

### Long awaited resource understates potential

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ASX Code	CDU
Share Price	A\$2.06
Market Cap	A\$291m
Cash	A\$36m
Ordinary Shares	136m
Unlisted Options	6.15m

#### CAPITAL STRUCTURE

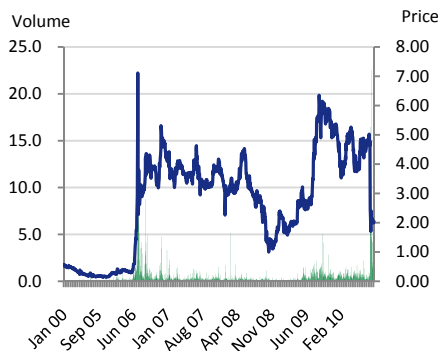
#### DIRECTORS & MANAGEMENT

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Executive Director	Peter Hutchinson
Non-Exec Director	Paul Keran
Non-Exec Director	Gerald Lambert
Non-Exec Director	David Taylor

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#### 5 YEAR SHARE PRICE



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#### Key Points

- 245Mt Measured Indicated and Inferred JORC resource delineated
- Initial mining from 31Mt M & I Resource 1.24% Cu equivalent
- JORC resource appears to understate high grade zones
- First production anticipated for 2012 @ 33,000t Cu p.a.
- MPS has a firm base case NPV of A\$4.00/share
- Grade adjusted NPV is A\$7.68/share
- Optimistic case NPV is A\$13.37/share
- Resource upgrades likely with further drilling
- EIS has been lodged with 40 year Mining Lease application
- Low strip ratio and good infrastructure allow for low cost project

#### Overview

The long awaited updated JORC resource for the Rocklands project was recently released and stated as a global Measured, Indicated and Inferred resource of 245Mt @0.42% Cu(eq) using a 0.15% cut off. An initial mining resource of 31Mt @1.24% Cu(eq) was delineated as the base case for a 10 year mine life under the EIS.

This is another important step in the Rocklands Project development. This 31Mt resource will sustain a minimum of 10 years of production at 3Mtpa with the first 4 years production averaging revenue of over A\$280m p.a. at current prices.

Work is well advanced to develop the site to a mine-ready status. It is anticipated that Rocklands will be a low cost project with a low average strip ratio of ~2.5. Important infrastructure such as bitumen roads, rail links, mains power and water supply, is all in place. Mineralisation commences at surface and metallurgical studies including Pilot Plant studies indicate high recoveries. A near-new mining fleet of 5 excavators and 18 trucks is already on site and paid for, so further capital costs should be modest. Initial operating costs should be under US\$0.60/lb.

Recent high grade intersections of 114m @6.39% Cu(eq) (13/07/10) and 146m @6.99% Cu(eq) (23/06/10) on top of numerous other high grade intersections since 2006 suggest a 'nugget effect' and so a higher head grade than the initial 2% stated is likely.

MPS' analysis of a sample of 100 drill holes on Las Minerale showed 70 were RC holes averaging 2.3% while the remaining 30 were diamond core that assayed 30% higher at 3.0%. MPS also envisages a significantly longer Life of Mine ("LoM") at Rocklands than the conservatively stated 10 years. Continued exploration success, likely expansions to the processing plant and buoyant commodity prices should allow CDU to maintain high margins well into the future. Should it be feasible for CDU to process the lower grade ore at high volumes, as we expect, the valuation attached to CDU would be significantly higher.

MPS believes the fall in the CDU share price on the release of the updated resource was well overdone. MPS views the published resource as conservative but it has been necessary in completion of the mining lease process.

Based on current commodity prices, a 31Mt resource and a 10 year LoM, MPS has a base case NPV for CDU of A\$4.00/share.

Since 2006 CDU has done over 260,000m of RC and diamond drilling

## The Rocklands Resource

In June 2006 CDU announced a 59Mt JORC Inferred Resource @ 2.04% Cu (equivalent with cobalt and gold credits), later reduced to 25Mt at the same grade. Since then over 260,000 metres of RC and diamond drilling has been undertaken. CDU now has an upgraded JORC resource of 245Mt. An initial 4 year mill feed resource is stated at 11.66Mt @2.05% Cu(eq). Additional potential major resource expansions are targeted.

