# ASX ANNOUNCEMENT

3 September 2012

## ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 DECEMBER 2010

Attached are the audited Annual Report and Accounts of Compass Resources Limited (ASX code: CMR) for the period ended 31 December 2010.

Please note that CMR's audited Half-Yearly Report and Accounts for the period ended 30 June 2011 were lodged with ASX on 23 December 2011.

Yours faithfully,

Philip R. Wood

Philip R. Wood
Chief Executive Officer
& Executive Director

Phone: 0438 675 501
Email: philip.wood@compassresources.com.au

***Disclaimer***

This announcement may or may not contain certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that Compass believes, expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", and "intend" and statements that an event or result "may", "will", "can", "should", "could", or "might" occur or be achieved and other similar expressions.

These forward-looking statements reflect the current internal projections, expectations or beliefs of Compass based on information currently available to Compass. Forward-looking statements are subject to a number of risks and uncertainties, including those detailed from time to time in filings made by Compass with securities regulatory authorities, that may cause the actual results of Compass to differ materially from those discussed in the forward-looking statements, and even if such actual results are realised or substantially realised, there can be no assurance that they will have the expected consequences to, or effects on Compass. Compass expressly disclaims any obligation to update or revise any such forward-looking statements.

ASX Code: CMR

ASX Listed: 15 August 1991

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ABN 51 010 536 820

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# COMPASS RESOURCES LIMITED
# AND ITS CONTROLLED ENTITIES

**A.B.N 51 010 536 820**

## FINANCIAL STATEMENTS
## AND
## AUDIT REPORT

## 31 DECEMBER 2010

**CONTENTS**

**DIRECTORS' REPORT**

The Directors present their report together with the financial report of Compass Resources Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 December 2010 ("Reporting Period") and the auditor's report thereon.

Other than where expressly stated otherwise, all statements in this report are made solely with respect to the Reporting Period, as at 31 December 2010.

**Directors**
The Directors of the Company at any time during the Reporting Period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

| | | |
|---|---|---|
| **Gordon Toll**<br>BE Mining (Hons), MSc, MAusIMM | Non-executive Chairman | Resigned 10 June 2010 |
| **James Carr** | Director<br>(Yorkville Advisors)<br>Managing Director<br>(Yorkville Advisors) | Appointed November 2011<br><br>Appointed July 2012 |
| **Richard Swann**<br>BE, MBA, FAusIMM | Managing Director | Appointed October 2006<br>Resigned June 2012 |
| **Philip Cohen**<br>BA, LL.B | Executive Director<br>Non-executive Director | Ceased January 2008<br>Resigned June 2010 |
| **Philip Wood**<br>B.A, LL.B, ASIA, Dip.L.C.F(Sorbonne) | Non-executive Director<br><br><br>CEO / Executive Director | Appointed August 2007<br>Resigned June 2010<br>Re-appointed June 2012<br>Appointed Aug 2012 |
| **David Gonzalez** | Director<br>(Yorkville Advisors) | Appointed November 2011 |
| **Gerald Eicke** | Director<br>(Yorkville Advisors) | Appointed November 2011 |
| **Mark Angelo** | Chairman<br>(Yorkville Advisors) | Appointed November 2011 |
| **John Allen** | Non-executive Director | Appointment Jun 2012 |
| **Neil Guest**<br>BB, CPA, FAICD, JP (NSW) | Company Secretary (and CFO) | Resigned January 2012 |
| **Thomas Bloomfield**<br>BA (Hons) ACIS MAICD | Company Secretary | Appointed January 2012 |

**Board of Directors**
**Name, qualifications and experience**

**Gordon Toll**, BE Mining (Hons), MSc, MAusIMM
Non-Executive Chairman
Director since July 2001
Chairman since August 2005
Resigned 10 June 2010.

Mr. Toll manages his private investment company based in the Isle of Man and has over 30 years experience in senior commercial and technical executive positions with major international resource companies. He is a non-executive Chairman of Perth based LinQ Resources Fund. He is also a director of two AIM listed companies, Eastern Mediterranean Resources and Avocet Mining PLC.

**James Carr**

Director
Appointed 15 November 2011
Managing Director
Appointed 10 July 2012

Mr Carr has been at Yorkville Advisors since 2005. He previously worked in various levels of responsibility, including as an engineer for 20 years for companies in data security and telecommunications. He also worked for a year at a venture capital firm helping to fund enterprise software companies.

**Richard Swann**, BE, MBA, FAusIMM
Managing Director
Director since October 2006
Resigned June 2012

Mr. Swann is a mining engineer with over 30 years broad technical and management experience in the global minerals industry. He has held senior executive positions with international resource companies in Australia and South America.

**Philip Cohen**, BA, LL.B .
Executive Director, Company Secretary and Manager of Corporate & Legal Services (ceased in January 2008)
Director since April 1987.
Non-Executive Director since January 2008
Resigned 2 June 2010

Mr. Cohen commenced practice as a solicitor in NSW in 1970. Prior to joining Compass he was a Senior Legal Adviser to a major international resource company and has practiced extensively in the fields of resource and mining law.

**Philip Wood**, B.A, LL.B, ASIA, Dipl.C.F(Sorbonne)
Non-Executive Independent Director
Appointed Director in August 2007.
Resigned 10 June 2010.
Re-appointed on 28 June 2012
Appointed CEO in August 2012

Mr Philip Wood is an extremely experienced professional with an international legal and investment banking background. His previous roles include Managing Director and Chief Executive Officer of Intec Ltd., a world leading company in mining and minerals processing technology and Associate Director at Resource Finance Corporation, where he engaged on a range of corporate transactions in the Australian mining and minerals processing sectors.

