copper resources on its ground and wants to lift its exploration spend to $5 million a year.

Criterion ranks Exco a speculative buy.

**Energy Resources of Australia (ERA) $19.57**

IT might have rained bucketloads on ERA's Ranger mine in the Northern Territory, but the company produced more uranium oxide than ever in the June quarter. It will not go on for ever. ERA will maintain a force majeure over sales contracts from Ranger, where in the first quarter the open pit was flooded, cutting off access to high-grade ore at the base of the pit.

ERA returned the mine's plant to full production, and produced 1490 tonnes of uranium oxide during the June quarter, up 48 per cent on the rain-affected March quarter.

The mine has produced 2496 tonnes of uranium oxide over the year to date, 26 per cent higher than the first half of last year.

An ERA spokeswoman said the improved performance was a result of stockpiling high-grade ore late last year in case of another big wet season, which certainly occurred with a vengeance when the beginnings of Cyclone George dumped record rain on the mine.

After the event, the company forecast it would produce about 4750 tonnes of uranium oxide in the full year, about the same as last year. The forecast said the full effect of this year's rains would be felt in 2008, when ERA expects to produce 25-35 per cent less uranium oxide than this year.

The company's uranium production is committed under long-term sales contracts that last year averaged $US18.36 a pound. The spot price reached as high as $US138 a pound earlier this year, and is now trading at about $US129 a pound.

Who knows how long ERA will maintain force majeure, but the spokeswoman said more might be known by the time ERA hands down its half-year results next week.

ERA has said it expects a loss of $5-$10 million for the first half (against a $23.7 million gain in the second half of 2006) as a result of the water problems. It expects to completely drain the pit by early 2008.

Criterion ranks ERA a long-term buy.

bluet@theaustralian.com.au

*The Australian accepts no responsibility for stock recommendations. Readers should contact a licensed financial adviser. The author does not hold shares in the companies mentioned.*

---