### Updated resource summary table

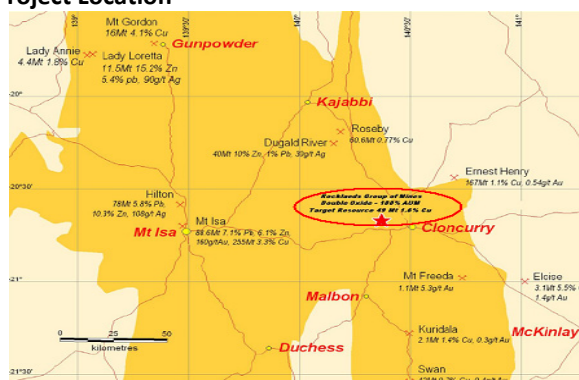
	Total Resource			
	M+I (Mt)	(Mt)*	Grade (Cu Eq.)	Cut off grade
Base	30.94	30.94	1.24%	0.80%
Expanded	101.2	157	0.62%	0.25%
Higher	151	245	0.42%	0.15%

Source: CDU JORC Resource 18 August 2010.

\* Includes Measured, Indicated and Inferred

CDU has a Measured, Indicated and Inferred Resource of 245Mt at 0.42% Cu(eq)

### Company Project Location



Source: CDU

CDU's proximity to Cloncurry and existing infrastructure, as well as its relatively low overburden, leads to the assessment that Rocklands will be a low cost mine

The Mt Isa Inlier is one of Australia's most important mineral provinces. It already hosts world class base metal deposits such as Mt Isa, Hilton, Ernest Henry, Century and Cannington as well as the Valhalla Uranium Projects. CDU is based less than 10kms outside Cloncurry with important infrastructure, such as bitumen roads, rail links, mains power and water supply, all in place.

### Copper Project Comparisons

Company	Cudoco	Cudoco	Exco	Xstrata	Sandfire	OZL
Deposit	Rocklands "A"	Rocklands "B"	Cloncurry	Ernest Henry	DeGrussa	Prominent Hill
Resource (Mt)	78	43	61	105	7.13	190
Cu %	0.53	0.79	0.85	1.01	5.2	1.32
Au g/t	0.08	0.1	0.25	0.5	1.9	0.5
Co (ppm)	223	260	na	na	na	na
Cu Cut-off %	<b>0.15</b>	<b>0.30</b>	0.30	0.27	1.00	0.30
Cont. Cu (Mt)	0.41	0.34	0.52	1.06	0.37	2.51
Cont. Au (Moz)	0.20	0.14	0.49	1.7	0.44	3.05
Cu Equivalent %	0.69	0.98	0.99	1.28	6.35	1.62

Source: Mentioned companies and MPS research

Rocklands "A" is a 78Mt resource using a Cu cut-off of 0.15%

Rocklands "B" is a 43Mt resource using a Cu cut off of 0.30%

MPS believes that the JORC resource probably understates the impact the 'nugget effect' has on bulk tonnage grades

The above table compares various copper deposits within Australia. The two CuDeco columns "A" and "B" represent the Rocklands deposit according to two different Cu cut-off grades, 0.15% and 0.30%. The 245Mt resource stated in the CuDeco JORC resource announcement has a 0.15% Cu equivalent cut-off which is lower than the two Cu cut off grades mentioned above.

CuDeco's Measured and Indicated resource for mining is stated at 31Mt @ 1.24% Cu(eq). This Cu(eq) grade is based on CDU's Project standard of US\$2/lb Cu, US\$26/lb Co and US\$900/oz Au to maintain consistency over the last 4 years. Based on current commodity prices, we estimate the current Cu(eq) grade is 1.04%.

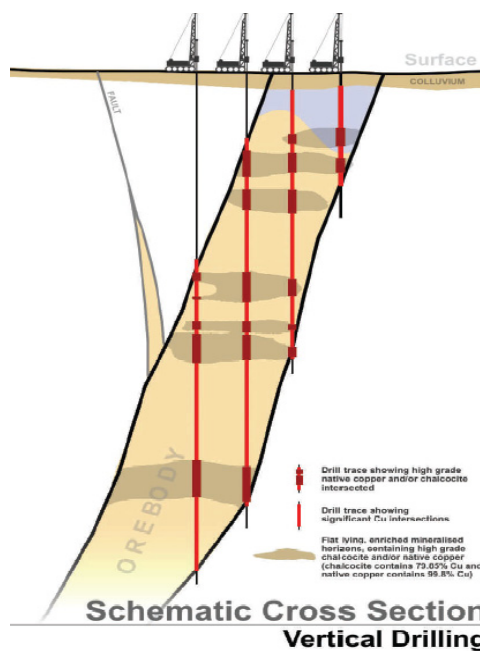
## Rocklands continued...

