



COMPASS RESOURCES LIMITED
 (Subject to Deed of Company Arrangement)
 (Receivers and Managers Appointed)
 A.C.N. 010 536 820



PERTH

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19 July 2011

Dear Shareholder

Notice of General Meeting of Compass Resources Limited ("The Company")

Notice is hereby given that an extraordinary general meeting of Shareholders of the Company is to be held as follows:

- Venue:** The Lyceum Room, The Wesley Conference Centre, 220 Pitt Street, Sydney, NSW 2000.
- Time:** 9.30 a.m. (AEST)
- Date:** Thursday 18 August 2011

ADELAIDE
 BRISBANE
 MELBOURNE
 SYDNEY
 JAKARTA
 KUALA LUMPUR
 SINGAPORE
 TOKYO

Affiliated through
 Zolfo Cooper
 United States
 United Kingdom
 Caribbean
 and
 KLC Kennic Lui & Co
 Hong Kong
 China

Please find enclosed the following documents in relation to the Meeting:

1. Notice of Meeting and Explanatory Statement.
2. Proxy Form and instructions (enclosed as a separate form and should be read in conjunction with this Notice).
3. Letter from YA Global seeking Shareholders' support.
4. Nomination of Auditor.
5. Option Terms.
6. Letter of support from HNC.
7. Independent Expert's Report.

Shareholders are being asked to approve a Proposal to recapitalise the Company, pursuant to which YA Global and Coffee House (and potentially HNC) will convert their existing debt to equity. The consequence of this conversion will be the dilution of existing Shareholders' interests in the Company to approximately ten percent (10%) of the Company's equity following implementation of the Proposal, but before the issue of the New Options.

In terms of its impact on Shareholders, the Proposal is substantially the same as the proposal considered by Shareholders in June 2010, except that it includes:

1. that existing shareholders will retain a greater interest in the Company (10.1% as opposed to the previous 5%);
2. that an additional suitably qualified director will be appointed from among nominees put forward by other Company shareholders (other than YA Global and Coffee House);
3. an offer to Shareholders of 3 free New Options per Share held (anticipated to be issued around the time of re-quotations of the Company's Shares on ASX); and

4. an entitlement for HNC to convert its Bond to Shares on the terms described in the Explanatory Statement.

As with the June 2010 proposal, the Proposal also provides for a return to creditors of the Company and the establishment of a creditors' trust, which will administer the claims of creditors. This will enable the insolvency administrations of the Company to be brought to an end and the suspension on trading of the Company's shares to be lifted, following approval from the ASX.

If the Proposal is approved by shareholders there will remain a number of conditions precedent to be satisfied before it achieves completion. These are more fully set out in the Explanatory Statement.

YA Global has requested the Administrators pass on to Shareholders its public statements (refer Annexure 1) that, if the Proposal is not approved YA Global intends, subject to satisfaction of the conditions precedent to the Proposal other than shareholder approval, to allow the sale of the Company's assets to an entity nominated by YA Global and liquidation of the Company to proceed in accordance with the terms of the Further Revised DOCA. If this alternative to the Proposal is implemented, no value will be available for existing Shareholders and the return to Shareholders will be nil.

HNC has provided a letter of support in respect to YA Global's Revised Proposal and is enclosed as Annexure 4.

YA Global has acknowledged that it will be bound by these public statements under ASIC's 'truth in takeovers' policy.

If the Proposal is not approved, and the Sale of Assets is completed, the Company will pass into liquidation. Based upon their current understanding of its assets, in a liquidation of Compass, YA Global considers that no value is likely to be available for existing Shareholders and the return to Shareholders is likely to be nil.

In the 30 months following the Administrators' appointment to the Company, other than YA Global's proposals, no proposals capable of acceptance by creditors have been made that would offer any return to existing Shareholders. Accordingly, the Administrators believe that it is unlikely that any value will be available for existing Shareholders if the Proposal is not approved.

There are 5 ordinary resolutions to be considered. The resolutions are:

- | | |
|---------------|--|
| Resolution 1: | approval of the issue of shares to YA Global pursuant to the Proposal. |
| Resolution 2: | approval of the issue of shares to Coffee House pursuant to the Proposal. |
| Resolution 3: | approval of the security relating to the fixed and floating charge over all the Company's assets pursuant to the Proposal. |
| Resolution 4: | approval of agreement to issue Shares under HNC Bond. |
| Resolution 5: | appointment of new Auditor. |

Please take note of the key dates below:

Event	Date
Deadline for lodgement of Proxy Forms	16 August 2011 at 9.30a.m.
Date and time for determining eligibility to vote (being the date and time you must own shares)	16 August 2011 at 7.00p.m
General Meeting of Shareholders	18 August 2011 at 9.30a.m.
If Resolutions are approved, proposed date of issue of new shares is on or before	18 September 2011

**All times are Australian Eastern Standard Time*

You are encouraged to attend the Meeting in person or if you are not able to attend the Meeting in person, you are urged to complete and lodge the enclosed Proxy Form or forward an Appointment of Corporate Representative (if a company), by post or fax.

Should you have any queries in relation to this matter, please do not hesitate to contact me, or in my absence, Charlotte Linfoot or Sandra Gauci of this office. Shareholders should consider all of the material and take their own financial and legal advice. **While the Administrators prepared the enclosed Notice of Meeting and Explanatory Statement and issue them in accordance with the Proposal, we provide them on the basis that we do not accept any personal or other responsibility for any statements or omissions from them or any associated correspondence.**

Compass Resources Limited



Martin Jones

Joint and Several Deed Administrator

CORPORATE ADVISORY 

FORENSICS 

CORPORATE RECOVERY 

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Glossary

Abbreviation	Description
Administrators	Darren Weaver, Steven Sherman and Martin Jones, in their capacity as joint and several deed administrators of the Company
Act	The Corporations Act 2001 (<i>Cth</i>)
Alkane	Alkane Resources Limited ACN 000289216
ASIC	Australian Securities and Investments Commission
Associates	As defined in Section 12 of the Act
ASX	The Australian Securities Exchange operated by ASX Limited
Bonds	Bonds to be issued by the Company under the Proposal to the Trustee, HNC and HAR
CGT	Capital Gains Tax
Compass or Company	Compass Resources Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 010 536 820
Convertible Note Funds	The \$5,300,000 held by Compass that was received pursuant to the HNC Convertible Note Facility Agreement
Creditors	Certain creditors of Compass, whose claims against Compass relate to the period before the appointment of the Administrators and as more particularly defined in the Further Revised DOCA
Creditors' Trust	The creditors trust which will be established for the benefit of Compass' creditor claims
Creditors' Trust Deed	The creditors' trust deed establishing the Creditors' Trust
Coffee House	Coffee House Group Ltd
CMPL	Compass Mining Pty Ltd (in liquidation) ACN 099 550 259
DOCA	Deed of Company Arrangement dated 21 May 2009 appointing the Administrators as deed administrators of Compass
First Loan	The "first loan" described in paragraph 2.13 of this Explanatory Statement
Further Revised DOCA	A varied deed of company arrangement between the Administrators, the Company, YA Global, Coffee House and CMPL pursuant to a resolution passed by Compass Creditors on 21 June 2011
HAR	HNC (Australia) Resources Pty Ltd ACN 124647823
HNC	Hunan Nonferrous Metals Corp Ltd
HNC Security	a fixed and floating charge over all the assets of Compass to secure payments under the Bonds issued to HNC

HOA	Heads of Agreement entered into in November 2010 between YA Global, HAR and HNC
Listing Rules	The ASX Listing Rules
Loan Funds	The funds which may be loaned to Compass by YA Global as part of the Proposal referred to in paragraph 2.13 of this Explanatory Statement, comprising the First Loan, the Second Loan and the Third Loan.
JV	The joint ventures between Compass and HAR relating to the exploration, development, mining and process of mineral, sulphide and oxide resources near Batchelor, NT
M	Million
Meeting	The extraordinary general meeting of the Company convened by this notice.
New Shares	The issue of share capital to YA Global and Coffee House in exchange of debt to equity pursuant to the terms of the Proposal
New Options	options of the Company on the terms set out in Annexure 3
NT	Northern Territory
Proposal	The proposal by YA Global and Coffee House to convert their existing debt to equity in the Company and implement the Further Revised DOCA as summarised in paragraph 2.3 of this Explanatory Statement.
Record Date	a record date determined in accordance with Appendix 7A of the ASX Listing Rules at the time the Company seeks re-quotations of its Shares on ASX which date will be determined following consultation with ASX.
Resolutions	The resolutions set out in the Notice of Meeting for approval by Shareholders
Recapitalisation Deed	A recapitalisation deed between the Administrators, the Company, YA Global and Coffee House to be entered into pursuant to the Further Revised DOCA
Sale of Assets	The sale of assets of the Company to an entity nominated by YA Global pursuant to the alternative summarised in paragraph 2.4 of this Explanatory Statement which will occur if Shareholders do not approve the Proposal pursuant to the Further Revised DOCA.
Second Loan	The “second loan” described in paragraph 2.13 of this Explanatory Statement
Shareholders	Shareholders of the Company
Third Loan	The “third loan” described in paragraph 2.13 of this Explanatory Statement
Trustee	The trustee of the Creditors Trust appointed under the Creditors Trust Deed
YA Global	YA Global Investments, L.P.
YA Global Security	a fixed and floating charge to be granted to YA Global to secure the Loan Funds
Yorkville	Yorkville Advisors, LLC



COMPASS RESOURCES LIMITED
(Subject to Deed of Company Arrangement) (Receivers and Managers Appointed)
A.C.N. 010 536 820

1. NOTICE OF MEETING OF SHAREHOLDERS

NOTICE IS GIVEN that an extraordinary general meeting of the Shareholders of Compass Resources Limited will be held on 18 August 2011 commencing at 9.30a.m. AEST in The Lyceum Room, The Wesley Conference Centre, 220 Pitt Street, Sydney, NSW 2000.

Agenda

The following resolutions to be put to the Compass Shareholders are explained in the Explanatory Statement and Independent Expert's Report, which form part of this notice of meeting. Words used in this notice have the meanings given to them in the Explanatory Statement.

Resolution 1 – Approval of issue of shares to YA Global

To consider, and if thought fit, to pass the following ordinary resolution:

“THAT, subject to the passing of Resolution 2 & 3, for the purposes of item 7 of Section 611 and Section 209 of the Act and for all other purposes, Shareholders approve the issue of 1,083,618,669 new fully paid ordinary shares to YA Global in full and final release of the debt owing to YA Global at 29 January 2009, (approximately \$35,538,068 in total) in accordance with terms of the Proposal at a deemed issue price of \$0.04.”

Resolution 2 – Approval of issue of shares to Coffee House

To consider, and if thought fit, to pass the following ordinary resolution:

“THAT, subject to the passing of Resolution 1 & 3, for the purposes of ASX Listing Rule 10.11 and Section 209 of the Act and for all other purposes, Shareholders approve the issue of 172,722,511 new fully paid ordinary shares to Coffee House, in full and final release of the debt owing to Coffee House at 29 January 2009, (approximately \$37,798,404 in total) in accordance with terms of the Proposal at a deemed issue price of \$0.04.”

Resolution 3 – Approval of security

To consider, and if thought fit, to pass the following ordinary resolution:

“THAT, subject to the passing of Resolutions 1 & 2, for the purposes of ASX Listing Rule 10.1 and all other purposes, Shareholders approve the extension of the fixed and floating charge over all of the Company's assets granted as security for the Loan Funds, to securing the Company's obligations pursuant to the Proposal.”

Resolution 4 - Approval of agreement to issue Shares under HNC Bond

To consider, and if thought fit, to pass the following ordinary resolution:

“THAT, subject to the passing of Resolutions 1, 2 & 3, for the purposes of ASX Listing Rule 7.1 and all other purposes, Shareholders approve the agreement to issue Shares equivalent to 10.4% of the Company under the Bond to be issued to HNC.”

Resolution 5 - Appointment of Auditors Section 327B Corporations Act Approval

To consider, and if thought fit, to pass the following ordinary resolution:

“THAT, subject to the passing of Resolutions 1, 2 & 3, Grant Thornton Australia Audit Pty Ltd (Audit Registration No. 327221):

- (a) Having been nominated by a Member of the Company, in accordance with Section 328B(1) of the Corporations Act 2001; and*
- (b) Having given to the Company its Consent to Act as Auditor, in accordance with Section 328A(1) of the Corporations Act 2001;*

be appointed as the Auditor of the Company”.

Voting Exclusion Statement

The following voting exclusion statement applies to the Resolutions under the Act and the Listing Rules in relation to the following persons (Excluded Persons). The Company will disregard any votes on the following Resolutions cast by the following Excluded Persons:

Resolution Number	Resolution Title	Excluded Persons
1	Approval of issue of new shares to YA Global	YA Global, Coffee House and HNC
2	Approval of issue of new shares to Coffee House	YA Global, Coffee House and HNC
3	Approval of grant of security to YA Global	YA Global, Coffee House and HNC
4	Approval of agreement to issue Shares under HNC Bonds	YA Global, Coffee House and HNC
5	Appointment of Auditors Section 327B	n/a

However, the Company may count a vote if:

- (a) it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution;
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides; and
- (c) it is not cast on behalf of a related party or associate of a kind referred to in Section 224 (1) of the Act.

Voting Entitlement

In accordance with Section 1074E(2)(g)(i) of the Act and Regulation 7.11.37 of the Corporations Regulations, the Company has determined that, for the purposes of the meeting, all shares in the capital of the Company will be taken to be held by the persons who held them at 7.00p.m. AEST on 16 August 2011. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Voting Rights and Proxies

1. A member entitled to attend and vote at the meeting has a right to appoint a proxy.

2. This appointment may specify the proportion or number of votes that the proxy may exercise.
3. The proxy need not be a member of the Company.
4. A member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes that each proxy is appointed to exercise. If the member appoints two proxies and the appointment does not specify the proportion or number of the member's votes that each proxy may exercise, each proxy may exercise half of the votes.

Proxy Lodgement

If you wish to appoint a proxy and are entitled to do so, then complete and return the enclosed proxy form by either:

1. post addressed to Share Registry – Registries Limited, GPO Box 3993, Sydney NSW 2001 Australia;
2. hand delivery to Share Registry – Registries Limited, level 7, 207 Kent Street NSW 2000 Australia; or
3. facsimile at +61 2 9290 9655.

(not less than 48 hours before the time for holding the meeting)

A corporation may elect to appoint a representative in accordance with Section 250D of the Act in which case the Company will require written proof of the representative's appointment. Corporate representative appointments may be delivered at any time before the meeting to the Company at its registered office or may be handed in at the Meeting.

Compass Resources Limited



Martin Jones
Joint and Several Deed Administrator

2. EXPLANATORY STATEMENT

2.1. Background

The Administrators were appointed to Compass pursuant to Section 436A of the Act on 29 January 2009 and became deed administrators of Compass pursuant to a DOCA executed on 21 May 2009. It was, in turn, replaced by DOCA variations submitted by YA Global that were approved by meetings of Compass creditors on 6 January, 5 July, 23 December 2010 and 21 June 2011. Accordingly, Compass is currently suspended from trading on ASX.

A General Meeting of Compass shareholders was held on 17 June 2010, for the purpose of considering resolutions to approve the issue of shares for the purpose of the recapitalisation of Compass contemplated by the original DOCA. The first of those resolutions (to approve the issue of shares to YA Global) failed. Accordingly, the other resolutions were not put to the meeting given their dependence upon the passing of the first resolution.

In those circumstances, one of the conditions precedent to the original DOCA failed. Notwithstanding, YA Global was prepared to pursue an alternative DOCA proposal and YA Global has proposed the Further Revised DOCA, which seeks to address the concerns of the shareholders by allowing shareholders to retain a greater equity interest in Compass, and providing for the issue of New Options to existing Shareholders, and therefore potentially improves the return for this stakeholder group. However, in the event that Shareholders do not approve the Proposal, the Further Revised DOCA provides for the liquidation of Compass and for a sale of the Compass assets to an entity nominated by YA Global.

In the interim, YA Global has advised the Administrators that it has also reached agreement with HNC and HAR as to the basis upon which HNC and HAR will be repaid, and upon which the JVs will proceed, including the basis upon which the Company will be reinstated to being a voting participant in the JVs.

This Notice of Meeting convenes a new meeting with a new agenda.

2.2. Purpose of Shareholder Meeting

The resolutions to be put to the Compass Shareholders cover:

- the issue of the New Shares to YA Global and Coffee House pursuant to the Proposal;
- the grant of security to YA Global;
- the agreement to issue Shares comprised by the Bonds to be issued to HNC; and
- appointment of new Auditor.

Of the 5 resolutions, the resolutions for the approval of the Proposal are resolutions 1 – 4. The Proposal is explained in this Explanatory Statement and the Independent Expert's Report.

Before deciding whether to approve the Proposal, we encourage you to read this Explanatory Statement and the Independent Expert's Report. In addition, you may wish to refer to the analysis of the Proposal in the Administrators' report issued to Creditors dated 13 June 2011, which is available from the "Current Matters" section of the Administrators' website: <http://www.ferrierhodgson.com>.

2.3. Proposal Summary

The Administrators have executed the Further Revised DOCA. Under the Further Revised DOCA YA Global and Coffee House have agreed to recapitalise the Company by converting their existing debt to equity. The Further Revised DOCA also provides for an agreed plan to bring the insolvency administration of the Company to an end.

Under the terms of the Further Revised DOCA, upon implementation of the Proposal, the Company will, amongst other things:

- be released from all Creditors' claims. Thereafter, such claims will simply give rise to rights as a beneficiary in a Creditors' Trust;
- issue new shares to YA Global (1,083,618,669) and Coffee House (172,722,511) in exchange for release of the admitted debts owed to them at 29 January 2009;
- borrow funds from YA Global under three loan agreements (described in more detail at paragraph 2.12) which will enable the Company to meet its payment obligations under the Further Revised DOCA including:
 - (a) payments to the Creditor's Trust;
 - (b) dealing with Compass's debts to HNC and HAR (described in more detail at paragraph 2.13 and 2.14); and
 - (c) to fund the Company's immediate future working capital requirements;
- grant security to YA Global to secure the repayment of the Loan Funds;
- issue a secured Bond to HNC in satisfaction of Compass's existing debt to HNC, estimated to be \$16M at Completion, the principal amount of which will be convertible (if HNC so elect) into 10.4% of the Company's Shares;
- pay HAR \$7,500,000 and issue a secured Bond to HAR in satisfaction of Compass's existing debt to HAR, estimated to be \$29M at Completion;
- retain all its mining assets for the benefit of post-recapitalisation Compass Shareholders;
- issue unsecured Bonds to the Trustees of the Creditors' Trust for distribution to certain classes of creditors, which Bonds are payable three (3) years from implementation of the Proposal;
- release its claim against CMPL;
- following re-quotation of the Company's shares on the ASX, issue the New Options to Shareholders; and
- operate with a board composed of the Nominee Directors, nominated by YA Global and Coffee House, together with a further suitably qualified person from among nominees put forward by other shareholders.

