

Dear Shareholders

Compass is pleased to announce that a full restructure has now been agreed by all Compass's major stakeholders – Hunan Non Ferrous Metals Corporation, YA Global Investments (**YA**), and the Creditors' Trust. This follows an agreement to recapitalise Compass which has been reached with Cove House Illiquid Investments Limited (**Cove House**). The restructure is subject to certain conditions, including Cove House being satisfied with the results of its due diligence, approval by Compass shareholders at a meeting expected to be called for the end of August 2015, as well as the approval of the Foreign Investment Review Board, the Government of the People's Republic of China and China Minmetals, and the holding company of Hunan Non Ferrous Metals Corporation.

The terms of the restructure are as follows:

- Compass will acquire all the shares in HNC (Australia) Exploration and Mining Pty Ltd (**Operator**) from HNC (Australia) Resources Holding Pty Ltd (**HNCH**);
- Cove House will acquire all of the shares in HAR from HNCH;
- Cove House will acquire \$35 million of debt owed to Hunan Nonferrous Metals Corporation Limited (**HNC**) and HNCH by Compass, and the security that secures that debt. The debt will be restructured so that it has a maturity date of six years after completion and a nil coupon;
- Cove House will enter into a convertible securities agreement with Compass providing for the issue of up to 11 million convertible notes in Compass for \$1 per convertible note. These convertible notes will have a maturity date of six years after completion and a nil coupon, and will be convertible (at the option of Cove House), into ordinary shares in Compass. If Cove House converts all of the convertible notes that could be issued to it, Cove House could hold as much as 72.0% of the issued capital of Compass (assuming no YA convertible notes are converted and there are no other issues in the intervening time). If Cove House converts all of the convertible notes that could be issued to it, and YA converts all of its convertible notes (discussed below), then assuming there are no other issues in the intervening time, Cove House will hold an aggregate 50% shareholding in Compass;
- The debt owed by Compass to YA will be restructured so as to be substantially on the same terms as the new convertible notes to be issued to Cove House (except as to conversion rate); and

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- Security over all of the assets of Compass will be provided to Cove House (**Cove House Security**), and matching security will be provided to YA (**YA Security**) (together **Security**).

1.1. The key terms of the restructure are as follows:

- HNC and HNCH will transfer to Cove House \$35 million of secured debt owed to HNC by Compass. HNCH will also retain \$1,160,000 of the debt presently owed to it by Compass, which debt will be re-structured so that it is unsecured and payable by Compass on a deferred basis. HNCH will also be transferred shares in CMR from YA so that HNCH's interest in Compass is equal to 19.9% of the issued shares in Compass immediately after closing of the Proposed Transaction.
- YA will receive \$1.5 million on closing (as partial repayment of existing debt) and a further \$719,000 on closing in repayment of interim funding provided by YA to Compass.
- The trustees of the Compass Resources Creditor's Trust will receive \$1.2 million from Compass on closing in full satisfaction of its claim against Compass.
- Compass will initially issue 5 million convertible notes to Cove House in consideration for payment of \$5 million. 6 million convertible notes with a face value of \$1 each will remain available to be drawn down under the Cove House convertible securities agreement (upon and subject to the terms of that agreement).
- All convertible notes held by Cove House will have a face value of \$1 per convertible note and, assuming full issue of the convertible notes under the convertible securities agreement, will convert into approximately 3.6 billion shares in the issued capital of Compass, which equates to a shareholding in Compass of 50% (if all of the YA convertible notes are also converted).
- All convertible notes held by YA will be convertible (at the option of YA) into approximately 2.2 billion Compass shares or 30.5% of the issued capital of Compass assuming full issue of the convertible notes under the Cove House convertible securities agreement and full conversion by Cove House of all of its convertible notes. On these assumptions, assuming YA maintains its shareholding in Compass after completion and there are no further issues in the intervening time, YA's aggregate shareholding in Compass will be 42%.
- Cove House will be provided with a first ranking security, and YA a second ranking security over all of the assets of the Company, and each will be provided with tenement mortgages over the mining tenements held by Compass.


- 1.2. YA's interest in Compass will decline from 78.4% to 58.9% following its transfer of Compass shares to HNC on closing. However, if YA converts all the convertible notes it will be issued under the Proposed Transaction, it will increase its interest in Compass from 58.9% to 84.0% (assuming no Cove House convertible notes are converted and there are no further issues in the intervening time), which interest would fall to 42% if Cove House subscribed for and converted all convertible notes that may be issued to it.
- 1.3. In addition the Board of Directors of Compass will be restructured to reflect the new funding and structure.

Importantly, the restructure will have the following advantages:

- Compass will receive net funding of at least \$5m for use in developing a business plan which will initially assess the viability of the production of copper sulphate crystals from the oxide stockpile and deposit at its Browns Project at Batchelor in the Northern Territory, and assess the overall feasibility of production from its sulphide deposit.
- Compass's debt will cease to accrue interest and therefore cease the drain on Compass's cashflow and financial position. The debt will have a term of 6 years, except in certain circumstances.
- A new cornerstone stakeholder will provide initial funding and may provide further support for Compass' financial future provided Compass is able to develop a viable business plan.
- The operator of the Browns Project will now be fully owned and managed by Compass.

Full details will be provided in the Explanatory Memorandum which will be sent to all shareholders with the Notice of Meeting, together with Compass's Annual Report, and independent expert opinion on the fairness and reasonableness of the transaction together with an independent geological valuation and an independent valuation of the Plant and Equipment at the Browns Project.

The Directors will be recommending approval of the restructure at the shareholders meeting.



John Allen

Deputy Chairman