CDU has found significant intersections of native copper and chalcocite along the 800m 'bonanza zone'

Since the JORC resource was released, there has been controversy over the grade of the Rocklands resource. MPS believes the reported JORC resource substantially understates the impact of some of the very high grades in the supergene chalcocite and native copper zones intercepted since 2006. The 'nugget effect' discounts the average grade on the basis that high grade native copper nuggets have low recorded frequency in drill results but have a disproportionately high impact on bulk tonnage grades. Similar 'nugget effects' are found in high grade gold mines.

CDU stated on 23 June 2010 "significant intersections of native copper and chalcocite have been observed along the entire 800m long bonanza zone, which forms the centre-piece of more than 1,900m of confirmed mineralised strike length at Las Minerale".

### Schematic Cross Section of Rocklands Ore Body with highlighted 'bonanza zones'



Recent vertical drilling by CDU to augment the hundreds of inclined drill holes gives a better representation and definition of the flat-lying enriched mineralised (supergene) horizons containing high grade chalcocite and native copper

The vertical drilling had identified several zones of supergene native copper down through the ore body

Mining of near surface supergene zones would be highly profitable

This 'bonanza zone' suggests to MPS that the actual mill feed could be significantly higher in the early years than the 11.66Mt @ 2.05% Cu(eq) implies. Moreover, the bulk tests on over 5 tonnes of diamond core recorded 4.37% Cu with cobalt and gold by product credits still to come.

Bulk tests of >5t core from diamond drilling recorded 4.37% Cu before cobalt and gold credits

MPS believes this bulk test and the occurrence of substantial, rich intersections suggest the mill feed grade could be well in excess of 3.5% over the first 4 years. Importantly, the early mining in the 1990s at Double Oxide produced 390t Cu from 890t at 43% Cu ore. Samples in MPS's office match this grade.

The recirculation apertures in the RC drills cannot capture native copper nuggets in excess of 25mm

A further issue is the possibility that RC (Reverse Circulation) drill holes are not accurately reporting the true grade of the intersections. An explanation offered suggests this occurs when the RC drill bit intersects nuggets of native copper.

Excluding these larger native copper nuggets may have resulted in understating grades

The RC drill bit pulverises the rock into very small pieces which are then blown up the drill string barrel to the surface and bagged for analysis. Small nuggets of native copper can pass through the drill bit apertures. However when a RC drill bit intersects larger nuggets that do not pass through the drill bit aperture, the drill bit does not pulverise the metal but rather flattens it or pushes the native copper nuggets away into the surrounding soft clays, excluding these nuggets from samples.

As noted, MPS undertook analysis of a sample of 100 drill intersections on Las Minerale released to the market. 70 of the drill samples came from RC holes to give an average grade of 2.3%. The remaining 30 drill hole assays came from diamond core holes which averaged 30% higher at 3.0%.

## Valuation

MPS has modelled the Rocklands project based on an 11 year mine life under 3 different scenarios. The 'Base Case' assumes all inputs from the published JORC resource and EIS. Our second case addresses the potential for higher copper grades resulting from a reassessment of the artificially low RC grades. In this case we assume the average copper grade over the 11 year LoM is 1.15% rather than the JORC 0.8%. MPS has also modelled a more optimistic case assuming an average LoM Cu grade of 2%.

### Assumptions for the MPS Model

MPS has assumed an 11 year LoM and 33Mt ore mined. This covers the Measured and Indicated resource of 31Mt and assumes that at least 2Mt will come from the remaining 214Mt of JORC Resources.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	LoM
A\$/US\$	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Copper Price (US\$/t)	7,600	7,700	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Cobalt (US\$/lb)	17	17	17	17	17	17	17	17	17	17	17	17	17	17
Gold (US\$/oz)	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250