In addition, when the Creditors' Trust Deed is executed, CMPL will release its security over Compass (and HAR) at the same time as the Loan Funds are advanced by YA Global to Compass in exchange for a fixed and floating charge over all of Compass's assets that will rank:

- third in relation to Compass's interest in the JV (behind the HAR and HNC security, other than the existing featherweight charge in favour of HAR); and
- first in relation to all other Compass assets.

2.4. Sale of Assets and liquidation of Compass if Proposal not approved

In the event that shareholders do not approve the Proposal, the Further Revised DOCA provides that:

- all CMR assets will be transferred to an entity nominated by YA Global;
- no CMR shares will be issued to YA Global or Coffee House, although the debts due to YA Global and Coffee House will be released;

- YA Global and Coffee House will not be entitled to appoint any directors or Compass;
- the purchase price to be paid by the Purchaser will be equivalent to the amounts and bonds that would otherwise be paid and granted by the Company under the Proposal;
- YA Global will provide the funds equivalent to the Loan Funds to the Purchaser on the same terms as YA Global would have been obliged to provide them to the Company under the Proposal;
- the Purchase Price will be distributed to creditors (other than YA Global and Coffee House) in the same manner as they payments under this proposal would otherwise have been, in satisfaction of the claims of all creditors (other than YA Global and Coffee House); and
- the Company will be liquidated.

In this event, no value will be available for existing Shareholders and the return to Shareholders will be nil.

Shareholders should carefully consider the key implications if the Proposal is not approved which are set out in paragraph 2.7 below.

2.5. Appointment of Directors

As stated in the Further Revised DOCA, if the Proposal is approved by Shareholders, prior to the date of termination of the Further Revised DOCA, the existing Compass Directors will resign or be removed by the Administrators and the Administrators will appoint new Compass Directors. These new Compass Directors will be nominated by, and in the number of nominees (or equivalent proportion), stated below:

- YA Global: 4 nominee Directors;
- Coffee House: 2 nominee Directors; and
- 1 suitably qualified person from among nominees put forward by other shareholders.

Day-to-day operational and financial control of Compass will be returned to the new Compass Directors upon the termination of the Further Revised DOCA.

Mark Angelo Founder and President, Yorkville Advisors

Mark co-founded Yorkville Advisors, LLC in January of 2001. In the years that followed, Mark has grown Yorkville to its current assets of approximately \$1.0 billion. Throughout those years Mark has guided Yorkville in investing in over 500 financial transactions with a notional value of more than \$3.0 billion. As portfolio manager to Yorkville, he is responsible for overseeing all aspects of Yorkville's day-to-day operations from deal structuring, investment decisions, business development to trading, while continuing his emphasis on the preservation of Yorkville's capital with low volatility. As an authority on structured financing products, Mark is frequently cited for commentary in industry publications and news sources.

Prior to co-founding Yorkville, Mark co-ran the Corporate Finance Division of the May Davis Group, a boutique investment bank focused on emerging growth companies. Before joining the May Davis Group, Mark was a securities trader with The Boston Group LP, a broker dealer located in New York City. He earned a Bachelor of Applied Business in Economics from Rutgers University.

Gerald Eicke Managing Member, Yorkville Advisors

Jerry manages Yorkville's transaction pipeline and Yorkville's team of corporate finance professionals. Having founded, built, and sold his own company, Jerry lends his experience as a corporate executive

to understand and interpret the diverse needs of the companies funded by Yorkville. His entrepreneurial background has been a driving force in Yorkville's overall growth and business development.

Jerry has also been a critical part of Yorkville's expansion into new international markets by implementing an efficient and cost-effective model that leverages existing relationships with local finance and legal practitioners. He is also one of the four members of Yorkville's Risk and Valuation Committee. Jerry earned his Bachelor of Science from Seton Hall University.

David Gonzalez
Managing Member and General Counsel, Yorkville Advisors

David specializes in corporate securities law and oversees the legal and regulatory aspects of Yorkville's portfolio. David's responsibilities also include managing Yorkville Advisors internal Legal Advisory Group which is responsible for the drafting and review of Yorkville's structured debt and equity transactions. In addition to his role overseeing the drafting of hundreds of transaction documents, David also leads the initial and ongoing review and due diligence of companies to ensure that legal and regulatory requirements are being met. David plays a significant role in the execution of transactions in international markets by working directly with local counsel in these markets to draft all transaction documents.

David came to Yorkville Advisors in 2001. As the founder and co-manager of Butler Gonzalez LLP, a corporate law firm focused on small-cap company financings, he brought broad transaction experience to Yorkville Advisors. David is co-chair of the American Bar Association Securities Litigation Committee, Hedge Fund Sub-committee and a member of the Hispanic Bar Association. He served a federal clerkship on the Federal District Court of New Jersey (3rd Circuit) and holds a Doctor of Jurisprudence from the New England School of Law and a Bachelor of Science from Rutgers University. He is admitted to practice law in New Jersey.

Fourth Director
Yorkville Advisors

To be advised.

Richard Swann
Director, Coffee House

Richard Swann is a graduate of The University of Queensland in Mining Engineering (BE), Curtin University in Business Administration (Grad Dip Bus Admin), and Deakin University in Business Administration (MBA). He is also a Fellow of the Australasian Institute of Mining and Metallurgy.

He has worked for his entire career in the resources industry in a number of Australian States and also in Papua New Guinea and Argentina. In addition, he has travelled extensively in various roles and has spent considerable time in many visits to countries, including China, Japan, South Korea and New Caledonia.

The commodities he has been involved with include iron ore, coal, bauxite, copper, gold, nickel and cobalt. In more recent years he has taken key roles in feasibility studies for many projects and senior roles in the development, commissioning and operation of such significant projects.

Second Director
Coffee House

To be advised.

2.6. Conditions

The implementation of this Proposal is subject to the following key conditions:

- YA Global being satisfied in its absolute discretion with the due diligence to be carried out by it in respect of Compass and the JVs;
- all required regulatory approvals for the transactions under the Further Revised DOCA being obtained on conditions satisfactory to YA and all required regulatory approvals for the transactions under the HOA being obtained;
- Compass not claiming against CMPL in respect of debts incurred by Compass by way of JV expenditure;
- Compass shareholders approving the issue of the new shares, the YA Global Security and, to the extent necessary, the grant of the HNC Security;
- HNC, HAR, Compass and Guardian Resources Pty Ltd agreeing amendments to the documentation recording and relating to the JVs, as to:
 - (a) responsibility for expenditure under the Oxide JV and Sulphide JV and the preconditions to proceeding with the JVs;
 - (b) chairmanship of the Operating Committees of the JVs and other specified issues in relation to the administration of the JVs;
 - (c) the extension of the Charges to also secure Compass's obligations:
 - (1) to pay the HAR Amount; and
 - (2) under the HAR Bond and the HNC Bond; and
 - (d) the default mechanism under the JVs;
- Compass, HNC, HAR, the receivers and managers and the Deed Administrators mutually releasing each other from all outstanding claims;
- the receivers and managers retiring on the Completion Date;
- HNC, HAR, YA Global, Compass and the Administrators entering into an agreement to govern the terms of the Third Loan;
- YA Global, Compass and the Administrators entering into an agreement to govern the terms of the First Loan and the Second Loan;
- Compass granting the YA Global Security and the HNC Security; and
- CMPL releasing its security over Compass which will occur concurrently with the advance of the loan funds and execution of the Creditors' Trust.

2.7. Key implications of the Proposal for Shareholders

The issue of new shares to YA Global and Coffee House will significantly dilute the position of existing Shareholders, to a post-recapitalisation equity holding of approximately 10.1% of the Company, with YA Global and Coffee House holding the remaining 89.9%, unless HNC exercises its conversion right, in which case all other shareholdings will be diluted accordingly. In this event, existing Shareholders will be diluted to 4.48%, but the Company will benefit from discharging the approximately \$16M owed to HNC.

Following the issue of shares and implementation of the Proposal, the Further Revised DOCA will terminate and YA Global has indicated that it will cause the Company to seek re-quotations of its Shares on the ASX. In that regard, Compass will need to meet the provisions of Chapter 12 of the Listing Rules before such reinstatement can occur. The conditions for reinstatement of Compass' securities on ASX, include a requirement that the Company must demonstrate that it has cash of at least \$1,000,000 net of all debt. In order to satisfy this condition, Compass will be required to raise further capital and YA Global has indicated that this is the intention in order that Compass has adequate cash funding to satisfy the reinstatement condition.

A range of other listing requirements will also need to be met by Compass in order for the reinstatement to occur. Compass has received advice from the ASX in respect to these conditions and YA Global has been made aware that these issues will include, but will not be limited to:

- the Company's business operations and objectives satisfy the requirements of Listing Rule 12.1;
- provision of the following documents in a form suitable for release to the market:
 - a. a reviewed pro-forma Balance Sheet and notes taking into account any proposed capital raising by the Company. That review must be conducted by a registered company auditor or an independent accountant. In circumstances with the Proposal is approved by shareholders and the Recapitalisation occurs in accordance with the Further Revised DOCA, Compass will be required to prepare an audited Balance Sheet as at a date to be advised by ASX; and
 - b. a list of commitments consistent with the Company's business objectives to spend at least half of its cash and assets in a form readily convertible to cash
- the Company will have at least 300 shareholders holding a marketable parcel (i.e. \$500); and
- the Company will be required to lodge with ASX any outstanding periodic reports and to pay any outstanding ASX invoices.

Shareholders will then have a small interest in the recapitalised Compass, the shares in which will again be able to be traded on the ASX. In addition, Shareholders will receive 3 free New Options in the Company for every Share held on the Record Date. The New Options may be exercised at an exercise price of 28.55 cents per Share at any time before the date that is 6 months after re-quotation of the Shares on ASX. The Company anticipates that the New Options will be issued around the time of re-quotation by way of a 'pro rata issue' and therefore without the need for Shareholder approval under Listing Rule 7.2. The full terms of the New Options are set out in Annexure 3.

YA Global has requested the Administrators pass on to Shareholders its public statements (refer Annexure 1) that, if the Proposal is not approved YA Global intends, subject to satisfaction of all conditions precedent to the Proposal, other than Shareholder approval, to allow the Sale of Assets to proceed, which provides for the sale of the Company's assets to an entity nominated by YA Global and liquidation of the Company to proceed in accordance with the terms of the Further Revised DOCA. If this alternative to the Proposal is implemented, no value will be available for existing Shareholders and the return to Shareholders will be nil.

YA Global has acknowledged that it will be bound by these public statements under ASIC's 'truth in takeovers' policy.

If the Proposal is not approved, and the Further Revised DOCA completes under the Sale of Assets alternative, the Company will pass into liquidation. In a liquidation of Compass, no value is likely to be available for existing Shareholders and the return to Shareholders is likely to be nil.

In the 30 months following the Administrators' appointment to the Company, other than YA Global's proposals, no viable proposals have been made that would offer any return to existing Shareholders. Accordingly, the Administrators believe that it is unlikely that any value will be available for existing Shareholders is if the Proposal is not approved.

In the event that shareholders do not approve the Proposal, the Further Revised DOCA provides for the liquidation of Compass and for a sale of the Compass assets to an entity nominated by YA Global. In that case, no value will be available for existing Shareholders and the return to Shareholders will be nil.

2.8. Advantages of the Proposal

Recapitalisation of Compass

The Proposal contemplates Compass being recapitalised and re-instated as a non-defaulting JV Party. Accordingly, Compass will be involved in the funding, decision-making and setting of strategy pertinent to ascertaining the economics and commercial viability of the Oxide plant and possible future Sulphide plant.

In that regard, the Proposal provides a resolution of a dispute with respect to the operation of the JVs.

Avails some value for Shareholders

Although implementation of the Proposal will dilute existing shareholdings, the Proposal makes approximately 10.1% of Compass's equity available for existing Shareholders.

As stated above, the Administrators believe that it is unlikely that any value will be available for existing Shareholders is if the Proposal is not approved and a suitable third party proposal not received.

Shareholders will also receive 3 free New Options in the Company for every Share held on the Record Date.

Enables Compass Shares to be traded on ASX

At present Compass is suspended from ASX. If the Proposal is approved by Shareholders and the Proposal is implemented, YA Global has indicated that it intends that Compass will apply to ASX for the lifting of the suspension of trading in its shares. This will, subject to Compass satisfying Chapter 12 of the Listing Rules, give Shareholders more opportunity to trade their Compass shares.

Change of Auditor

Shareholders are referred to Sections 2.16 and 2.24 of this Explanatory Statement in terms of the expected cost savings.

2.9. Disadvantages of the Proposal

Significantly dilutes Shareholders' interests

The Proposal significantly dilutes the shareholdings of existing Shareholders.

If implemented, existing Shareholders will hold only 10.1% of the issued shares in the Company. If HNC exercises its right to convert its Bond for the full principal amount of the Bond, existing Shareholders will be diluted to 4.48%.

Shareholders will not automatically crystallise capital loss

Implementation of the Proposal will mean that Compass will recapitalise and is unlikely to proceed to a scenario where existing Shareholders will automatically crystallise a capital loss (of course, they may still do so by selling their Compass shares). If the Company is liquidated, then Shareholders will automatically crystallise a capital loss. For completeness, we note that shareholders interested to crystallise a capital loss may (it is suggested, only upon considering independent advice) do so by selling their shares via groups such as www.delisted.com.au.

2.10. Impact on capital structure

The impact of the proposed issue of securities on the capital structure of the Company is as follows:

Shareholder	Shareholding Pre-recapitalisation	New Securities Issued	Shareholding Post-recapitalisation	Shareholding if HNC converts full principal amount of Bond
YA Global	761,454	1,083,618,669 Shares*	1,084,380,123	1,084,380,123
Coffee House	2,403,478	172,722,511 Shares*	175,125,989	175,125,989
HNC	6,000,000	162,616,990 conversion rights	6,000,000	168,616,990
Other Shareholders	135,501,799	406,505,397 New Options**	135,501,799	135,501,799
Total	144,666,731	1,256,341,180**	1,401,007,911	1,563,624,901

* As a part of the pro rata issue of New Options, in respect of their existing Shareholdings, YA Global and Coffee House will also be issued with 1,084,380,123 and 175,125,989 New Options respectively. However, they will undertake to Compass not to exercise or transfer those New Options during the term of the New Options, meaning they will receive no benefit from them.

**The New Securities Issued total is presented in respect to Shares only. The conversion rights and New Options are separately displayed within this column, but are not included in the total.

2.11. Increase in voting power

The maximum extent of the increase in the voting power of YA Global and its Associates that would result from the Proposal would be approximately 79.5%, as follows:

Shareholder	Pre-recapitalisation voting power	Post-Recapitalisation voting power	Post-Recapitalisation increase in voting power
YA Global	0.5%	77.4%	76.9%
Other Shareholders	99.5%	22.6%	-76.9%

If the resolutions are approved and the Proposal is implemented, the voting power of YA Global and its Associates will be approximately 77.4% of the total votes attaching to ordinary shares in the Company, where previously they held approximately 0.5%

2.12. Unaudited Pro-Forma Balance Sheet

YA Global has considered the Company's assets and liabilities and provided a pro-forma balance sheet for the Company upon recapitalisation (which has been reviewed by the Independent Expert in connection with its review of the Proposal – for more details see section 8 of the Independent Expert's Report annexed to this Explanatory Statement), as follows:

YA Global DOCA Reconstruction	Note	\$
Current Assets		
Cash at Bank	1	100,000
Total Current Assets		100,000
Non-Current Assets		
NT Mining Assets	2	100,000,000
Alkane Royalty	3	5,000,000
Loan to Subsidiary	4	2,000,000
NT Land	5	1,500,000
Deferred Tax Assets	6	1,500,000
Deposits and Bonds	7	500,000
Peruvian Tenements	8	200,000
Sydney Office Equipment	9	50,000
Total Non-Current Assets		110,750,000
Total Assets		\$ 110,850,000
Current Liabilities		
Restructure costs and expenses	10	(700,000)
Total Current Liabilities		(700,000)
Non-Current Liabilities		
Secured Creditor		
YA Global - First Loan		(5,750,000)
YA Global - Second Loan		-
YA Global - Third Loan		(7,500,000)
HAR		(20,000,000)
HNC		(16,000,000)
Total Secured Creditor	11	(49,250,000)

Unsecured Compass Creditors' Bond	12	(2,050,000)
Total Non-Current Liabilities		(51,300,000)
Total Liabilities		\$ (52,000,000)
Equity		
Represented by Issued Capital	13	58,850,000
Total Equity		\$ 58,850,000

The Administrators note that no liability is accepted by them for the content presented in the above balance sheet, which is provided on the basis that it is an estimate of unaudited future events and will change due to issues including the following:

- The financial viability of the various assets;
- The costs associated with the ongoing assessment of the assets, resulting from issues not presently known; and
- Compliance with all provisions of the DOCA.

For completeness, the Administrators note that the Pro-Forma Balance Sheet represents YA Global's best estimate of the respective assets and liabilities based upon the best available information that could be obtained from reasonable enquiry, from the public and other records of the Company. A Pro-Forma Balance Sheet is an estimated depiction of future events. Accordingly, it is not possible to present it fully in accordance with Australian Accounting Standards.

Notes

1. The balance sheet above assumes that Compass, having paid the fixed sums due under the Further Revised DOCA to the Trustees of the Creditors' Trust (refer note 11), will receive the balance of funds held by the Administrators, estimated for present purposes at \$100K.
2. The value attributed to the NT based mining assets is a combination of the going concern values for the uranium, oxide and sulphide interests, combined with Compass' share of the Oxide plant. This aggregated value (and conceivably more) is considered by YA Global to be achievable on a going concern basis, but not in a liquidation scenario. The base metal operations remain in a state of transition with remedial works subject to project review as to viability of the Oxide plant and that plant remaining mothballed.

As previously reported, during October 2009, the Deed Administrators commenced a marketing program for the sale of assets or financial reorganisation of the Company. The Deed Administrators received in excess of 80 expressions of interest with offers submitted for the non-JV mineral tenements, uranium assets, Peruvian assets and the Alkane Royalty. The value attributed to the NT based mining assets is a best estimate, having regard to a combination of valuation of assets by AMC Consultants and the third party offers received (and considered to be still achievable) in respect to the assets from the marketing campaign. The estimate of value is not based upon capitalised exploration expenditure which may have been recorded in the accounts of the Company.

The NT Mining Assets represent, with reference to notes 9, 10 and 11 of Company's Annual Accounts for the year ended 31 December 2007, most of the Property Plant and Equipment, Intangible Assets and Interests in Joint Ventures, then valued cumulatively at approximately \$160M. Since 31 December 2011, the Oxide plant was completed (though not commercially operational) and the Administrators have disclaimed certain motor vehicles. That said, the Alkane Royalty (note 3 below) and the New South Wales assets (note 4 below) are separately identified in the Pro-Forma Balance Sheet.

In respect to the offers received for the subsidiary assets (refer note 4 below), uranium, Alkane Royalty and Peruvian assets, the Deed Administrators remain of the view that cumulatively, those offers are no more favourable than the Further Revised DOCA.

In a liquidation scenario, the Deed Administrators remain of the view that the JV Assets would prove to be difficult to realise, as a result of a combination of factors, including the:

- cost of remedial works required to commission the Oxide JV operation;
- uncertainties associated with the economic viability of the Oxide JV operations;
- uncertainty surrounding the viability of the possible future JV Sulphide operation;
- sums outstanding to HAR in respect of the JV assets; and
- legal complexity of the regime in which the assets are held, in which some assets are owned by Compass but licensed to the joint venturers, as well as the ongoing involvement of Receivers over Compass's participating interest in the JV assets.

The HOA entered into between HAR, HNC and YA Global, if implemented, will result in:

- HAR and Compass discussing the manner in which the Oxide Project should be mothballed;
- HAR obtaining a 50% interest in the Sulphide JV;
- HAR and Compass each having a 50% interest in each of the Oxide JV, Sulphide JV and Regional Exploration JV; and
- Compass being responsible for 50% of the Oxide JV, Sulphide JV and Regional Exploration capital expenditures and operating expenses going forward (in accordance with their participating shares), which for clarity, includes the costs of any feasibility or pre-feasibility study which both JV participants have agreed to incur.

While the abovementioned changes may on their face be viewed as reducing Compass's value in the NT Mining Assets, we note that the valuation adopted is based upon potential realisable value, with the issue of how to extract value from mining operations yet to be addressed. While we are unable to quantify the likelihood of the future success of such operations, we consider the HOA is at least a step toward those opportunities being assessed, with a view to a going concern by the JV post-recapitalisation.

3. It is difficult to value this potential future royalty income stream. Alkane has completed its Definitive Feasibility Study for its Tomingley Gold Project with some positive findings, though noting the Compass royalty as being a significant financial impost on the project. The sum disclosed above represents a conservative estimate of the asset's value in a going concern situation, a discount on the sum that Compass' valuers have indicated it may be worth.
4. The loan to subsidiary represents the sum estimated to be recoverable from wholly owned Compass subsidiary Raptor Minerals Limited. A joint venture was entered into with Thomson Resources Limited in March 2010 in relation to all but one of Raptor's New South Wales tenements. A joint venture was entered into with Platsearch NL in respect of the final Raptor tenement in March 2011. The going concern value of this asset has been adopted. Compass is expected to benefit in the future from these joint ventures. The estimate provided is based upon an independent mining tenement expert's (AMC Consultants) valuation of such assets. The New South Wales based mining tenements previously reported by the Company on a consolidated basis, are held by Raptor Minerals Limited.
5. The NT land is in three parcels and is arguably subject to certain joint venture operator rights. The aggregated value of the land above is consistent with market appraisals obtained in the first half of 2009.
6. The pre-administration book value for this asset (\$3.36M) has been discounted by just over 50% to reflect an estimate of the losses that will ultimately be available to Compass having regard to the extent of dividend payable to Compass' unsecured creditors through the Creditors' Trust. Compass will need to consider professional taxation advice in the future as to the availability of such losses having regard to the Creditors' Trust and other pertinent issues.
7. A number of bonds have been placed on deposit by Compass in support of various mining obligations. The estimated realisable value is disclosed above.
8. The Peruvian tenements have previously been estimated to be worth in the vicinity of \$200,000.

9. A going concern value has been attributed to the Sydney office furniture and equipment though some downsizing of this office has occurred.
10. There will be a range of restructure costs (including corporate advisory fees, legal costs, meeting costs, placement fees, disbursements) and potentially funding by YA Global of certain costs to be incurred by the Deed Administrators which exceed those payable in a liquidation scenario to be paid by Compass in respect of the recapitalisation process. These have been estimated at \$700,000.
11. Terms of the Proposal provide for YA Global to advance various sums to Compass. YA Global will obtain a fixed and floating charge secured over 100% of Compass' assets in respect of these sums:
 - "First Loan" - CMPL cash sum (\$2.5M) and Compass upfront cash sum (\$3.25M);
 - "Second Loan" - JV future remedial work and care and maintenance costs, conceivably a further \$37.5M, but estimated at \$6M in the first 12 months, though nil at Completion; and
 - "Third Loan" - HAR contribution notices, pre-VA sum and to completion (\$7.5M). This loan is initially comprised of the \$7.5M payment due to HAR at Completion then increases as YA Global advances funds to Compass in order that the sums outstanding under the HNC charge/Bond and the HAR charge/Bond are each paid by 30 equal monthly instalments.

The amount due to HAR under the terms of the Proposal is estimated to be \$27.5M at Completion. The debt will be dealt with in accordance with section 3 of the Proposal (refer paragraphs 2.13 and 2.14 of this Explanatory Statement and) as follows:

- On the day of completion of the Recapitalisation, Compass will pay HAR the sum of \$7.5M (refer to YA Global Third Loan, above); and
- The balance of the HAR Amount (estimated at \$20M) will be satisfied by way of a bond to be issued by Compass to HAR providing for Payment of 30 equal monthly instalments, interest calculated at 10% per annum and the debt due under the bond is to be secured over Compass's interest in its JV interests.

The amount due to HNC under the terms of the Proposal is estimated to be \$16M at Completion. The debt will be dealt with in accordance with section 8 of the Proposal and can be summarised (by reference to paragraphs 2.13 and 2.14 of this Explanatory Statement and) as follows:

- Payable by 30 equal monthly instalments and paying 10% interest per annum;
- Subject to any required shareholders consents, HNC will have the option to convert the outstanding balance of this amount into shares in Compass;
- The debt will be secured by a second ranking security, behind the existing JV security in favour of HAR.

12. Compass will issue an unsecured bond to the Trustees of the Creditors' Trust for a principal amount estimated at \$2.05M, which in accordance with section 7 of the Proposal, provides for:
 - The capitalisation of interest at 10% per annum;
 - Payment of 25% of the aggregate of the admitted Creditors with debts in excess of \$100,000 each, subject to a maximum cap of \$6M;
 - Payment required at maturity – three years after Completion of the Further Revised DOCA; and
 - Normal debt recovery rights in the event that Compass doesn't pay at maturity.
13. The post-recapitalisation issued capital of Compass will be 1,401,007,911 fully paid ordinary shares.

2.13. Post recapitalisation Funding

Under the terms of the Proposal, YA Global will enter into 3 funding agreements with Compass following execution of the Further Revised DOCA, conditional upon completion of the Proposal, to

fund required payments to the Creditors' Trust, Compass's obligations to HAR and HNC including under the bonds to be issued to HAR and HNC and Compass's immediate future working capital requirements, under which:

- **First Loan:** On completion of the Proposal, YA Global will loan Compass sufficient funds for the purpose of enabling Compass to meet its payment obligations under the Further Revised DOCA at completion (excluding the payment obligations to HNC and HAR to be funded by the Third Loan) and its immediate working capital requirements, subject to terms including but not limited to:
 - interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan;
 - the funds advanced by YA Global will be repaid by Compass upon the first to occur of:
 - the date 3 years after the date of termination of the Further Revised DOCA; and
 - 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months or substantial positive progress is made with respect to the Sulphide JV; and
 - YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default.
- **Second Loan:** YA Global will loan further funds (estimated at approximately \$6M in the first twelve (12) months) to Compass in order that it can meet its payment obligations under the Proposal (excluding the payment obligations to HNC and HAR to be funded by the Third Loan), subject to conditions acceptable to YA Global including, but not limited to:
 - funds will be provided on a monthly basis to meet future cash calls by the JV Operator based on funding requests by Compass (such request to be made on or before the 20th of the preceding month);
 - interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan;
 - the funds advanced by YA Global will be repaid by Compass upon the first to occur of:
 - the date 3 years after the date of termination of the Further Revised DOCA; and
 - 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months or substantial positive progress is made with respect to the Sulphide JV (see 13. below); and
 - YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default.
- **Third Loan:** YA Global will loan further funds to Compass in order that it can meet its payment obligations to HNC and HAR under the Proposal, subject to conditions acceptable to YA Global including, but not limited to:
 - funds will be provided on a monthly basis to meet payment obligations to HNC and HAR based on funding requests by Compass (such request to be made on or before the 20th of the preceding month);
 - funds advanced will be paid directly to HNC or HAR (as relevant);
 - interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan;

- funds advanced by YA Global will be repaid by Compass upon the first to occur of:
 - the date 3 years after the date of termination of the Further Revised DOCA; and
 - 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months or substantial positive progress is made with respect to the Sulphide JV (see 13 below); and
- YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default.
- **Security:** Compass will grant YA Global a fixed and floating charge over all of its assets to secure the repayment of the Loan Funds, which will rank:
 - Third in relation to Compass's interest in the JV (behind the HAR and HNC security, other than the existing featherweight charge in favour of HAR); and
 - First in relation to all other assets.

2.14. HNC and HAR repayments

The Third Loan will be used to:

- deal with the amount due to HAR under the terms of the Proposal (estimated to be \$27.5M at Completion). The debt will be dealt with as follows:
 - a. at Completion of the Proposal, Compass paying HAR the sum of \$7.5M; and
 - b. The balance of the HAR Amount (estimated at \$20M) will be satisfied by way of a bond to be issued by Compass to HAR providing for payment of 30 equal monthly instalments, interest calculated at 10% per annum and the debt due under the bond is to be secured over Compass's interest in its JV interests.
- deal with the amount due to HNC under the terms of the Proposal which is estimated to be \$16M at Completion. The debt will be dealt with as follows:
 - a. Payable by 30 equal monthly instalments and paying 10% interest per annum and the debt will be secured, pursuant to section 8 of the Proposal, by a second ranking security (i.e. behind the existing joint venture security in favour of HAR); and
 - b. Subject to any required shareholders consents, HNC will have the option to convert the outstanding balance of this amount into shares in Compass.

2.15. Taxation

The Proposal may have income tax implications for the Company (referred to in note 6 of paragraph 2.11 of this Explanatory Statement) and for existing Shareholders.

Existing Shareholders are advised to seek independent tax advice in respect of the impact of the resolutions on their personal circumstances. The Company, the Administrators, the current and future Directors and advisers to the Company accept no responsibility for any individual existing Shareholders' tax consequences of any aspect of the Proposal. The following comments are general in nature and do not consider the individual circumstances of existing Shareholders.

The issue of the New Options should not have any direct tax consequences for existing Shareholders who would be subject to the capital gains tax provisions on disposal of their existing shares. In particular, no amount should be included in the taxable income of an existing Shareholder by virtue of the issue of the New Options. Further, for an existing Shareholder that exercises a New Option by paying the relevant exercise price, and holds the New Option and resulting share on capital account:

- no capital gains tax consequences will arise from the exercise (and resulting disposal) of the New Option; and

- the amount paid to exercise the New Option will be included in the cost base of the resulting share for capital gains tax purposes.

An existing Shareholder who subsequently disposes of a share will be subject to capital gains tax (assuming they hold the share on capital account) to the extent the capital proceeds from the disposal exceed the cost base of the shares. Shareholders who make a capital gain and have held the relevant share for longer than 12 months may be eligible for the CGT discount. The CGT discount allows individuals and trusts to reduce their capital gain by 50% and for complying superannuation funds to reduce their capital gain by 33.33%.

2.16. Forgiveness of Creditors' Claims

The Proposal provides for 1,256,341,180 shares to be issued at completion of the Proposal in return for release of the YA Global and Coffee House debts which are currently owed by Compass. Further, under the terms of the Further Revised DOCA, all Creditors' claims against Compass are released and extinguished (with the exception of the then created Compass Bond obligations) by the Further Revised DOCA with Creditors becoming beneficiaries of the proceeds available in the Creditors' Trust.

The number of shares to be issued to Coffee House and YA Global is not in simple mathematical proportion to their debts, but is as a result of negotiation of the Further Revised DOCA by the Administrators, YA Global and Coffee House.

The factors which influenced the outcome of these negotiations included:

- YA Global's exposure under the Proposal is greater as it must provide fresh funds to meet Compass' anticipated immediate and ongoing working capital requirements; and
- Immediately before Compass entered into a Loan Agreement in July 2008, pursuant to which Compass subsequently borrowed US\$23M from Coffee House, both Coffee House and Compass entered into a Deed with YA Global, pursuant to which the rights of Coffee House to a dividend in respect of its claim as a creditor in a (then potential future) liquidation of Compass, were deferred to YA Global.

2.17. Financial Statements and ASIC Exemptions

As detailed in the ASX announcement dated 7 April 2010, the Company applied to ASIC and obtained relief in respect of the requirements of Part 2M.3 of the Act for the financial year ended 31 December 2009 and each financial year and half year on or after 1 January 2010 until the earlier of 21 May 2011 or the termination of the DOCA. The Administrators have applied to ASIC for an extension to the period of relief and await ASIC's response.

Following implementation of the Proposal, the Company will resume compliance with its full financial reporting obligations. The Administrators note that, absent some further relief from ASIC, or acceptance of the Proposal by shareholders, the costs of compliance are expected to be one of the drivers toward a liquidation of Compass.

2.18. Directors' Recommendation

The Directors are required to make a recommendation in relation to certain resolutions put to Shareholders, or alternatively, explain why they do not make a recommendation. Further, Section 219(c)(iii) of the Act requires an explanation where a Director was not available to make a recommendation and why not. Due to the administration of the Company, the powers of the Directors have been suspended under Section 437C of the Act and under the Further Revised DOCA and earlier DOCAs for two (2) years, with a number of Directors having limited engagement occurring in respect of the administration and therefore certain Directors (Messrs Toll and Wood) resigned effective 10 June 2010. As Mr Swann did not hold a remunerated role during November 2010 to January 2011 (inclusive) and has been on a limited retainer to provide technical advice to the Administrators since January 2011, and Mr Cohen has not had any recent involvement with the Company, a recommendation (or otherwise) from the Directors, is not included in this Explanatory Statement.

That said, the Administrators note that based upon the information known to them about the assets, they consider the resolutions are in the interests of Compass and its Existing Shareholders, for whom, outside of the Proposal, there is otherwise unlikely to be any value available from Compass.

2.19. Approval sought under s.611 of the Act

Pursuant to Section 606(1) of the Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- from 20% or below to more than 20%; or
- from a starting point above 20% and below 90%.

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person has a relevant interest in securities if they:

- are the holder of the securities;
- have the power to exercise, or control the exercise of, a right to vote attached to securities; or
- have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

Item 7 of Section 611 of the Act provides an exception to the prohibition whereby a person may make an otherwise prohibited acquisition of a relevant interest in a company's voting shares with Shareholder approval.

Pursuant to the Proposal, the Company has agreed to allot and issue 1,083,618,669 shares to YA Global as outlined in Resolution 1.

The "associate" reference includes a reference to a person whom a primary person is acting in concert or proposes to act in concert. YA Global and Coffee House are not Associates and are not anticipated as a result of the Proposal, to become Associates of each other as defined in the Act.

Shareholder approval under item 7 of Section 611 of the Act (which is also pertinent to Compass relying upon exception 16 to Listing Rule 7.2) is required because at the time of settlement under the Further Revised DOCA, YA Global will have a relevant interest (i.e. voting power) in more than 20% of the issued shares of the Company.

2.20. Approval sought under Section 208 of the Act

Section 208 of the Act provides that a company must obtain the approval of its members to give a financial benefit to a related party.

A broad interpretation of whether a financial benefit is given is required under the Act. An example of a financial benefit is the issuing of securities.

A related party includes an entity which controls the company and also includes an entity which has reasonable grounds to believe that it is likely to control the Company at any time in the future.

Control is defined as the ability to influence the operating and financial decision making of a Company. Following implementation of the Proposal YA Global and its Associates will hold approximately 77.4% of the issued share capital of the Company and will have nominated all of the Directors of the Company. Therefore YA Global and its Associates will be in a position to influence the decision making of the Company and accordingly Shareholder approval is sought under Section 208 of the Act as part of Resolution 1.

A related party also includes an entity which is controlled by a director of a company. Gordon Toll, a former director of Compass, controls Coffee House, accordingly Shareholder approval for the issue of shares to Coffee House is sought under Section 208 of the Act as part of Resolution 2, having regard to the fact that there are reasonable grounds to believe Mr Toll may become a related party of Compass.

2.21. Effect of approval of Resolutions 1 and 2 with respect to Listing Rule 7.1

Listing Rule 7.1 prevents a company from issuing shares which represent more than 15% of a company's equity securities, unless approved by Shareholders. If the Proposal is implemented, Compass will issue approximately 89.9% of its equity securities to Coffee House and YA Global. There is an exception to Listing Rule 7.1 for issues approved for the purposes of item 7 of section 611 of the Act and another exception for issues approved for the purposes of Listing Rule 10.11. Accordingly, approval of Resolutions 1 and 2 will refresh the 15% limit under Listing Rule 7.1, meaning that the Company will be able to issue up to 15% of its share capital without Shareholder approval during the period of 12 months from the date of the approval.

2.22. Approval sought under Listing Rule 10.11

Listing Rule 10.11 prevents a company from issuing shares to a related party, unless approved by Shareholders. Coffee House may be a related party of Compass on the basis that there are reasonable grounds to believe Gordon Toll will become a director of Compass and also controls Coffee House. Accordingly, though Mr Toll may not be nominated to become a director, Compass seeks Shareholder approval of the issue of ordinary shares to Coffee House under Resolution 2.

Deemed issue price of shares

In determining the deemed issue price for the shares, it was considered that because:

- the Proposal is a debt to equity exchange, rather than an issue of equity for cash consideration; and
- the Proposal is also a compromise with creditors rather than a transaction with a liquid company;

it is reasonable to assume an issue price which may not represent the true value of shares, based on the potential of the underlying assets, or the price that Compass shares may be likely to trade on the ASX following relisting.