### The Base Case

Calendar Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	LoM
Ore Mined(Mt)	-	-	3	3	3	3	3	3	3	3	3	3	3	33
Copper(%)	-	-	1.2%	1.2%	1.0%	0.8%	0.8%	0.8%	0.8%	0.7%	0.6%	0.6%	0.6%	0.8%
Cobalt(ppm)	-	-	400	400	400	352	352	352	352	320	315	315	315	352
Gold(g/t)	-	-	0.17	0.17	0.15	0.12	0.12	0.12	0.12	0.11	0.08	0.08	0.08	0.12
Copper Conc.Grade(%)	-	-	35%	35%	35%	32%	32%	32%	32%	32%	32%	32%	32%	33%
Recovered Copper@95%(kt)	-	-	33	33	29	23	23	23	23	20	17	17	17	257
Recovered Cobalt@85%(t)	-	-	1,020	1,020	1,020	898	898	898	898	816	803	803	803	9,876
Recovered Gold@75%(koz)	-	-	12	12	11	9	9	9	9	8	6	6	6	95
<b>Total Revenue</b>	-	-	313	313	276	223	223	223	225	197	170	170	170	2,503
Production Costs	-	-	81	87	86	84	91	97	100	99	110	112	115	1,052
Admin	-	-	8	8	8	8	9	9	9	9	10	10	10	107
EBITDA	-	-	224	218	182	131	124	117	117	88	51	48	45	1,344
DA	-	-	(22)	(19)	(17)	(15)	(14)	(12)	(11)	(10)	(9)	(8)	(8)	(147)
Pre-Tax	-	-	202	198	165	115	110	105	106	78	41	39	37	1,197
Tax@30%	-	-	51	59	49	35	33	31	32	23	12	12	11	350
NPAT	-	-	150	139	115	81	77	73	74	55	29	28	26	847
Capex	10	140	4	4	4	4	4	4	4	4	4	4	4	194
Working Capital	-	-	11	0	(1)	(1)	0	0	0	(1)	0	0	(11)	(0)
Net Interest	-	-	-	5	11	17	21	25	30	35	40	44	48	276
<b>Net Cash Flow</b>	<b>(10)</b>	<b>(140)</b>	<b>157</b>	<b>159</b>	<b>141</b>	<b>110</b>	<b>107</b>	<b>107</b>	<b>111</b>	<b>96</b>	<b>74</b>	<b>76</b>	<b>88</b>	<b>1,226</b>
EPS	-	-	1.10	1.02	0.85	0.59	0.57	0.54	0.54	0.40	0.21	0.20	0.19	6.22
CFPS	-	-	1.15	1.17	1.03	0.81	0.79	0.78	0.82	0.71	0.54	0.56	0.65	9.01
Total Cash Cost A\$/lb Cu	-	-	0.55	0.64	0.75	1.05	1.18	1.32	1.35	1.64	2.31	2.38	2.45	1.27
Total Cash Cost US\$/lb Cu	-	-	0.50	0.57	0.67	0.94	1.06	1.19	1.22	1.48	2.08	2.14	2.20	1.15

## Summary of Results

Base case unrisks NPV of  
A\$4.00

Grade adjusted unrisks NPV of  
A\$7.68

Optimistic unrisks NPV A\$13.37

	Base Case (JORC & EIS)	+40% Grade Adjustment	Optimistic Case
Unrisks NPV <sub>10</sub> (A\$ m)	507	1010	1783
Net Cash (A\$ m)	36	36	36
Equity Value	543	1045	1819
Number of shares (m)	136	136	136
<b>Equity Value per Share (\$A)</b>	<b>4.00</b>	<b>7.68</b>	<b>13.37</b>
Max Plant Capacity (Mtpa)	3	3	3
Total Throughput (Mt)	33	33	33
<b>Avg. Cu Grade (%)</b>	<b>0.82</b>	<b>1.15</b>	<b>2.00</b>
Life of Mine (LoM)	11	11	11

Source: MPS Research

## Discussion of Model

In each of the 3 valuation cases, MPS assumes CuDeco will mine the high grade zone first over 3-4 years. MPS also makes no allowance for site rehabilitation costs at the end of LoM as these costs are likely to be in the vicinity of the sale price of plant and equipment, for which MPS also makes no allowance.

MPS expect likely case to be  
'grade adjusted' NPV

MPS expects the likely scenario to be that the RC holes have been underreporting true grade. As such, MPS views the 'base case +40% grade adjustment' scenario as our best estimate of the Rocklands deposit. MPS also attributes no value to any ore in addition to the 31Mt, nor from new discoveries such as the high grade results coming from the Wilgar prospect. With further exploration, this prospect is likely to materially add to total resources and the valuation attached to Rocklands.

MPS attributes no value to the  
Wilgar prospect which is  
returning high grade results

Our 'optimistic case' assumes an average grade over the LoM of 2%. MPS still views this as a possible case as CuDeco has reported large intercepts of high grade chalcocite and native copper. For the reasons discussed earlier, the JORC resource may have substantially understated these zones. It is anticipated CuDeco will mine these high grade zones first which could substantially add to the early years' cash flow. It is also expected that CuDeco would receive a ~10% premium to LME spot for sale of any native copper. This premium is not included in the model.