Therefore, the value of the Company that has been assumed for the purposes of determining the deemed share price is based on the estimate of Compass' post-recapitalisation equity, being \$58.8M (see section 2.11 of this explanatory statement). If that sum is divided by the number of shares in the recapitalised Compass (1,397,842,979), the deemed issue price is 4.0 cents per share.

Timing of allotment and issue of shares

The shares will be issued to Coffee House and YA Global within one month of the date of the Meeting.

2.23. Approval sought under Listing Rule 10.1

Listing Rules 10.1 prevents a company from disposing of a substantial asset to a related party or a substantial shareholder, unless approved by Shareholders. A substantial asset is an asset which has a value of greater than 5% of the equity value of a company and 'disposal' of a substantial asset includes using the asset as collateral. Following the issue of shares to YA Global under Resolution 1, YA Global will be a related party and a substantial shareholder of Compass. Under the terms of the Proposal, when YA Global advance the First Loan, Second Loan and Third Loan, Compass will grant YA Global a fixed and floating charge over all of Compass's assets to secure the Loan Funds, which will rank:

- Third in relation to Compass's interest in the JV (behind the HAR and HNC security other than the featherweight charges); and
- First in relation to all other assets of Compass.

Accordingly, Compass seeks Shareholder approval for the extension of the fixed and floating charge, to securing the Company's obligations in relation to HNC and HAR pursuant to this proposal.

2.24. Approval sought under Listing Rule 7.1 for agreement to issue Shares under HNC's Bond

Listing Rule 7.1 prevents a company from issuing or agreeing to issue shares which represent more than 15% of a company's equity securities, unless approved by Shareholders. If the Proposal is approved, Compass will issue a Bond to HNC giving it the right to convert the full principal amount of the Bond into Shares equivalent to 10.4% of the Company (which immediately post-recapitalisation will be 145,704,823 Shares). While outstanding, the Bond will be repayable by 30 equal monthly instalments and carry an entitlement to interest at 10% per annum.

If converted for the initial principal amount of the HNC Bond, HNC would hold 10.4% of the Company's post-recapitalised Share capital. Shareholder approval is sought for the agreement to issue Shares under the conversion rights.

Approval of Resolution 4 will refresh the 15% limit under Listing Rule 7.1, meaning that the Company will be able to issue up to 15% of its share capital without Shareholder approval during the period of 12 months from the date of the approval.

No further approval required on issue of shares

Listing Rule 7.2 contains an exception to Listing Rule 7.1 for the issue of shares on conversion of convertible securities, where the issue of those convertible securities was approved by shareholders. Accordingly, if shareholders approve Resolution 4, no further approvals will be required in order to issue shares on conversion of HNC's Bonds to Shares.

Timing

HNC's Bonds will be issued and allotted on implementation of the Proposal, which will occur within 3 months after the Meeting. The conversion rights may be exercised at any time until the date that is 6 months prior to the date upon which the Company expects to achieve re-quotations on ASX.

Conversion price of shares under conversion rights

The conversion rights will be granted as a part of the issue of Bonds to HNC in satisfaction of Compass's existing approximately \$16M debt to HNC. The implied conversion price of the conversion rights is 10 cents per Share.

Intended use of funds

No additional funds will be raised by the grant of the conversion rights or their exercise, although exercise will discharge the debt owed by the Company to HNC under the Bonds.

2.25. Appointment of Auditors - Section 327B Corporations Act Approval

It is proposed that KPMG will resign as Compass' auditor within the meaning of Section 329 of the Act and a new auditor will be appointed at the EGM in accordance with Section 327B of the Act.

A Shareholder has nominated Grant Thornton Australia Pty Ltd to be the new Compass and have consented to act in that capacity. For the purposes of Section 328B(3) of the Act, a copy regarding the nomination of new auditor can be found at Annexure 2 of this report.

The cost savings in relation to the financial year ended 31 December 2008 and half year ended 30 June 2009, as a result of the proposed change in Auditor, is expected to exceed \$200,000. The change in auditor is also considered to contain the long-term costs of compliance by the Company which is expected to engage its limited staff requirements as consultants, rather than full-time employees to monitor its JV interests, having no trading operations of its own.

3. Independent Expert's Report

The Independent Expert's Report (Annexure 5) prepared by DMR Corporate sets out a detailed examination of the issue of shares and the grant of security to YA Global pursuant to the Proposal to enable Shareholders to assess the merits and decide whether to approve the issue of shares and the grant of security to YA Global. Shareholders should note that the Independent Expert's Report does not consider the issue of shares to Coffee House as it is not a requirement under Listing Rule 10.11 or under Section 208 of the Act.

To the extent that it is appropriate, the Independent Expert's Report sets out further information with respect to the proposed transactions and concludes that the acquisition of a relevant interest in the voting shares of the company by YA Global is fair and reasonable to the non-associated Shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

Annexure 1

Letter from YA Global

A LETTER TO COMPASS SHAREHOLDERS FROM MARK ANGELO

My name is Mark Angelo, and I am the Founder and President of Yorkville Advisors, LLC (Yorkville), the general partner and investment manager of YA Global Investments, L.P. (YA Global).

YA Global seeks your support for the shareholder resolutions of Compass Resources Limited (CMR) necessary to give effect to YA Global's proposal to recapitalise CMR.

This statement sets out why we believe you should vote in favour of the shareholder resolutions.

Important Differences from the previous proposal

We are pleased to be able to say that under our new proposal:

- immediately post-recapitalisation, existing shareholders will retain an interest of 10.1% in the recapitalised CMR;
- upon the re-quotation of CMR shares on ASX, and subject to the relevant disclosure requirements, CMR will issue 3 options to each shareholder for every share held, with these options being exercisable at 28.55 per share at any time before the date which is 6 months after CMR shares are re-quoted on ASX. If existing shareholders exercise all these options, then their interest in the recapitalised CMR may exceed 27%; and
- that an additional suitably qualified CMR director will be appointed from among nominees put forward by existing CMR shareholders.

Key elements

Under the proposal:

- In exchange for being offered new shares in CMR:
 - YA Global and Coffee House will release the existing debts (of approximately \$73 million) owed to them by CMR; and
 - YA Global will loan CMR funds (up to approximately \$72 million) for its working capital requirements and to enable it to meet its payment obligations to creditors under the revised DOCA;
- CMR will pay \$5.75 million (from the funds provided by YA) and issue bonds to the newly created Creditor's Trust;
- CMR will pay HAR \$7.5 million (from the funds provided by YA), and issue Bonds to HNC and HAR for the balance of the amounts owing to them;
- CMR will be released from all creditors' claims and retain the bulk of its assets for the benefit of post-recapitalisation CMR shareholders;
- Immediately post-recapitalisation, CMR will operate with a board of directors nominated by YA Global and Coffee House, together with an additional suitably qualified director appointed from among nominees put forward by existing CMR shareholders; and

- Upon the re-quotation of CMR shares on ASX, and subject to the relevant disclosure requirements, CMR will issue 3 options to each shareholder for every share held, with these options being exercisable at 28.55 cents per share at any time before the date which is 6 months after CMR shares are re-quoted on ASX.

Why vote for the proposal

We believe that the proposal is the best available option for CMR shareholders. Immediately post-recapitalisation, CMR's existing shareholder will retain a 10.1% interest in the recapitalised CMR, and if the existing shareholders choose to exercise the options, they will have the chance to increase this interest to 27% or more.

If shareholders do not approve the proposal, then under the Sale of Assets alternative of the Further Revised DOCA, we intend that CMR's assets will be sold to an entity nominated by us.

If so, shareholders are likely to receive nothing.

If we do not make such a proposal, CMR will likely pass into liquidation, in which case it is again likely that shareholders are likely to receive nothing.

On that basis, the likely outcomes of the voting are:

- (if the resolutions are passed, and re-capitalisation occurs) shareholders retain an interest in CMR, and have the chance to benefit from the options; or
- (if the resolutions are not passed) the Company is liquidated, and shareholders receive nothing.

The independent expert's report reflects this view, and sets out that in the opinion of the independent expert, the proposal offers shareholders the potential for some return (as opposed to no return).

As a result, we think the new proposal represents a great deal for existing CMR shareholders, we consider it is in the best interests of shareholders to vote in favour of the resolutions, and we ask you to do so.

We look forward to working with you in the future, to your support, and to maximising shareholders returns from CMR's diverse group of assets in the longer term.

Yours faithfully,


Mark Angelo



Annexure 2

Nomination of Auditor Letter

**MBJ:MF:SG
S Gauci**

09 April 2011

**COMPASS RESOURCES LIMITED ACN 010 536 820 ("CMR")
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
(RECEIVERS AND MANAGERS APPOINTED)
(Formerly Compass Resources NL)**

**C/- Ferrier Hodgson
Level 26 Bankwest Tower
108 St George's Terrace
PERTH WA 6000**

Dear Sir

YA Global Investments, L.P., which carries on business as Cornell Capital Partners L.P, being the DOCA Proponent for CMR ACN 010 536 820, hereby nominate Grant Thornton Australia Audit Pty Ltd (Audit Registration No. 327221) of Level 1, 10 Kings Park Road, West Perth 6005 for appointment as auditor of the company at the General Meeting to be convened for 18 August 2011, or as soon as practicable thereafter.

Please distribute copies of the nomination as required by Section 328B(3) of the Corporations Act 2001.

**Yours Faithfully
YA Global Investments L.P**


**Mark Angelo,
Managing Member**

Annexure 3

Terms of Options

Compass Resources Limited - Option terms and conditions

1 Glossary

Expressions used in these terms are defined in the glossary in clause 7.

2 Rights and liabilities of Options

2.1 Exercise Price and Share entitlement

Subject to these terms:

- (a) the exercise price for each Option is A\$0.2855; and
- (b) on exercise, each Option entitles the Optionholder to the issue of one Share.

2.2 Transfer

- (a) An Optionholder may transfer the Optionholder's Options, but any such transfer must be for all the Options held by that Optionholder.
- (b) If an Optionholder purports to transfer an Option other than in accordance with this clause 2.2, the Option immediately lapses.
- (c) Transfer of an Option takes effect on registration in the Issuer's register of optionholders.

2.3 Distributions

Options do not confer any right to distributions.

2.4 Rights in relation to reports and meetings

- (a) Optionholders will be sent reports, accounts and other information required to be sent to Shareholders, including notices of meeting.
- (b) Optionholders will have the right to attend, but (subject to the Corporations Act) not to vote at, general meetings of Shareholders.

2.5 Expiry of Options

All unexercised Options expire at 5.00pm on the date that is 6 months after the issued Shares are first re-quoted on the Australian Securities Exchange.

3 Exercise

3.1 Optionholder may exercise

An Optionholder may exercise the Options of which the Optionholder is the registered holder in accordance with this clause 3.

3.2 How the Optionholder may exercise

- (a) The Options may only be exercised on one occasion. If some but not all Options are exercised, the Options that are not exercised will immediately lapse.
- (b) The Optionholder may only exercise Options by giving the Issuer, before the Options expire:
 - (1) a completed Exercise Notice signed by the Optionholder or a director or secretary of the Optionholder;
 - (2) a cheque in Australian dollars in favour of the Issuer for the amount payable by the Optionholder on exercise of the Options (being the number of Options specified in the Exercise Notice multiplied by the Exercise Price); and
 - (3) if the Issuer has issued a certificate for the Options — the certificate,and any purported exercise which does not comply with this clause 3.2(b) will be invalid. An Exercise Notice is irrevocable.
- (c) If any cheque given to the Issuer in purported satisfaction of the requirements of clause 3.2(a) is dishonoured, the relevant Options will be deemed not to have been exercised.

3.3 Issue of Shares on exercise

The Issuer must issue the Optionholder the Shares to which the Optionholder is entitled on exercise within 5 Business Days after the Exercise Date.

4 Rights of Options

4.1 No rights to participate

An Option confers no right to vote, participate in a Pro Rata Issue, Bonus Issue, distribution of profit, return of capital or any other participating rights or entitlements of Shareholders unless and until the Option is exercised and a Share is issued pursuant to the exercise of the Option.

4.2 Quotation

The Issuer will not apply for official quotation of the Options on the Australian Securities Exchange of ASX.

4.3 Reorganisation

If, before exercise or expiry of the Options, the Issuer implements a reorganisation of its capital, the Options must be treated as follows:

- (a) in a consolidation of capital — the number of Options is consolidated in the same ratio as the ordinary capital and the Exercise Price must be amended in inverse proportion to that ratio;

- (b) in a subdivision of capital — the number of Options is sub-divided in the same ratio as the ordinary capital and the Exercise Price must be amended in inverse proportion to that ratio;
- (c) in a return of capital — the number of Options remains the same and the Exercise Price of each Option must be reduced by the same amount as the amount returned in relation to each Ordinary Security;
- (d) in a reduction of capital by a cancellation of paid up capital that is lost or not represented by available assets where no Securities are cancelled — the number of Options remains the same and the Exercise Price of each Option must remain unaltered;
- (e) in a pro rata cancellation of capital — the number of Options is reduced in the same ratio as the ordinary capital and the Exercise Price must be amended in inverse proportion to the ratio; and
- (f) in any other case — the number of Options are reorganised so that the Optionholder does not receive a benefit that holders of Ordinary Securities do not receive. This does not prevent a rounding up of the number of Securities to be received on exercise if the rounding up is approved at the Security holders' meeting which approves the reorganisation,

provided that if the Listing Rules require the Options to be treated differently to that set out above, the Options must be treated as the Listing Rules require.

5 Undertakings of the Issuer

The Issuer agrees:

- (a) to use its best endeavours to procure that official quotation is granted for the Shares on ASX as soon as possible after the issue date;
- (b) to offer and issue the Shares in accordance with its constitution, clause 3.3 the Corporations Act, the Listing Rules, any other applicable law or regulation of any jurisdiction in which the offer is made and any other legally binding requirement of ASIC or ASX; and
- (c) if the requirements of section 708A(5)(a) to (d) of the Corporations Act are satisfied in respect of the Shares, on the Quotation Date (after issue of the Shares and before the Shares commence trading on ASX) to lodge a notice with ASX in relation to the issue of the Shares in accordance with sections 708A(6) of the Corporations Act.

6 Rights of Shares issued on exercise of Options

Shares issued on exercise of Options:

- (a) are of the same class, and rank equally with, other Shares on issue as at that date; and
- (b) only carry an entitlement to receive distributions that have a Record Date after the date the Shares were issued.

7 General

7.1 Notices

- (a) All notices, requests and statements given or made under these terms must be in writing.

(b) The Issuer must send any notice, request or other document relating to the Options to be sent to an Optionholder under these terms to the Optionholder's registered address as recorded in the Issuer's register of option holders.

(c) An Optionholder must send any notice, request or other document relating to the Options to be sent to the Issuer under these terms to:

Share Registry – Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000 Australia

or as otherwise specified by the Issuer by announcement to ASX or notice to the Optionholder.

7.2 Exercise Notices

At any time, an Optionholder may request the Issuer to give the Optionholder a blank Exercise Notice. The Issuer must give the Optionholder a blank Exercise Notice promptly on receiving the request.

7.3 Certificates

(a) The Issuer may issue certificates for the Options if, and only if:

- (1) the Options are not, or cease to be, quoted by the ASX; or
- (2) the law or ASX Operating Rules require the Issuer to issue certificates for the Options.

(b) If any certificate for an Option is lost, stolen, mutilated, defaced or destroyed, the Optionholder may request a replacement certificate. The request must:

- (1) state that the certificate has been lost, stolen, mutilated, defaced or destroyed and not been pledged, sold or otherwise disposed of;
- (2) if the certificate has been lost — state that proper searches have been made; and
- (3) include an undertaking that, if the certificate is found or received by the Optionholder, it will be returned to the Issuer.

(c) Before accepting an application, the Issuer may require the Optionholder to:

- (1) pay the Issuer's expenses in connection with the issue of the replacement certificate; and
- (2) give a bond or indemnity for an amount equal to at least the current market value of the Options indemnifying the Issuer against loss following the production of the original certificate.

(d) The Issuer must issue the replacement certificate within 15 Business Days of accepting the request, unless when it accepts the request, the Issuer has ceased to issue certificates for Options.

7.4 Calculations

(a) The board of the Issuer may make any calculations or adjustments that are required in relation to the Options. In the absence of manifest error such calculations or adjustments are conclusive and binding on the Optionholders.

(b) The Issuer must notify each Optionholder of any adjustments made to the Exercise Price, the number of Shares over which an Option may be exercised and the number of outstanding Options within 5 Business Days after the date of the adjustment.

7.5 Governing law

- (a) These terms and the Options are governed by the laws of New South Wales.
- (b) The Issuer and the Optionholders irrevocably submit to the non-exclusive jurisdiction of the courts of New South Wales and irrevocably waive any objection to the venue of any legal process on the basis that the process has been brought in an inconvenient forum.

7.6 Variation

- (a) The Issuer may vary these terms and change the Optionholder's rights and liabilities, to the extent necessary to comply with the Listing Rules applying to reorganisations of capital at the time of the reorganisation. The Issuer must notify each Optionholder of any such variation within 10 Business Days of the date of the variation.
- (b) Otherwise, subject to the Listing Rules, the Issuer and an Optionholder may vary the terms applicable to any Options of which the Optionholder is registered holder by agreement.

7.7 Duties and taxes

The Issuer is not responsible for any duties or taxes that may become payable in connection with the issue of Securities following exercise of, or in connection with any other dealing with, the Options.

7.8 Interpretation

In these terms, headings and boldings are for convenience only and do not affect the interpretation of these terms and, unless the context requires otherwise:

- (a) words importing the singular include the plural and vice versa;
- (b) other parts of speech and grammatical forms of a word or phrase defined in these terms have a corresponding meaning;
- (c) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency;
- (d) a reference to any thing (including any right) includes a part of that thing, but nothing in this paragraph implies that performance of part of an obligation constitutes performance of the obligation;
- (e) a reference to a clause or glossary is a reference to a clause of, and a glossary to, these terms and a reference to these terms includes any glossary;
- (f) a reference to a document includes all amendments or supplements to, or replacements or novations of, that document;
- (g) a reference to a document includes any agreement in writing, or any certificate, notice, instrument or other document of any kind;
- (h) a reference to a party to a document includes that party's successors and permitted assigns;
- (i) a reference to a body (including an institute, association or authority), other than a party, whether statutory or not:
 - (1) that ceases to exist; or
 - (2) whose powers or functions are transferred to another body,
 - (3) is a reference to the body that replaces it or substantially succeeds to its powers or functions; and

- (j) none of these terms will be construed adversely to the Issuer solely on the ground that the Issuer was responsible for preparing these terms.

7.9 Use of 'include' and 'in particular'

Use of the expressions 'include' and 'in particular' does not limit the generality of the preceding words, or exclude anything not expressly included or particularised, unless these terms expressly provide otherwise.

8 Glossary

8.1 Defined terms

The meanings of the terms used in these terms are set out below.

Term	Meaning
ASIC	the Australian Securities and Investments Commission.
ASX	the Australian Securities Exchange operated by ASX Limited ABN 98 008 624 691.
ASX Operating Rules	the Listing Rules, the ASX Market Rules published by ASX and the ASTC Settlement Rules published by ASX Settlement and Transfer Corporation Pty Limited ABN 49 008 504 532.
Cleansing Statement	a notice to ASX under section 708A(5) of the Corporations Act 2001 (<i>Cth</i>).
Corporations Act	Corporations Act 2001 (<i>Cth</i>)
Exercise Date	the date when an Optionholder properly exercises that Option in accordance with clause 3.2(a).
Exercise Notice	a notice in such form as the Issuer approves from time to time.
Exercise Price	the exercise price specified in clause 2.1(a).
Issuer	Compass Resources Limited (subject to deed of company arrangement) (Receivers and Managers appointed) ACN 010 536 820
Listing Rules	the ASX Listing Rules published by ASX.

Term	Meaning
Option	a right to subscribe for one Share on these terms, subject to adjustment in accordance with clause 4.3.
Optionholder	a person registered from time-to-time on the Issuer's register of option holders as a holder of Options.
Quotation Date	the date on which the Issuer is required to give notice to ASX under clause 5(c), which shall be no later than 5 Business Days following the issue of Shares.
Share	an ordinary Share in the Issuer.

8.2 Definitions in Listing Rules

In these terms, unless the context requires otherwise, the following expressions have the same meaning as in the Listing Rules: **Bonus Issue**, **Business Day**, **Ordinary Securities**, **Pro Rata Issue**, **Record Date** and **Security**.

Annexure 4

HNC letter of Support



湖南有色金属股份有限公司

HUNAN NONFERROUS METALS CORP., LTD.

Martin Jones
Ferrier Hodgson
Level 26 BankWest Tower
108 St George's Terrace
Perth WA 6000 Australia

9th June 2011

Dear Mr Jones

Compass Resources Limited (receivers and managers appointed) (subject to a deed of company arrangement) ("Compass Resources")

We refer to the variation to the deed of company arrangement that was approved by the creditors of Compass Resources on 23 December 2010.

Prior to that meeting of creditors, representatives of Hunan Nonferrous Metals Corporation Limited and HNC (Australia) Resources Pty Ltd engaged in negotiations of YA Global Investments, L.P. in relation to the future of Compass Resources and the joint ventures. As a result of those negotiations, the parties agreed upon terms pursuant to which Compass Resources could emerge from the deed of company arrangement and resume its role as a non-defaulting joint venturer. Those terms are reflected in the variation to the deed of company arrangement.

We understand that the deed administrators intend to seek certain approvals from the shareholders of Compass Resource. We confirm that:

1. The proposed restructure of Compass Resources has the support of both Hunan Nonferrous Metals Corporation Limited and HNC (Australia) Resources Pty Ltd; and
2. Hunan Nonferrous Metals Corporation Limited, in its capacity as a shareholder of Compass Resources, intends to vote in favour of those resolutions that will be put to the meeting of shareholders in relation to which it is entitled to vote; and
3. Hunan Nonferrous Metals Corporation Limited and HNC (Australia) Resources Pty Ltd look forward to resuming their relationship with Compass Resources as a joint venturer and working with Compass Resources' proposed new management team.

Yours sincerely

A handwritten signature in black ink, appearing to be 'R. Jones', is written over a horizontal line.

Annexure 5

Independent Expert's Report

DMR CORPORATE

DMR

DMR Corporate Pty Ltd A.C.N. 063 564 045
470 Collins Street
Melbourne Telephone (03) 9629 4277
Victoria 3000 Facsimile (03) 9629 4598
Australia Web www.dmrporate.com.au

13 July 2011

The Administrators
Compass Resources Limited
Level 5, 384 Eastern Valley Way
Roseville,
NSW 2069

Dear Sirs,

Re: Independent Expert's Report

1. Introduction

A general meeting of shareholders was held on 17 June 2010, for the purpose of passing resolutions to approve the issue of shares for the purpose of the recapitalization of Compass Resources Limited ("Compass" or the "Company") as contemplated in the original Deed of Company Arrangement ("DOCA"). The first of those resolutions (to approve the issue of shares to YA Global) failed. Accordingly, the other resolutions were not put to the meeting given their dependence upon the passing of the first resolution.

YA Global has since proposed a revised DOCA, which sought to address the concerns of the shareholders by providing for the issue of new options¹ to existing shareholders, and therefore potentially improve the return for the Non-Associated Shareholders. The revised DOCA was never voted on by the Compass shareholders and since its preparation it has been superseded by a further revised DOCA ("Further Revised DOCA").

You have requested DMR Corporate Pty Ltd ("DMR Corporate") to prepare an independent expert's report in respect of this Further Revised DOCA proposal under which the shareholders of Compass may approve the issue of new shares and options as part of this final proposal to recapitalize the Company.

The new shares will be issued to YA Global Investments, L.P. (which carries on business as Cornell Partners L.P.) ("YA Global") and Coffee House Group Limited ("Coffee House") in full and final release of the debts owing to YA Global and Coffee House.

A secured Bond will also be issued to HNC in satisfaction of Compass's existing debt to HNC, estimated to be \$16 million, the principal amount of which may be converted into 10.4% (145,704,823 shares) of the Company's shares.

It is also proposed that the Compass shareholders will be issued 3 new options in the Company for every share held on the record date. As part of this pro rata issue YA Global and Coffee House have undertaken that they will not exercise or transfer their options, meaning that they will receive no benefits from the issue of these options.

¹ Options have an exercise price of \$0.1676 and an expiry date 6 months after the issued shares are first re-quoted on the ASX.

DMR

If the Compass shareholders approve the resolutions that are proposed, the conditions precedent as specified in the Further Revised DOCA proposal are met and the proposed recapitalization is completed, then Compass will seek the reinstatement of the quotation of its securities on the ASX.

If the Compass shareholders do not approve this latest reconstruction proposal then the Further Revised DOCA provides for the liquidation of Compass and for a sale of the Company's assets to an entity nominated by YA Global.

The proposed transactions, as set out in Section 2 below, are permitted by Section 611 of the Corporations Act 2001 ("the Act") and by Rule 10.1 of the Listing Rules ("Listing Rule 10.1") of the Australian Securities Exchange ("ASX") provided they are agreed to by shareholders, other than those involved in the proposed transactions or persons associated with such persons (i.e. Coffee House, HNC and the Other Non-Associated Shareholders – collectively referred to as the Non-Associated Shareholders).

The Administrators of Compass have requested DMR Corporate to prepare an independent expert's report in accordance with ASIC Regulatory Guide 111 – Content of expert reports. ASIC Regulatory Guide 111 requires the Independent Expert to advise shareholders whether the Proposed Transaction is fair and reasonable, when considered in the context of the interests of the Non-Associated Shareholders.

A copy of our report will accompany the Notice of Meeting and will be included as part of the Explanatory Statement to be sent by Compass to its shareholders.

2. The Proposed Transaction

The shareholders are being asked to vote on the following resolutions:

Resolution 1 - Approval of issue of new shares to YA Global

That subject to the passing of resolutions 2 & 3, for the purposes of item 7 of Section 611 and Section 209 of the Act and for all other purposes, Shareholders approve the issue of 1,083,618,669 new fully paid ordinary shares to YA Global in full and final release of the debt owing to YA Global at 29 January 2009, (approximately \$35,538,068 in total) in accordance with the terms of the Proposal at a deemed issue price of \$0.04.

Resolution 2 - Approval of issue of new shares to Coffee House

That subject to the passing of resolutions 1 & 3, for the purposes of ASX Listing Rule 10.11 and Section 209 of the Act and for all other purposes, Shareholders approve the issue of 172,722,511 new fully paid ordinary shares to Coffee House, in full and final release of the debt owing to Coffee House at 29 January 2009, (approximately \$37,798,404 in total) in accordance with the terms of the Proposal at a deemed issue price of \$0.04.

Resolution 3 - Approval of security

That subject to the passing of resolutions 1 & 2, for the purposes of ASX Listing Rule 10.1 and all other purposes, shareholders approve the extension of the fixed and floating charge over all of the Company's assets granted as security for the Loan Funds, to securing the Company's obligations pursuant to the Proposal.

Resolution 4 - Approval of agreement to issue Shares under HNC Bond

That subject to the passing of resolutions 1, 2 & 3, for the purposes of ASX Listing Rule 7.1 and all other purposes, Shareholders approve the agreement to issue shares under the Bond to be issued to HNC.

Resolutions 1, 2, 3 & 4 are interdependent. Whilst resolutions 1 to 4 are interdependent and represent the proposed transactions, we are only required to opine on resolutions 1 and 3. For the purposes of this report these resolutions are hereinafter collectively referred to as the “Proposed Transaction”.

The shareholding interests of YA Global, Coffee House, HNC and the Other Non-Associated Shareholders may change as follows:

	YA		Coffee House		HNC		Other Non-Associated Shareholders		Total	
	Number		Number		Number		Number		Number	
Present	761,454	0.53%	2,403,478	1.66%	6,000,000	4.15%	135,501,799	93.66%	144,666,731	100.00%
Resolution 1	1,083,618,669								1,083,618,669	
Resolution 2			172,722,511						172,722,511	
Total	1,084,380,123	77.40%	175,125,989	12.50%	6,000,000	0.43%	135,501,799	9.67%	1,401,007,911	100.00%
Bond - Note 1					162,616,990				162,616,990	
	1,084,380,123	69.35%	175,125,989	11.20%	168,616,990	10.78%	135,501,799	8.67%	1,563,624,901	100.00%
Options - Note 2	2,284,362		7,210,434		18,000,000		406,505,397		434,000,193	
	1,086,664,485	54.40%	182,336,423	9.13%	186,616,990	9.34%	542,007,196	27.13%	1,997,625,094	100.00%
Options Exercised - Note 3	-		-		18,000,000		406,505,397		424,505,397	
Fully diluted capital	1,084,380,123	54.54%	175,125,989	8.81%	186,616,990	9.39%	542,007,196	27.26%	1,988,130,298	100.00%

Note 1 - The Proposal includes the issuance of a secured Bond to HNC in satisfaction of Compass's existing debt to HNC, estimated to be \$16 million at Completion, the principal amount of which may be convertible into 10.4% of the Company's shares. The above table assumes that HNC will exercise its conversion rights.

Note 2 - The Proposal includes the issue of 3 free options in the Company for every share held on the Record Date.

Note 3 - As part of the pro-rata issue of new options, YA Global and Coffee House have undertaken to Compass that they will not exercise or transfer those new options, meaning that they will receive no benefit from them.

If HNC does not exercise its right to convert its convertible Bond then the shareholder interests may be as follows:

	YA		Coffee House		HNC		Other Non-Associated Shareholders		Total	
	Number		Number		Number		Number		Number	
Present	761,454	0.53%	2,403,478	1.66%	6,000,000	4.15%	135,501,799	93.66%	144,666,731	100.00%
Resolution 1	1,083,618,669								1,083,618,669	
Resolution 2			172,722,511						172,722,511	
Total	1,084,380,123	77.40%	175,125,989	12.50%	6,000,000	0.43%	135,501,799	9.67%	1,401,007,911	100.00%
Bond - Note 1					-				-	
	1,084,380,123	77.40%	175,125,989	12.50%	6,000,000	0.43%	135,501,799	9.67%	1,401,007,911	100.00%
Options - Note 2	2,284,362		7,210,434		18,000,000		406,505,397		434,000,193	
	1,086,664,485	59.22%	182,336,423	9.94%	24,000,000	1.31%	542,007,196	29.54%	1,835,008,104	100.00%
Options Exercised - Note 3	-		-		18,000,000		406,505,397		424,505,397	
Fully diluted capital	1,084,380,123	59.40%	175,125,989	9.59%	24,000,000	1.31%	542,007,196	29.69%	1,825,513,308	100.00%

Note 1 - The Proposal includes the issuance of a secured Bond to HNC in satisfaction of Compass's existing debt to HNC, estimated to be \$16 million at Completion, the principal amount of which may be convertible into 10.4% of the Company's shares. The above table assumes that HNC will not exercise its conversion rights.

Note 2 - The Proposal includes the issue of 3 free options in the Company for every share held on the Record Date.

Note 3 - As part of the pro-rata issue of new options, YA Global and Coffee House have undertaken to Compass that they will not exercise or transfer those new options, meaning that they will receive no benefit from them.

The Administrators have requested DMR Corporate to independently assess whether the Proposed Transaction is fair and reasonable to Coffee House, HNC and the Other Non-Associated Shareholders.

3. Summary Opinion

In our opinion, the Proposed Transaction set out in Section 2 above is **fair and reasonable to Coffee House, HNC and the Other Non-Associated Shareholders**.

3.1 Our principal reasons for reaching the above opinion are:

- we have assessed the current value of the Non-Associated Shareholders' interests in Compass at nil (Section 7.8).
- we have valued the Coffee House 12.5% interest in Compass after the Proposed Transaction at \$7,356,250 or its 11.20% interest at \$8,383,200 if HNC converts its Bond (Section 10).
- we have valued the HNC 0.43% interest in Compass after the Proposed Transaction at \$252,033 or its 10.78% interest at \$8,071,617 if HNC converts its Bond (Section 10).
- we have valued the Other Non-Associated Shareholders 9.67% interest in Compass after the Proposed Transaction at \$5,691,817 or its 8.76% interest at \$6,486,408 if HNC converts its Bond (Section 10).
- we have reviewed the terms of the YA Global working capital loan agreement and we consider it is normal commercial practice for a lender to obtain a fixed and floating charge over a company's assets to secure loan funds.

As the value of the Non-Associated Shareholders' interests after the Proposed Transaction is greater than the value of their interests before the Proposed Transaction, we have concluded that **the Proposed Transaction is fair**.

3.2 We have also reviewed the other significant considerations referred to in Section 11 of this report and we consider that **the Proposed Transaction is reasonable**.

4. Structure of this Report

This report is divided into the following Sections:

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6	Compass - Key Information	7
7	Valuation of Compass Before the Proposed Transaction	10
8	Valuation of Compass After the Proposed Transaction	13
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5. Purpose of the Report

This report has been prepared to meet the following regulatory requirements:

- **Corporations Act 2001**

Section 606 of the Act contains a general prohibition on the acquisition of shares in a company if, as a result of the acquisition, any person increases his or her voting power in the company from 20% or below to more than 20%.

Section 611 of the Act contains an exception to the Section 606 prohibition. For an acquisition of shares to fall within the exception, the acquisition must be approved in advance by a resolution passed at a general meeting of the company in which shares will be acquired.

Compass is seeking shareholder approval for the Proposed Transaction under Section 611 of the Act as YA Global will increase its interests in Compass from less than 20% to above 20% as a result of the issue of shares.

- **ASX - Listing Rules**

Listing Rule 10.1 requires that a company obtain shareholder approval at a general meeting when the sale or acquisition of a substantial asset is to be made to or from:

- (i) a related party;
- (ii) a subsidiary;
- (iii) a substantial shareholder who is entitled to at least 10% of the voting securities, or a person who was a substantial shareholder entitled to at least 10% of the voting securities at any time in the 6 months before the transaction;
- (iv) an associate of a person referred to in paragraphs (i), (ii) or (iii) above;
- (v) a person whose relationship to the entity or a person referred to above is such that, in the ASX's opinion, the transaction should be approved by security holders.

Listing Rule 10.2 defines a substantial asset as being an asset whose value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to the ASX under the listing rules. Under the terms of the Proposed Transaction YA Global will make various loans to Compass of up to \$86.75 million. These loans will be secured by a fixed and floating charge over the assets of Compass and this charge is deemed to be a substantial asset.

The notice of any meeting of shareholders to approve any transaction referred to in Listing Rule 10.1 shall be accompanied by a report from an independent qualified person who shall state his opinion as to whether the proposed transaction is fair and reasonable to the Non-Associated Shareholders.

- **ASIC Regulatory Guides**

This report has been prepared in accordance with the ASIC Regulatory Guides and more particularly:

RG 111 – Content of Expert Reports (“RG111”)

- RG 111.21 An issue of shares by a company otherwise prohibited under S606 may be approved under item 7 of S611 and the effect on the company’s shareholding is comparable to a takeover bid. Examples of such issues approved under item 7 of S611 that are comparable to takeover bids under Ch 6 include:
- (a) a company issues securities in exchange for cash and, as a consequence, the allottee acquires over 20% of the company. The allottee could have achieved the same or a similar outcome by using a cash-rich entity to make a scrip takeover bid for the company.
- RG111.24 There may be circumstances in which the allottee will acquire 20% or more of the voting power of the securities in the company following the allotment or increase an existing holding of 20% or more, but does not obtain a practical measure of control or increase its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the issue price is ‘reasonable’ if it has assessed the issue price as being ‘not fair’ applying the test in RG111.10.
- RG111.9 It has long been accepted in Australian mergers and acquisitions practice that the words ‘fair and reasonable’ in S640 established two distinct criteria for an expert analysing a control transaction:
- (a) is the offer ‘fair’; and
 - (b) is it ‘reasonable’?
- That is, ‘fair and reasonable’ is not regarded as a compound phrase.
- RG111.10 Under this convention, an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or ‘portfolio’ parcel of shares.
- RG111.11 An offer is ‘reasonable’ if it is fair. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

ASIC Regulatory Guide 111 requires that the Proposed Transaction be assessed as if it was a takeover of Compass.

In assessing a takeover bid Regulatory Guide 111 states that the expert should consider whether the Proposed Transaction is both “fair” and “reasonable”.

- **General**

The terms “fair” and “reasonable” are not defined in the Act, however guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

- Fairness
- the Proposed Transaction is “fair” if the value of the Non-Associated Shareholders’ interests after the Proposed Transaction is equal to or greater than the value of their interests before the Proposed Transaction after considering the adequacy of the premium for control.

Reasonableness - the Proposed Transaction is “reasonable” if it is fair. It may also be “reasonable” if, despite not being “fair” but after considering other significant factors, shareholders should vote in favour of the Proposed Transaction in the absence of a superior proposal being received.