Substantial existing fleet already  
paid for. Plant CapEx expected to  
be ~A\$150M

Plant CapEx is expected to be less than around ~A\$150m with the company already having an impressive existing fleet of earth moving equipment consisting of 6 x 465 Komatsu dump trucks (55t capacity), 12 x 785 Komatsu dump trucks (90t capacity), 5 x Excavators and a range of smaller service vehicles. Additional capital costs include the 3Mtpa plant and some overburden removal.

In the early years native copper could be as much as 50% of the copper production, so on the basis of 33,000tpa of contained copper, the 16,500tpa of native copper would result in an additional revenue premium of US\$12.4mpa (A\$13.8m and A\$9.4m after tax) at current copper prices .

### 5 Year Copper Price Chart



Source: Bloomberg

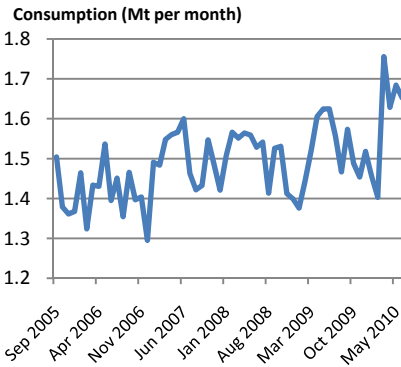
### The Outlook for Copper

Copper prices rallied to over US\$8000/t (US\$4.00/lb) in 2006 and remained at high levels of over US\$3.00/lb until the GFC in 2008. Prices since Dec Qtr 2008 have rebounded strongly and currently sit at US\$7,600/t (US\$3.45/lb).

Copper usage follows the industrial and energy sectors and is required for use in construction, infrastructure, power generation and in almost all electronics. Recent US housing market woes played on the minds of the some market participants, however the market fundamentals for copper remains very bullish.

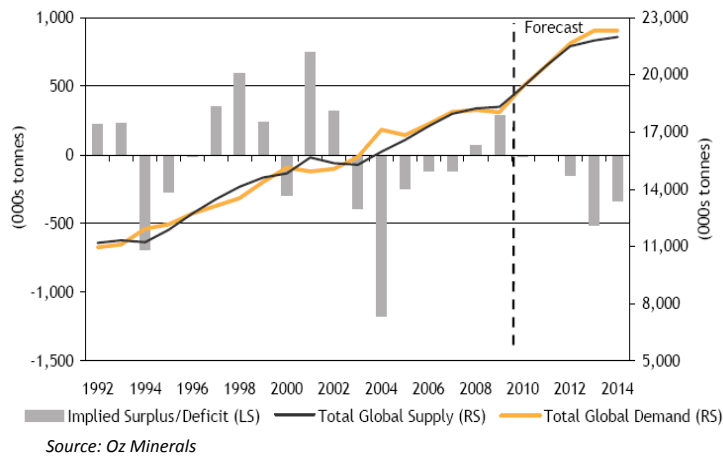
Demand for the metal is mainly being driven from China, which imports ~70% of its copper, and with other Asian countries accounts for ~55% of global consumption, against ~10% for the US.

### 5 Year Copper Consumption



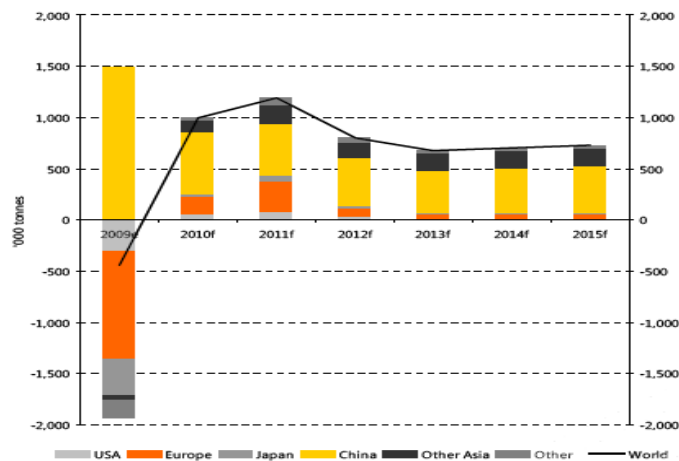
Source: Bloomberg

### Forecast Copper Supply/Demand Market to 2014



Source: Oz Minerals

### Year on Year Copper Demand by Region



Source: Oz Minerals

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- The author of this investment research does not have a relevant interest in the securities mentioned in this report. This position may change at any time.
- Barry Dawes, Managing Director of Martin Place Securities Pty Ltd, holds shares in CuDeco Limited. This position can change at any time.

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