In determining whether the Proposed Transaction is fair, we have:

- valued the Non-Associated Shareholders’ interests in Compass before the Proposed Transaction;
- valued the Non-Associated Shareholders’ interests in Compass after the Proposed Transaction, including the giving of the security to YA Global; and
- compared the values before and after the Proposed Transaction and assessed the quantum of the control premium.

In determining whether the Proposed Transaction is reasonable we have analysed other significant factors, which the Non-Associated Shareholders should consider prior to accepting or rejecting the Proposed Transaction.

6. Compass - Key Information

6.1 Background

6.1.1 On 29 January 2009 Ferrier Hodgson were appointed Administrators of Compass.

6.1.2 Accordingly, the Extraordinary General Meeting to be held on 29 January 2009 was adjourned and not reconvened, and the resolutions for a restructure proposed at that time were not passed. The Administrators then became Deed Administrators of a DOCA that was accepted at a meeting of creditors on 30 April 2009.

6.1.3 The DOCA provided for:

- a twelve (12) month period during which the Deed Administrators (not the directors, but subject to the rights of the secured creditors) would remain in control of Compass’s affairs;
- the Deed Administrators (subject to certain limitations) to sell the Company’s assets or negotiate a financial re-organisation of the affairs of Compass; and
- the Deed Administrators to call for formal proof of debts to identify and adjudicate on the various groups of creditor claims.

6.1.4 After their appointment the Deed Administrators commenced a marketing program for the sale of assets or a financial reorganisation of Compass’ affairs. Expressions of interest were received on all assets and selected parties continued their due diligence in relation to particular assets. A proposal was received from YA Global for a reconstruction of Compass and the Administrators determined that this proposal provided the best outcome for the creditors. The Administrators then negotiated with YA Global for the benefit of creditors and then finalised a variation to the existing DOCA.

6.1.5 The Administrators formed the view that the return to creditors from the proposed variation to the DOCA (and the subsequent Further Revised DOCA) was likely to be better than the return available from an immediate winding up of Compass because:

- a. the conversion of the YA Global and Coffee House debts and designing a separate mechanism for payment of the HNC debt, has the effect of improving the return immediately available to other creditors from the non-JV assets, potentially removing approximately 90% of the creditors' claims (on a dollar value basis) that would otherwise be entitled to claim in a liquidation scenario;
 - b. YA Global and Coffee House will take an interest in the restructured equity of a revitalised Compass. By these groups taking up the risk of that part of the assets, and YA Global making a guaranteed sum available for distribution to external creditors it mitigates, at least in part, the financial risk for creditors in the ongoing investment in the JV and other assets;
 - c. the proposal provides some certainty for creditors, with some cash up-front (the return to creditors from the DOCA is itself comparable to or higher than the anticipated liquidation return) and the prospect of further funds from the Compass bond. Any further contribution will depend on the financial success of the reconstructed Compass with the additional payments not due until approximately March 2013;
 - d. it will provide some financial relief to HNC which has, since early in Compass's Administration, funded all of the JV expenditure, with future remedial work and care and maintenance costs potentially in the order of \$50M being funded jointly by HNC and YA Global;
 - e. the proposal minimises the insolvency practitioner and legal costs which should, consistent with general practice, be lower than those of a liquidation; and
 - f. in a liquidation, recoveries from the voidable and other transactions are uncertain or unlikely.
- 6.1.6 The creditors voted and approved the variations to the original DOCA and DOCA variations were put to shareholders on 17 June 2010. At that meeting the shareholders did not support the issue of the 2,263,267,330 shares to YA Global and the other resolutions were not put to the meeting.
- 6.1.7 Since 17 June 2010 YA Global has pursued various alternative proposals and it formulated a revised DOCA proposal which sought to address the concerns of shareholders by providing for the issue of new options to existing shareholders. On 23 December 2010 the creditors approved this revised DOCA proposal.
- 6.1.8 Since December 2010 YA Global continued with its due diligence together with the legal work on the conditions precedent in the revised DOCA and it has now formulated its Further Revised DOCA. This Further Revised DOCA was approved by creditors on 21 June 2011 and the proposed resolutions in Section 2 above are now to be put to shareholders for approval. If the Compass shareholders do not approve this latest reconstruction proposal then the Further Revised DOCA provides for the liquidation of Compass and for a sale of the Company's assets to an entity nominated by YA Global.
- 6.2 Prior to the appointment of Administrators on 29 January 2009 Compass' principal activities were:
- (a) the development of the Browns Oxide Project in the Northern Territory. The mining contractor had commenced work in preparation for plant start up of the 1.3 Mtpa copper-cobalt-nickel mine and processing plant. This development was projected to produce approximately 10,000 tpa copper cathode, 800 tpa contained nickel plus 950 tpa contained cobalt in carbonate form. The plant had commenced operations and was producing copper, but was still in the commissioning phase as to nickel and cobalt.
 - (b) the preparation of pre-feasibility studies ("PFS") for the base and speciality metals sulphide project. The PFS was to be funded by HNC and should HNC wish to proceed with the Sulfide Project development, it will provide the entire capital cost of the Sulfide processing plant.

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Both of the above projects described in (a) and (b) above were 50:50 joint ventures between Compass and HNC and each joint venturer would receive 50% of the production.

- (c) exploration for potentially significant base metal mineralization at the Area 55 north, Mt Fitch and Browns East prospects.
- (d) Northern Territory - Batchelor Region base metal exploration – this also falls under the HNC joint venture arrangements and HNC has reimbursed \$11 million of past expenditure by the Company and will fund 70% of the base metals exploration programme for 5 years to support its 50% interest and thereafter reverting to proportional 50:50 contributions.
- (e) Rum Jungle East – broad zones of potentially economic uranium mineralization were intersected at the Rum Jungle East and Rum Jungle Creek South prospects.
- (f) exploration and evaluation of mining tenements for base and precious metals in NSW and Peru.

6.3 Share Capital

As at the date of this report Compass had 144,666,731 fully paid ordinary shares on issue and the 20 largest shareholders of Compass as at 8 April 2010 are presented in Appendix A-1. As at that date the top 20 shareholders held 32.5% of Compass' issued fully paid shares.

In addition to the shares on issue there are also 440,000 options on issue with exercise prices between \$2.32 and \$3.69 and an expiry date of 31 December 2011. If the revised DOCA proposal is approved by the Non-Associated Shareholders then all of these options will be cancelled.

6.4 Financial Performance

Compass's audited Income Statements for the financial years ended 31 December 2006 and 2007 and the reviewed half yearly statements for the six months to 30 June 2008 are presented in Appendix B-1.

6.5 Financial Position

The audited net assets attributable to the members of Compass as at 31 December 2006, 31 December 2007 and the reviewed net assets as at 30 June 2008 are presented in Appendix B-2. Compass had net assets of \$106,242,000 as at 30 June 2008.

6.6 Cash Flow Statements

Compass's audited Cash Flow Statements for the financial years ended 31 December 2006 and 2007 and the reviewed half yearly cash flow statement for the six months to 30 June 2008 are presented in Appendix B-3.

7. Valuation of Compass Before the Proposed Transaction

7.1 Value Definition

DMR Corporate's valuation of Compass has been made on the basis of fair market value, defined as the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length.

7.2 Valuation Methodologies

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- share price history;
- capitalisation of future maintainable earnings;
- net present value of future cash flows;
- asset based methods; and
- alternate acquirer.

7.3 Share Price History

7.3.1 The share price history valuation methodology values a company based on the past trading in its shares. We normally analyse the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of the proposed transaction.

7.3.2 This analysis is not required in this report as the Compass shares were suspended from trading on the ASX on 29 January 2009 following a trading halt on 28 January 2009. Trading has not resumed since that time.

7.3.3 Summary – Share Price History

As Compass is under Administration and its shares have been suspended since 29 January 2009, we consider that this valuation methodology is not an appropriate methodology to use to value Compass.

7.4 Capitalization of Future Maintainable Earnings

This methodology involves capitalizing the estimated future maintainable earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits.

There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax – Price Earnings or PE. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.

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Other variations to EBIT include 'Earnings Before Interest, Tax, Depreciation and Amortization' – EBITDA and 'Earnings Before Interest, Tax, and Amortization' – EBITA.

As Compass is presently under Administration and it does not have an operating business generating profits, we consider that the capitalization of future maintainable earnings valuation methodology is not an appropriate methodology to use to value Compass.

7.5 Net Present Value of Future Cash Flows

An analysis of the net present value of the projected cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure, the costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period.

As Compass is presently under Administration and does not have an operating business generating cash flows, we consider that the capitalisation of future cash flows is not an appropriate valuation methodology to use to value Compass.

7.6 Asset Based Methods

These methodologies are based on the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

(a) Net Assets

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses. The net assets on a going concern basis does not take account of realization costs.

(b) Orderly Realisation of Assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

(c) Liquidation of Assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

Compass is presently under Administration and the Administrators have considered both the orderly realisation of assets valuation methodology (via the numerous DOCA's that have been prepared) and the liquidation of assets valuation methodology.

In the latest report by Deed Administrators dated 13 June 2011 the Administrators stated:

“...the estimated return to creditors from a liquidation of Compass has increased from the previously estimated 29 cents in the dollar, to 34 cents in the dollar...”.

In the 13 June 2011 report the Administrators stated that the proposed variations to the Further Revised DOCA would improve the return to the creditors as against the estimated return under the winding up of the Company. As this improved return can only be generated if the Further Revised DOCA proposal (and hence the Proposed Transaction) is approved by the Non-Associated Shareholders, we have viewed the

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valuation on a liquidation basis as the only alternative that can be adopted to value Compass and the Non-Associated Shareholder interests prior to the Proposed Transaction.

Under the liquidation of assets valuation methodology, the Administrators estimate that the Company would have a deficiency of assets of \$64,210,342 (Section 7.3 of the Further Revised DOCA) and unsecured creditors would be writing off a substantial portion of their debts.

On this basis, we have concluded that the equity in Compass has a nil value.

7.7 Alternate Acquirer

The value that an alternative offeror may be prepared to pay to acquire Compass is a relevant valuation methodology to be considered.

In this instance the Administrators have marketed all of the Compass assets over the last 29 months. Potential acquirers have conducted their own due diligence and formulated offers for the assets. The Administrators have assessed these offers and used them to quantify the proceeds that may be received if the assets were to be sold. We have reviewed the Administrators' assessments and updated these assessments with additional information received since they were received and we consider that there would still be a substantial deficiency of net assets if the bids from the alternative acquirers were accepted by the Administrators.

If the shareholders do not approve the Proposed Transaction then the Further Revised DOCA provides for the liquidation of Compass and for a sale of the Company's assets to an entity nominated by YA Global. The values placed on the Company's assets have been determined in accordance with the bids received from alternative acquirers by the Administrators and the creditors will all receive the same distributions as are specified in the Further Revised DOCA if the shareholders do not approve the Proposed Transaction. Under this scenario there will be no surpluses available to the Compass shareholders.

On this basis, we have concluded that the equity in Compass has a nil value.

7.8 Conclusion

In our opinion, Compass has a nil value as a substantial deficiency of net assets will result from both an orderly realisation of assets and from a liquidation of the assets.

As Coffee House control 1.66% of the Compass shares their interests are valued at nil before the Proposed Transaction.

As HNC control 4.15% of the Compass shares their interests are valued at nil before the Proposed Transaction.

As the Other Non-Associated Shareholders control 93.66% of the Compass shares their interests are valued at nil before the Proposed Transaction.

8. Valuation of Compass After the Proposed Transaction

8.1 Value Definition

We have used the same definition of value in this Section as was applied in Section 7.1 above when we assessed the value of Compass before the Proposed Transaction.

8.2 Valuation Methodologies

In selecting appropriate valuation methodologies, we considered the applicability of the same generally accepted valuation methodologies as detailed in Section 7.2 above and we determined that the appropriate methodology to use to value Compass after the Proposed Transaction was the net assets on a going concern basis.

8.3 Net Assets on a Going Concern Basis

To utilise this valuation methodology YA Global has considered the Company's assets and liabilities and provided a pro-forma balance sheet for Compass upon recapitalisation as follows:

	YA DOCA	YA Further Revised DOCA		YA Global Further Revised	
	Reconstruction	Reconstruction		DOCA Reconstruction if HNC Converts its Bond	
	May-10	Jun-11	Jun-11	Jun-11	Jun-11
	\$	\$	\$	\$	\$
Current Assets					
Cash at bank	2,500,000		100,000		100,000
Total Current Assets	2,500,000		100,000		100,000
Non-Current Assets					
Northern Territory mining assets	100,000,000		100,000,000		100,000,000
Alkane royalty	5,000,000		5,000,000		5,000,000
Loan to subsidiary	2,000,000		2,000,000		2,000,000
NT Land	1,500,000		1,500,000		1,500,000
Deferred tax assets	1,500,000		1,500,000		1,500,000
Deposits and bonds	500,000		500,000		500,000
Peruvian tenements	200,000		200,000		200,000
Sydney office equipment	50,000		50,000		50,000
Total Non-Current Assets	110,750,000		110,750,000		110,750,000
Total Assets	113,250,000		110,850,000		110,850,000
Current Liabilities					
Restructure costs and expenses	(500,000)		(700,000)		(700,000)
Total Current Liabilities	(500,000)		(700,000)		(700,000)
Non-Current Liabilities					
Secured creditors	(24,250,000)				
YA Global - first loan		(5,750,000)		(5,750,000)	
YA Global - second loan		-		-	
YA Global - third loan		(7,500,000)		(7,500,000)	
HAR		(20,000,000)		(20,000,000)	
HNC		(16,000,000)	(49,250,000)		(33,250,000)
Unsecured creditors	(17,671,199)		(2,050,000)		(2,050,000)
Total Non-Current Liabilities	(41,921,199)		(51,300,000)		(35,300,000)
Total Liabilities	(42,421,199)		(52,000,000)		(36,000,000)
Total Equity	70,828,801		58,850,000		74,850,000

The latest pro forma balance sheet indicates that the net assets will be approximately \$58,850,000 after the implementation of the Further Revised DOCA proposal (including the giving of the security to YA Global).

DMR

We reviewed the major valuations prepared by AMC Consultants Pty Ltd and Beevis & Co. that were used to prepare the above pro forma balance sheets, together with other information made available to us by Compass and from public sources². The change in the total value of the liabilities between May 2010 and March 2011 has resulted from the arbitration processes, negotiations with creditors during the formulation of the latest Further Revised DOCA proposal together with the costs of maintaining the JV assets, which have been paid for by HAR. Based on the information that we have reviewed, we have satisfied ourselves that the above Pro Forma has been reasonably prepared by the Administrator as at June 2011.

8.4 Conclusion

In our opinion the appropriate valuation methodology that should be applied in valuing Compass is an asset-based methodology following the completion of the Proposed Transaction.

In our opinion the value of the equity in Compass will be approximately \$58,850,000 after completion of the Proposed Transaction.

9. Control Premium

A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of the company could be acquired. Control premiums are normally in a range of 20% to 30%³ above the value of a minority share. The actual control premium paid is transaction specific and depends on a range of factors, such as the level of synergies available to the purchaser, the level of competition for the assets and strategic importance of the assets. In this instance there are no synergies to be gained by YA Global.

In the present circumstances Compass has a deficiency of net assets of approximately \$64,210,000 on a liquidation basis and its shares have a nil value.

In these circumstances, if the Non-Associated Shareholders receive any value from their current investment in Compass then that value will be the premium that YA Global will effectively pay to have the shareholders approve the Proposed Transaction.

10. Assessment as to Fairness

In Section 7.8 we assessed the Non-Associated Shareholders' interests in Compass to be nil before the Proposed Transaction.

In Section 8.4 above we assessed Compass' net assets to be approximately \$58,850,000 after the Proposed Transaction.

For the purpose of this report there are three groups of Non-Associated Shareholders and the value of their interests will vary as follows if the shareholders approve the Proposed Transaction:

² These valuations have not been updated for changes in exchange rates or commodity prices since they were originally prepared.

³ RMS Bird Cameron Control Premium Study – September 2010

	Proposed DOCA If HNC Does Not Convert its Bond		Proposed DOCA If HNC Converts its Bond	
	Shareholder Interests		Shareholder Interests	
	%	\$	%	\$
Value of net assets after revised DOCA proposal		<u>58,850,000</u>		<u>74,850,000</u>
Coffee House Interests	12.50%	7,356,250	11.20%	8,383,200
HNC Interests	0.43%	252,033	10.78%	8,071,617
Other Non-Associated Shareholder Interests	9.67%	5,691,817	8.67%	6,486,408

As the value of the Non-Associated Shareholders interests after the Proposed Transaction is greater than the value of their interests before the Proposed Transaction, we have concluded that the Proposed Transaction is fair.

11. Other Significant Considerations

Prior to deciding whether to approve or reject the Proposed Transaction the Non-Associated Shareholders should also consider the following factors:

- In Section 10 above we concluded that the Proposed Transaction is fair.
- If the Proposed Transaction is approved, and the other conditions precedent are met, then Compass will continue to remain in business and its net value may increase beyond the current estimation of \$58,850,000. If this occurs then this will add value to the Non-Associated Shareholders interests after the Proposed Transaction.
- Due to the size of the present deficiency of net assets (\$64,210,342 – Section 7.3 of the Further Revised DOCA) it is unlikely that any other proposals to restructure Compass will be received. The Administrators have advised that other than YA Global's proposals, no viable proposals have been made that would offer any return to existing shareholders over the last 29 months.
- The Further Revised DOCA proposal includes the issue of 3 new options in the Company for every share held on the record date. YA Global and Coffee House have agreed not to exercise their allocation of options and if the Other Non-Associated Shareholders (excluding HNC) exercised all of their options then their collective interests could increase to 27.51% (29.99% if HNC does not convert its Bond).
- If the Proposed Transaction is approved, and the other conditions precedent are met, then Compass will apply to have its shares quoted on the ASX. This will create a market for the Compass shares and this will enable shareholders to crystallise their losses for taxation purposes if they decide to sell their shares.
- Following implementation of the Proposed Transaction a new board of directors nominated by YA Global and Coffee House will be appointed.
- The Proposed Transaction will result in the capitalisation of the YA Global loan of \$35,538,068 and YA Global committing to loan further funds of up to \$86,750,000. These funds will comprise:

First loan - \$5.75 million on the date of Completion;

DMR

Second loan –JV future remedial work and care and maintenance costs, conceivably \$37.5 million, but estimated at \$6 million in the first 12 months although nil at Completion; and

Third loan – HAR contribution notices, pre-VA sum and to Completion \$7.5 million. This loan is initially comprised of the \$7.5 million payment due to HAR at Completion then increases as YA Global advances funds to Compass in order that the sums outstanding under the HNC charge/Bond (\$16,000,000) and the HAR charge/Bond (\$20,000,000) are each paid by 30 equal monthly instalments. The amount due to HAR under the terms of the Proposal is estimated to be \$27.5 million at Completion. This loan will total \$43,500,000.

- YA Global will enter into 3 funding agreements with Compass conditional upon completion of the Proposal, to fund the Creditors' Trust, Compass's obligations to HAR and HNC including under the Bonds to be issued to HAR/HNC and Compass's immediate future working capital requirements.

We have reviewed the terms of the YA Global loan agreement and we consider they are based on commercial terms and that it is normal commercial practice for a lender to obtain a fixed and floating charge over a company's assets to secure loan funds.

- As part of the terms of the revised DOCA proposal, Coffee House has agreed to the capitalisation of its \$37,798,404 loan for which it will receive 172,722,511 new Compass shares.
- If the Non-Associated Shareholders reject the Proposed Transaction then the Company will be placed in liquidation and the Non-Associated Shareholders will receive nothing.
- The Other Non-Associated Shareholders will lose their collective influence in Compass as their interests will be severely diluted – from 93.66% at the date of this report to 9.67% after the Proposed Transaction (and before the exercise of any options) or 8.67% if HNC decides to convert its Bond (and before the exercise of any options).

After reviewing the above significant factors we consider that **the Proposed Transaction is reasonable.**

12. Financial Services Guide

12.1 Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

12.2 DMR Corporate

DMR Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide reports for the purposes of acting for and on behalf of investors in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues and to carry on a financial services business to provide general financial product advice for securities to retail and wholesale investors.

12.3 Financial Services Offered by DMR Corporate

DMR Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by DMR Corporate are provided by the Entity to its members.

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All reports prepared by DMR Corporate include a description of the circumstances of the engagement and of DMR Corporate's independence of the Entity commissioning the report and other parties to the transactions.

DMR Corporate does not accept instructions from retail investors. DMR Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. DMR Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

12.4 General Financial Product Advice

In the reports, DMR Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

12.5 Independence

At the date of this report, none of DMR Corporate, Derek M Ryan nor Mr Paul Lom has any interest in the outcome of the Proposed Transaction, nor any relationship with the Administrators, Compass, YA Global, Coffee House or their associates.

Drafts of this report were provided to and discussed with the Administrators of Compass and their advisers. Certain changes were made to factual statements in this report as a result of the reviews of the draft reports. There were no alterations to the methodology, valuations or conclusions that have been formed by DMR Corporate.

DMR Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

DMR Corporate has issued several independent expert's report in respect of previous recapitalization proposals and a proposed DOCA over the last 3 years.

DMR Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 October 2007.

12.6 Remuneration

DMR Corporate is entitled to receive a fee of approximately \$20,000 for the preparation of this report, plus out of pocket expenses. We were also involved in the preparation of a draft report in April 2011 that was never formally issued and our fees in respect of that assignment were \$38,375. With the exception of the above, DMR Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

DMR

Except for the fees referred to above, neither DMR Corporate, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of any report.

12.7 Compensation Arrangements and Complaints Process

As the holder of an Australian Financial Services Licence, DMR Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement DMR Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

DMR Corporate is also required to have a system for handling complaints from persons to whom DMR Corporate provides financial services. All complaints must be in writing and sent to DMR Corporate at the above address.

DMR Corporate will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

DMR Corporate Pty Ltd



Paul Lom - Director



Derek Ryan – Director

Compass Resources Limited

20 Largest Shareholders as at 8 April 2010

Name	Number of Ordinary Shares
Periscope Partners L P <No 2 A/C>	7,346,287
Sunset Partners L P <No 2 A/C>	7,346,286
Hunan Nonferrous Metals Corporation Limited	6,000,000
Wythenshawe Pty Ltd	5,437,419
Citicorp Nominees Pty Limited	3,197,880
Mr Joshua Norman Pitt	2,750,000
Mr Malcolm Humphreys	1,660,000
J P Morgan Nominees Australia Limited	1,511,176
Mr Eric Henry Morgan	1,188,007
Glyde Street Nominees Pty Ltd <J Pitt Super Fund A/C>	1,170,000
Mr Philip Cohen	1,081,104
Coffee House Group Ltd	1,070,000
Mr Robert Byrne & Mrs Michelle Ann Byrne	1,000,000
Cenecob Nominees Pty Ltd	1,000,000
Mr Thomas Francis Sewell	987,451
National Nominees Limited	962,997
Coffee House Group Limited	945,000
Nalmor Pty Ltd <The John Chappell S/F A/C>	829,189
Mr Pasquale Bevilacqua	770,000
ANZ Nominees Limited <Cash Income A/C>	761,454
Total number of shares held by the twenty largest holders	<u>47,014,250</u>
The percentage of the total holding of the twenty largest holders of ordinary shares was 32.5%	
Source: Compass' share register – 8 April 2010	

Compass Resources Limited

Income Statements

	Financial Year Ended 31/12/2006 Audited \$'000s	Financial Year Ended 31/12/2007 Audited \$'000s	Half Year Ended 30/6/2008 Reviewed \$'000s	Financial Year Ended 31/12/2008 Management \$'000s
Revenue	50	375	475	2,798
Cost of goods sold	-	-	-	(11,668)
Gross margin	<u>50</u>	<u>375</u>	<u>475</u>	<u>(8,870)</u>
Employee benefits expense	(3,198)	(5,981)	(2,757)	(5,050)
Legal and professional expenses	(1,336)	(1,262)	(947)	(1,516)
Cartage	-	-	-	(55)
Registration and licence expenses	(1)	(440)	(2)	(1)
Travel and accommodation expenses	(321)	(397)	(242)	(426)
Other corporate and administrative expenses	(623)	(980)	(783)	(984)
Operating (loss) before interest, tax, depreciation & amortisation	<u>(5,429)</u>	<u>(8,685)</u>	<u>(4,256)</u>	<u>(16,902)</u>
Depreciation	(65)	(75)	(81)	(3,983)
Exploration expenditure write-off	(85)	(356)	-	(669)
Impairment – Oxide project	-	(15,000)	-	-
Write down – Oxide project	-	-	(12,848)	(12,848)
Operating (loss)	<u>(5,579)</u>	<u>(24,116)</u>	<u>(17,185)</u>	<u>(34,402)</u>
Financial income	2,838	2,546	1,186	2,098
Financial expenses	(15)	(3,319)	(2,741)	(31,683)
Net finance income/(expense)	<u>2,823</u>	<u>(773)</u>	<u>(1,555)</u>	<u>(29,585)</u>
(Loss) before tax	<u>(2,756)</u>	<u>(24,889)</u>	<u>(18,740)</u>	<u>(63,987)</u>
Income tax benefit	2	2,512	5,245	16,466
(Loss) for the period	<u>(2,754)</u>	<u>(22,377)</u>	<u>(13,495)</u>	<u>(47,521)</u>

Source: Compass 31 December 2007 annual report, 30 June 2008 half year financial statements and 31 December 2008 management accounts

Compass Resources Limited

Balance Sheets

	31/12/2006	31/12/2007	30/6/2008	31/12/2008
	Audited	Audited	Reviewed	Management
	\$'000s	\$'000s	\$'000s	\$'000s
CURRENT ASSETS				
Cash and cash equivalents	52,264	35,898	11,620	12,034
Trade and other receivables	2,029	11,750	4,979	4,969
Inventories	-	-	-	6,800
Other assets	275	63	333	1,104
TOTAL CURRENT ASSETS	<u>54,568</u>	<u>47,711</u>	<u>16,932</u>	<u>24,907</u>
NON CURRENT ASSETS				
Receivables	6,071	7,427	7,431	7,502
Deferred tax	-	-	247	11,469
Property plant and equipment	33,121	60,903	100,868	120,439
Intangible assets – exploration and evaluation expenditure	49,685	49,940	43,177	35,854
Other assets	-	-	-	1,318
TOTAL NON CURRENT ASSETS	<u>88,877</u>	<u>118,270</u>	<u>151,723</u>	<u>176,582</u>
TOTAL ASSETS	<u>143,445</u>	<u>165,981</u>	<u>168,655</u>	<u>201,489</u>
CURRENT LIABILITIES				
Trade and other payables	5,745	16,055	28,201	27,485
Loans and borrowings	67	15,060	22,508	85,243
Provisions	552	508	279	655
TOTAL CURRENT LIABILITIES	<u>6,364</u>	<u>33,734</u>	<u>50,988</u>	<u>113,383</u>
NON CURRENT LIABILITIES				
Trade and other payables	-	-	-	3,500
Loans and borrowings	212	14,353	11,198	1,372
Employee benefits	1	76	227	233
Restoration provision	-	-	-	1,364
Deferred tax liabilities	5,516	4,759	-	-
TOTAL NON CURRENT LIABILITIES	<u>729</u>	<u>17,077</u>	<u>11,425</u>	<u>6,469</u>
TOTAL LIABILITIES	<u>12,093</u>	<u>50,811</u>	<u>62,413</u>	<u>119,852</u>
NET ASSETS	<u>131,352</u>	<u>115,170</u>	<u>106,242</u>	<u>81,637</u>
EQUITY				
Issued capital	138,437	141,059	143,977	151,932
Reserves	2,168	5,741	7,390	8,855
Accumulated losses	(9,253)	(31,630)	(45,125)	(79,150)
TOTAL EQUITY	<u>131,352</u>	<u>115,170</u>	<u>106,242</u>	<u>81,637</u>

Source: Compass 31 December 2007 annual report, 30 June 2008 half year financial statements and 31 December 2008 management accounts

Compass Resources Limited

Cash Flow Statements

	Financial Year Ended 31/12/2006 Audited \$'000s	Financial Year Ended 31/12/2007 Audited \$'000s	Half Year Ended 30/6/2008 Reviewed \$'000s
Cash Flows from Operating Activities			
Payments to suppliers and employees	(3,811)	(17,029)	(1,567)
Interest received	2,838	2,462	374
Interest paid	(15)	(25)	(1,423)
Net cash used in operating activities	<u>(988)</u>	<u>(14,592)</u>	<u>(2,616)</u>
Cash Flows from Investing Activities			
Payments for security deposits	(5,876)	(1,349)	(14)
Proceeds from sale of mining interest	50	-	-
Payment for mining reserves	(302)	(910)	-
Acquisition of property, plant & equipment	(26,133)	(23,504)	(38,332)
Refund of exploration and evaluation expenditure	-	-	11,000
Payments for exploration and evaluation expenditure	(4,164)	(7,373)	(4,116)
Net cash used in investing activities	<u>(36,425)</u>	<u>(33,136)</u>	<u>(31,462)</u>
Cash Flows from Financing Activities			
Proceeds from issue of shares	75,654	2,227	127
Payment of transaction costs	(1,518)	-	-
Proceeds from borrowings	-	28,739	8,610
Proceeds from lease finance facility	310	475	3
Payment of finance lease liability	(57)	(79)	-
Net cash from financing activities	<u>74,389</u>	<u>31,362</u>	<u>8,740</u>
Net Increase/(Decrease) in cash and cash equivalents	36,976	(16,366)	(25,338)
Cash at the beginning of the period	15,288	52,264	35,898
Effect of exchange rate fluctuations on cash held	-	-	1,060
Cash and cash equivalents at the end of the period	<u>52,264</u>	<u>35,898</u>	<u>11,620</u>
Source:	Compass 31 December 2007 annual report and 30 June 2008 half year financial statements		

Compass Resources Limited

Further Revised DOCA – 13 June 2011

MATTER	PROPOSAL
1. YA Global Debt	YA Global will convert 100% of its debt for the issue of new shares in CMR, so that following the issue of all shares in CMR to be issued under this proposal (Recapitalisation) YA Global holds a minimum of [80%] of CMR shares as a result of the conversion.
2. Coffee House Debt	Coffee House will convert 100% of its debt (approximately \$37,798,404.43) into equity for the issue of new shares in CMR, so that following the Recapitalisation, Coffee House holds a minimum of [15%] of CMR shares as a result of the conversion.
3. HAR Debt	<p>The amount due to HAR will be dealt with as follows:</p> <ul style="list-style-type: none"> • On the day of completion of the Recapitalisation, CMR will pay HAR the sum of \$7,500,000; • the Balance of the HAR Amount will be satisfied by way of a bond to be issued by CMR to HAR providing for: <ul style="list-style-type: none"> • payment of 30 equal monthly instalments; • interest on outstanding balances payable at 10% per annum; and • the debt due under the bond (and the \$7.5 million payable at completion) is to be secured over CMR's interest in its Joint Venture interests. <p>For the purpose of this clause, the term 'Balance of HAR Amount' means the sum of the following amounts less the sum of \$7,500,00:</p> <ul style="list-style-type: none"> • \$11,844,863.24 (being pre-administration, unpaid cash calls plus interest, until 5 October 2010); plus • \$14,331,726.86 (being post-administration, unpaid cash calls plus interest, up until 5 October 2010); plus • \$883,726.00 (being JV expenditure after 5 October 2010); plus • CMR's share of JV expenditure from November 2010 until completion occurs under the Recapitalisation, capped each month at an amount agreed between HAR and YA Global.
4. Other Debt	All other debt will be dealt with by way of a creditors' trust, or in the case of HNC, in the manner set out at 8. 'HNC Debt' below.

Compass Resources Limited

Further Revised DOCA – 13 June 2011

<p>5. Establishment of Creditors' Trust</p>	<ul style="list-style-type: none"> • A creditor's trust will be established and named the "Compass Resources Creditors' Trust" (Creditors' Trust). • The deed administrators will be appointed as the trustees of the Creditors' Trust. • The purpose of the Creditors' Trust will be to enable certain tasks ordinarily undertaken by the deed administrators (including, but not limited to, the calling for and the adjudication of creditors' proofs of debt) to be performed by the trustees of the Creditors' Trust in order to facilitate the termination of the DOCA. • There will be two (2) classes of creditors under the Compass Resources Creditors' Trust. These will be the CMPL Creditors and the CMR Creditors. • Those classes will be: <ul style="list-style-type: none"> ○ CMPL Creditors: means the admitted indemnity claim of Compass Mining Pty Ltd (in liquidation) whose claim is a Liability (as that term is defined in the Oxide Joint Venture Agreement dated 26 April 2007) properly and reasonably incurred or sustained by Compass Mining Pty Ltd (in liquidation) in its capacity as Oxide Operator (as that term is defined in the Oxide Joint Venture Agreement dated 26 April 2007). ○ CMR Creditors: means the admitted unsecured creditors of Compass Resources Ltd (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), including Orica (if admitted) but excluding YA Global, HAR, HNC, Compass Mining Pty Ltd (in liquidation) and Coffee House. The CMR Creditors include any admitted claims of shareholders of Compass Resources. To avoid the risk of double proof, creditors of the Oxide operation whose claims are taken into account in calculating the CMPL Creditors shall be excluded from the CMR Creditors. • The deed administrators will transfer to the trustees of the Creditors' Trust such of the Compass Mining Creditors' Asset Pool and the Compass Resources Creditors' Asset Pool that are available to be transferred upon the Recapitalisation.
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Compass Resources Limited

Further Revised DOCA – 13 June 2011

<p>6. CMPL Creditors' Asset Pool</p>	<ul style="list-style-type: none"> • The assets available for distribution to the CMPL Creditors will be: <ul style="list-style-type: none"> ○ \$2,500,000 cash (paid from the Loan Funds) or such lesser amount as is required to pay CMPL's admitted claim in full; <p style="text-align: center;">(CMPL Creditors' Asset Pool)</p> • The creditors' claims within the class will rank equally and, if the available CMPL Creditors' Asset Pool is insufficient in any given year to meet the claims of the CMPL Creditors in full, amounts will be paid proportionately and by way of interim dividend. • To allow the CMPL Liquidators to make a timely distribution to the CMPL Creditors, and without prejudice to CMR's rights to claim against CMPL in the event that this DOCA does not complete, CMR authorises/requests CMPL pay an dividend to the CMPL Creditors from the funds currently available to the CMPL Liquidators and without providing (for the purposes of payment of the dividend) for the potential CMR claim which may arise in the event that this DOCA does not complete. In this way, it is anticipated that CMPL Creditors may benefit from a timely dividend of up to 10 cents in the dollar (with total dividends in respect of this payment to be capped at \$550,000)
<p>7. CMR Creditors' Asset Pool</p>	<ul style="list-style-type: none"> • The assets available for distribution to the CMR Creditors will be: <ul style="list-style-type: none"> ○ \$3,250,000 cash (paid from the Loan Funds); ○ any part of the \$2,500,000 otherwise forming part of the CMPL Creditors' Asset Pool that exceeds the amount of CMPL's admitted claim; and ○ a bond issued by CMR for an amount equivalent to 25% of the aggregate amount of the admitted claims of CMR Creditors with admitted claims of more than \$100,000 subject to a maximum cap on the bond of \$6,000,000, maturing 3 years after the termination of the Further Revised DOCA and paying 10% interest per annum, with interest being capitalised in each year and payable upon maturity of the bond. <p style="text-align: center;">(together CMR Creditors' Asset Pool).</p> • The Fund will be applied by the Trustees in the manner and order of priority as follows: <ul style="list-style-type: none"> ○ to pay any liabilities properly incurred by the Deed Administrators and Trustees during the course of the DOCA/Trust (and pay off Administration/DOCA trading liabilities, if any);

Compass Resources Limited

Further Revised DOCA – 13 June 2011

<p>7. CMR Creditors' Asset Pool (Cont)</p>	<ul style="list-style-type: none"> ○ to pay the Deed Administrators'/Trustees' remuneration and out of pocket expenses in the course of them carrying out their duties; ○ to pay dividends to the priority beneficiaries (if any); ○ to pay to the CMR Creditors with admitted claims of \$100,000 or less whose debts and claims against CMR arose on or before 29 January 2009 and are admitted to proof, dividends of 100 cents in the dollar on their admitted claim; ○ to pay dividends to the CMR Creditors with admitted claims of more than \$100,000 whose debts and claims against CMR arose on or before 29 January 2009 and are admitted to proof. <ul style="list-style-type: none"> • Section 444DB of the Act applies to the DOCA and the Trust. • If the CMR Creditor's Asset Pool is insufficient to meet the claims of the CMR Creditors in full, amounts will be paid proportionately and by way of interim dividend.
<p>8. HNC Debt</p>	<p>The debt due to HNC will be satisfied by a bond issued by CMR for \$15,596,999.98 (the full admitted amount of the claim), payable by thirty equal monthly instalments and paying 10% interest per annum, with interest being capitalised in each year and payable upon maturity of the bond.</p> <p>Subject to any required shareholders consents, HNC will have the option to convert the outstanding balance of this amount into shares in CMR at any time up to the date which is 6 months prior to any IPO for CMR (see 13. below), on the basis that the total outstanding debt of \$15,596,999.98 will convert into 10.4% of CMR as of the date of Completion (and pro rata in respect of lesser amounts).</p> <p>The HNC Debt will be secured by a second ranking security (ie behind the existing joint venture security in favour of HAR).</p>
<p>9. Instalments</p>	<p>In relation to the instalments due to HAR and HNC (Instalment) under the bonds issued with respect to the HAR Debt (referred to at 3. above) and the HNC Debt (referred to at 8. above):</p> <ul style="list-style-type: none"> • if CMR fails to pay an Instalment when due, CMR's failure to do so will be treated in the same manner as if CMR had failed to pay a Called Sum when due under the JV Agreements. • CMR is free to prepay instalments at any time, and it is contemplated that CMR will do so by meeting HAR's future cash calls under the Joint Ventures. <p>HAR, HNC, Compass and Guardian will enter into such agreements as may be necessary to vary the Joint Venture Agreements to facilitate the payment obligations (and other variations as may be agreed) referred to herein.</p>

Compass Resources Limited

Further Revised DOCA – 13 June 2011

<p>10. New CMR Directors</p>	<ul style="list-style-type: none"> • Existing CMR directors resign or are removed by the deed administrators, upon execution of the Further Revised DOCA. • After execution of the Further Revised DOCA but prior to the date of termination of the Further Revised DOCA, the deed administrator will appoint the new CMR directors (New CMR Directors). These New CMR Directors will be nominated by, and in the number of nominees (or equivalent proportion), stated below: <ul style="list-style-type: none"> ○ YA Global: 4 nominee directors. ○ Coffee House: 2 nominee directors. • CMR shall be returned to the New CMR Directors upon termination of the Further Revised DOCA.
<p>11. Other CMR Assets</p>	<ul style="list-style-type: none"> • All other CMR assets (excluding the shares held by CMR in CMPL) and cash remain with CMR, except with the prior approval of YA Global. • For clarity, the only assets available for distribution to admitted creditors are the CMPL Asset Pool and the CMR Asset Pool.
<p>12. Funding by YA Global</p>	<p>YA Global will enter into 3 funding agreements with CMR following execution of the Further Revised DOCA (Loan Funds), conditional upon completion of the Recapitalisation, to fund required payments to the Creditors' Trust, CMR's obligations to HAR and HNC including under the bonds to be issued to HAR and HNC and CMR's immediate future working capital requirements, under which:</p> <ul style="list-style-type: none"> • First Loan: On the day of completion of the Recapitalisation, YA Global will loan CMR sufficient funds for the purpose of enabling CMR to meet its payment obligations under this proposal at completion (excluding the payment obligations to HNC and HAR under the Third Loan) and its immediate working capital requirements, subject to terms including but not limited to: <ul style="list-style-type: none"> ○ interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan; ○ the funds advanced by YA Global will be repaid by CMR upon the first to occur of: <ul style="list-style-type: none"> ▪ the date 3 years after the date of termination of the Further Revised DOCA; and ▪ 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months or substantial positive progress is made with respect to the Sulphide JV (see 13. below); and

Compass Resources Limited

Further Revised DOCA – 13 June 2011

<p>12. Funding by YA Global (Cont)</p>	<ul style="list-style-type: none"> ○ YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default. • Second Loan: YA Global will loan further funds (estimated at approximately \$6,000,000 in the first twelve (12) months) to the Recapitalised CMR in order that it can meet its payment obligations under this proposal (excluding the payment obligations to HNC and HAR), subject to conditions acceptable to YA Global including, but not limited to: <ul style="list-style-type: none"> ○ funds will be provided on a monthly basis to meet future cash calls by the JV Operator based on funding requests by the Recapitalised CMR (such request to be made on or before the 20th of the preceding month); ○ interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan; ○ the funds advanced by YA Global will be repaid by CMR upon the first to occur of: <ul style="list-style-type: none"> ▪ the date 3 years after the date of termination of the Further Revised DOCA; and ▪ 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months or substantial positive progress is made with respect to the Sulphide JV (see 13. below); and ○ YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default. • Third Loan: YA Global will loan further funds in the amount contemplated at 3 and 8 above to the Recapitalised CMR in order that it can meet its payment obligations to HNC and HAR under this proposal, subject to conditions acceptable to YA Global including, but not limited to: <ul style="list-style-type: none"> ○ funds will be provided on a monthly basis to meet payment obligations to HNC and HAR based on funding requests by the Recapitalised CMR (such request to be made on or before the 20th of the preceding month); ○ funds advanced will be paid directly to HNC or HAR (as relevant); ○ interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and
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	<p>paid upon the expiration of the term of the loan;</p> <ul style="list-style-type: none"> ○ funds advanced by YA Global will be repaid by CMR upon the first to occur of:
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Compass Resources Limited

Further Revised DOCA – 13 June 2011

12. Funding by YA Global (Cont)	<ul style="list-style-type: none"> ▪ the date 3 years after the date of termination of the Further Revised DOCA; and ▪ 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months or substantial positive progress is made with respect to the Sulphide JV (see 13 below); and ○ YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default. ○ CMR will grant YA Global a fixed and floating charge over all of its assets to secure the repayment of the Loan Funds, which will rank: ○ Third in relation to CMR's interest in the Joint Ventures (behind the HAR and HNC security, other than the featherweight charge); and ○ First in relation to all other assets of CMR.
13. Repayment	<p>YA Global presently expects that CMR will raise the funds necessary to repay the funding provided by YA Global by way of outside funding (which might include debt or a public offering) within 6 months of the Oxide JV becoming cashflow positive for 3 consecutive months, or when substantial positive progress is being made with the Sulphide JV.</p> <p>In any event, in the absence of an event of default under the funding arrangements or security, YA Global will not require the repayment of the Loan Funds, where to do so will mean that CMR is unable to pay all of its debts as and when they fall due.</p>
14. Notification of Termination of DOCA	<p>The Deed Administrators will give written notice to the creditors that the DOCA has terminated.</p>
15. Enforcement against the company	<p>Consistent with the execution of the earlier DOCA, the company, any officer or member of the company or any creditor bound by the provisions of the DOCA must not make any application to wind up the company, continue any such application or commence or continue any enforcement process in relation to the property of the company.</p>
16. Costs during the DOCA	<p>During the course of the DOCA and prior to the Recapitalisation, the Deed Administrators' remuneration and costs (which does not include cash calls received from HAR in relation to JV Expenditure) shall be paid from:</p> <ul style="list-style-type: none"> ○ funds held by CMR. ○ Loan funds provided to CMR by YA Global on the basis that:

	<ul style="list-style-type: none"> ▪ the amount of the loan (per month) shall be that amount agreed between YA Global and the Deed Administrators as being the amount by which the costs of the deed administration exceed the costs that would be incurred in a liquidation of CMR (presently estimated as being \$100,000 per month), plus the monthly amount of any consulting fees payable to Richard Swann, Neil Guest and Garry Johansen;
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Compass Resources Limited

Further Revised DOCA – 13 June 2011

<p>16. Costs during the DOCA (Cont)</p>	<ul style="list-style-type: none"> ▪ CMR shall not be required to repay the loan funds, other than the extent it is able to do so from funds recovered from the sale of assets of CMR (such as would be relevant in the event this proposal does not complete and CMR is placed into liquidation), <p style="padding-left: 40px;">and such other terms as are agreed between the Deed Administrators and YA Global.</p> <ul style="list-style-type: none"> • The Deed Administrators must maintain the Peru tenements by paying sufficient moneys from funds held by CMR to do so. • CMR will continue to engage Richard Swann, Neil Guest and Garry Johansen as consultants on terms acceptable to YA Global and the Deed Administrators.
<p>17 Committee of Inspection</p>	<ul style="list-style-type: none"> • At the meeting of creditors held to consider this proposal, creditors may appoint a new Committee of Inspection, to replace the existing Committee. • The newly formed Committee (or continuing existing Committee) shall be comprised, as a variation to clause 11 of Schedule 8A of the Corporations Regulation, of a number of members determined by the creditors at the meeting and may include one shareholder representative as a full member of the Committee.
<p>18. Other terms</p>	<ul style="list-style-type: none"> • That any other terms and conditions as contained in Schedule 8A of the Corporations Regulations be retained so as to give effect to the DOCA. • Sections 440C and 440D will apply while the DOCA is on foot.
<p>19. Termination of DOCA and Creditors' Trust</p>	<ul style="list-style-type: none"> • The DOCA and the appointment of the deed administrators will terminate on the earlier of the following events: <ul style="list-style-type: none"> ○ the conditions precedent to this proposal not being met or waived on or before the required date for satisfaction of them; ○ a resolution to that effect is passed by the creditors at a meeting convened by the deed administrators; ○ upon the execution by the trustees of the Creditors' Trust and simultaneously with the receipt of all relevant assets comprising the Compass Mining Creditors' Asset Pool and the Compass Resources Creditors' Asset Pool; and

	<ul style="list-style-type: none"> ○ the issue of the bonds to HAR and HNC; ○ otherwise in accordance with the Act; or ○ by an order of the Court.
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Compass Resources Limited

Further Revised DOCA – 13 June 2011

<p>19. Termination of DOCA and Creditors' Trust (Cont)</p>	<ul style="list-style-type: none"> • The Creditors' Trust will terminate on the earlier of the following events: <ul style="list-style-type: none"> ○ the date that is 80 years after the date that the Creditors' Trust becomes operative; ○ the conditions precedent to this proposal not being met or waived on or before the required date for satisfaction of them; ○ the satisfaction of the admitted claims of creditors in all classes of beneficiaries in full or, if the assets available for distribution to a relevant class of creditors is insufficient to meet the claims of that class of creditors in full, the payment of such amounts (paid proportionately) permitted by the class's available assets; ○ otherwise in accordance with the Trustees Act or the Trust Deed; or ○ by an order of the Court.
<p>20. Conditions Precedent</p>	<ul style="list-style-type: none"> • The proposal is subject to and conditional upon: <ul style="list-style-type: none"> ○ YA Global being satisfied (in its absolute discretion) with the due diligence to be carried out by it in respect of CMR and the JVs. ○ CMR not claiming against CMPL in respect of debts incurred by CMR by way of JV expenditure. ○ All required regulatory approvals being obtained on conditions satisfactory to YA Global. ○ CMR shareholders approving the issue of the new shares and to the second funding facility and third funding facility provided by YA Global being secured by the fixed and floating charge to be granted to YA Global. ○ The conditions precedent to the Heads of Agreement dated November 2010 between YA Global, HAR and HNC being satisfied or waived. ○ CMR, HNC, HAR, the receivers and managers and the Deed Administrators mutually releasing each other from all outstanding claims. ○ The receivers and managers retiring.

	<ul style="list-style-type: none"> ○ CMPL releasing its security over CMR which will occur concurrently with the advance of the loan funds and execution of the Creditors' Trust. • Any condition precedent may be waived in writing solely at the election of YA Global.
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Compass Resources Limited

Further Revised DOCA – 13 June 2011

<p>20. Conditions Precedent (Cont)</p>	<ul style="list-style-type: none"> • The intended terms of any bonds to be issued by the 32recapitalized CMR must be approved by the administrator and YA Global prior to the termination of the Further Revised DOCA. • Subject to the two immediately following dot points, all conditions precedent must be satisfied or waived within 90 days of the date of the meeting of creditors to vote upon this proposal. • At the request of YA Global or otherwise, the deed administrators may at their discretion extend the final date for satisfying or waiving the conditions precedent, or otherwise with a view to avoiding an immediate winding up of CMR, up to a final extended date of 180 days of the date of the meeting of creditors to vote upon this or other proposals. <p>If any condition precedent is not satisfied or waived by the required date for satisfaction or waiver of that condition, then the deed administrators may convene a meeting of creditors to put an alternate proposal for the reconstruction of CMR or otherwise terminate the Further Revised DOCA.</p>
<p>21. Shareholder Vote Not Obtained – Sale of Assets</p>	<p>If all of the conditions precedent are satisfied, except for the condition precedent that shareholders must approve the issue of the new shares and the second funding facility and third funding facility provided by YA Global being secured by the fixed and floating charge to be granted to YA Global, then the reconstruction of CMR will not proceed in accordance with the earlier provisions of this proposal, but rather, the DOCA will provide for the sale of the assets of CMR on the following terms:</p> <ul style="list-style-type: none"> • no CMR shares will be issued to YA Global or Coffee House, although the debts due to YA Global and Coffee House will be released; • YA Global and Coffee House will not be entitled to appoint any directors of CMR; • CMR will sell all of its assets to an entity nominated by YA Global (Purchaser) with settlement to take place within 60 days of the shareholders meeting; • the purchase price to be paid by the Purchaser will be : • the sum of \$7,500,000; plus • a bond for the Balance of the HAR Amount; plus

DMR

	<ul style="list-style-type: none">• \$2,500,000; plus• \$3,250,000; plus• a bond for an amount equivalent to 25% of the aggregate amount of the admitted claims of CMR Creditors with admitted claims of more than \$100,000, subject to a maximum cap on the bond of \$6,000,000; plus• a bond for \$15,596,999,98, (Purchase Price) being the amounts and bonds that would otherwise be paid and granted by CMR under this proposal;
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Compass Resources Limited

Further Revised DOCA – 13 June 2011

21. Shareholder Vote Not Obtained – Sale of Assets (Cont)	<ul style="list-style-type: none">• YA Global will provide the Loan Funds to the Purchaser on the same terms as YA Global would have been obliged to provide them to CMR under the earlier provisions of this proposal;• HNC’s right of conversion in respect of the HNC Debt will apply in respect of the bond issued by the Purchaser to HNC;• the Purchase Price will be distributed to creditors (other than YA Global and Coffee House) in the same manner as the payments under this proposal would otherwise have been, in satisfaction of the claims of all creditors (other than YA Global and Coffee House);• CMR will be liquidated; and• the other relevant terms of this proposal will apply with respect to the alternative sale structure, with such appropriate amendments as are necessary to reflect the sale structure contemplated by this clause 21.• for the avoidance of doubt, in the event that a sale of CMR's assets is to occur in accordance with 21, nothing in the DOCA shall oblige HAR to release its security or to cause the receivers it has appointed to retire (that being a matter for HAR to determine in its complete discretion and in light of the final form of the proposed documentation to implement such a sale).
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Compass Resources Limited

Sources of Information

The following sources of information have been utilised and relied upon, without independent verification, in the course of preparing this report:

- Audited financial statements of Compass for the financial year ended 31 December 2006 and 2007 and for the half year ended 30 June 2008;
- Unaudited management accounts as at 31 December 2008 and 28 January 2009;
- Administrators' Reports dated 22 April 2009, 24 December 2009, 15 December 2010 and 13 June 2011;
- Information Memorandum dated September 2009;
- AMC Consultants Pty Ltd valuation report dated March 2010;
- Beevis & Co Pty Ltd preliminary valuation figures for the whole Oxide Plant in the Northern Territory
- Listing of Compass shareholders and option holders as at 8 April 2010;
- Compass' press releases, public announcements, media and analyst presentation material and other public filings;
- Draft Notice of Meeting for shareholder meeting to be held on 11 August 2011;
- Discussions with the Compass Company Secretary and the Administrators.

Declarations, Qualifications and Consents

1. Declarations

This report has been prepared at the request of the Administrators of Compass pursuant to Section 611 of the Act to accompany the notice of meeting of shareholders to approve the Proposed Transaction. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable for the Compass shareholders.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards, nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

2. Qualifications

Mr Derek M Ryan and Mr Paul Lom, directors of DMR Corporate prepared this report. They have been responsible for the preparation of many expert reports and are involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Ryan has had over 40 years experience in the accounting profession and he is a Fellow of the Institute of Chartered Accountants in Australia. He has been responsible for the preparation of many expert reports and is involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Chartered Accountant and a Registered Company Auditor with more than 35 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

3. Consent

DMR Corporate consents to the inclusion of this report in its current form and context in the Compass Explanatory Statement.



FOR ALL ENQUIRIES CALL:
(within Australia) 1300 737 760 (outside Australia) +61 2 9290 9600

FACSIMILE
+61 2 9290 9655

ALL CORRESPONDENCE TO:
Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Australia

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction on the form. **Please note, you cannot change ownership of your securities using this form.**

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 9.30 am
TUESDAY 16 August 2011

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy
If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

STEP 3 Sign the Form

The form must be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders must sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at **time 9.30 am on Thursday, 18 August 2011**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxies may be lodged as follows:

BY MAIL - Share Registry – Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 Australia

BY FAX - + 61 2 9290 9655

IN PERSON - Share Registry – Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

COMPASS RESOURCES LIMITED
 (Subject to Deed of Company Arrangement)
 (Receivers and Managers Appointed)

<BARCODE>

- <Address 1>
- <Address 2>
- <Address 3>
- <Address 4>
- <Address 5>

STEP 1 - Appointment of Proxy

I/We being a member/s of **Compass Resources Limited** and entitled to attend and vote hereby appoint

the Chairman of the Meeting (mark with an 'X') **OR**

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy at the **Extraordinary General Meeting of Company Limited to be held at The Lyceum Room, The Wesley Conference Centre, 220 Pitt Street, Sydney, NSW 2000 on Thursday 18 August 2011 at 9.30.am** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

If the Chairman of the Meeting is appointed as your proxy or may be appointed by default, and you do not wish to direct your proxy how to vote in respect of a resolution, please mark this box. By marking this box, you acknowledge that the Chairman of the Meeting may vote as your proxy even if he has an interest in the outcome of the resolution and votes cast by the Chairman of the Meeting for those resolutions, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called. The Chair intends to vote all undirected proxies in favour of the resolution.

STEP 2 - Voting directions to your Proxy – please mark to indicate your directions

Ordinary Business

		For	Against	Abstain*
Resolution 1	Approval of the issue of shares to YA Global pursuant to the Proposal.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Approval of the issue of shares to Coffee House pursuant to the Proposal.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Approval of the security relating to a working capital loan from YA Global pursuant to the Proposal.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Approval of agreement to issue Shares under HNC Bonds.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Appointment of a new Auditor.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In addition to the intentions advised above. The Chairman of the Meeting intends to vote undirected proxies in favour of each of the items of business.

*If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3 - PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name Contact Daytime Telephone Date / / 2011