**David Gonzalez**
Director
Appointed 15 November 2011

General Counsel and Managing Member at Yorkville Advisors since 2001 and serves on the board of Yorkville Bhn, a listed company on the Italian stock exchange.

Mr Gonzalez specializes in corporate securities law, hedge fund compliance and regulation as well as Investment Advisor regulation. He is an active member of the Managed Funds Association, ABA Corporate Finance Committee, the ABA Subcommittee on FINRA Rules, and the Hispanic Bar Association.

**Gerald Eicke**

Director
Appointed 15 November 2011

Managing Member at Yorkville Advisors since 2002 and serves on the board of Yorkville Bhn, a listed company on the Italian stock exchange.

Mr Eicke oversees the asset sales process and manages the Firm's team of corporate finance and investment professionals. He is also one of the four members of the Firm's Risk and Valuation Committee.

**Mark Angelo**
Chairman
Director
Appointed 15 November 2011

President and Managing Member of Yorkville Advisors since co-founding the firm in February 2001 and serves on the board of Yorkville Bhn, a listed company on the Italian stock exchange.

Mr Angelo previously co-heads the Corporate Finance Division of the May Davis Group, a boutique investment bank focused on emerging growth companies. Before joining the May Davis Group, Mr Angelo was a securities trader with The Boston Group LP, a broker dealer located in New York City.

**John Allen**
Non-Executive Director
Appointed 28 June 2012
Mr John Allen is an expert in providing strategic advice on JV and strategic alliances, mergers and acquisitions, equity, hybrid and debt raising and complex commercial transactions in Australia and Asia. John was a partner in Allen, Allen & Hemsley Lawyers for 16 years and has been a director and Chairman of a number of public and private companies. He is Chairman of the China Research Centre at the University of Technology, Sydney. John obtained his Master of Laws from Harvard University and has a Bachelor of Art and Laws (with Honours) from Sydney University.

**Company Secretary**
**Neil Guest**, BB, CPA, FAICD, JP (NSW)
Company Secretary and Chief Financial Officer
Resigned 13 January 2012.

Mr Guest has over 10 years experience as a CFO of Australian public listed companies with extensive background in enhanced financial control systems. He has over 30 years accountancy experience.

**Thomas Bloomfield,** BA(Hons), ACIS, MAICD
Company Secretary
Appointed 13 January 2012

Tom has experience working in the Sydney and London offices of international organisations, both 'in-house' and for a corporate services provider.

## Other Directorships

In the 3 years immediately before the end of the reporting period, the Directors held the following directorships of other listed companies. Each has been held for the following periods.

| Name of Director | Other Listed Company | Period Held |
|---|---|---|
| | | |
| | | |
| | | |
| | | |

**Directors Meetings**
There were no Directors Meetings during the Reporting Period. Voluntary Administrators were appointed on 29 January 2009 and the appointment continued throughout the whole of the Reporting Period (see section: Significant Changes in the State of Affairs below).

**Committee Meetings**
There were no Audit or Remuneration Committee meetings during the reporting period. Voluntary Administrators were appointed on 29 January 2009 and the appointment continued throughout the whole of the Reporting Period (see section: Significant Changes in the State of Affairs below).

**Principal Activities**
**(Under Voluntary Administration)**

Voluntary Administrators were appointed on 29 January 2009. On 17 February 2009, HNC (Australia) Resources Pty Ltd (HAR) appointed Receivers and Managers to Compass Resources Limited and Compass Mining Pty Ltd (a subsidiary of Compass Resources Limited) pursuant to the JV documentation between HNC, Compass Mining Pty Limited and Compass Resources Limited. On 21 May 2009 the creditors of Compass Resources Limited agreed to a 12 month Deed of Company Arrangement (DOCA) (subsequently extended).

**Key Business Strategies and Future Prospects**
The consolidated group's business strategies and prospect for growth in future financial years have not been included in this report, as the inclusion of this information is likely to result in an unreasonable prejudice to the group.

**Proceedings on Behalf of Consolidated Group**

During the Reporting Period, no person applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

**Corporate Governance**
The Company does not include a corporate governance statement due to it being under the control of the administrators appointed during the Reporting Period. The Company will do so subsequently in respect of the period after control was returned to the directors.

**Consolidated Result**
The net loss of the consolidated entity was $13,910,000 (December 2009: loss of $35,682,000) with no further impairment charge. (December 2009: 3,595,000).

**Balance Sheet**
The net assets of the consolidated group have decreased by $13,910,000 largely due to following factors:

- Joint Venture expenses amounted to $6,662,000 during the year.
- Financial Interest incurred during the year for the cash calls of $3,848,000.

**Remuneration Report**
The Remuneration Report is set out on pages 9 to 12 and forms part of this report.

**Environmental regulation**
The consolidated entity's operations are subject to environmental regulation under State legislation in relation to its exploration and development activities.

With each tenement licence that has been granted to undertake exploration activities the Company is required to provide a security deposit. This is to ensure that the site is left in the same condition as found.

In addition and in respect of the Oxide Mining Operations the Company was required to prepare a Public Environmental Report (PER) which was subject to public and government review, from which the Northern Territory authorities set environmental regulatory conditions adopted in the Mine Management Plan.

The PER was accepted by the Northern Territory Minister for Natural Resources, Environment and Heritage under the NT Environmental Assessment Act, on 4 May 2006, and by the Commonwealth Department of the Environment and Heritage under the Environment Protection and Biodiversity Conservation Act on 27 June 2006. The Mine Management Plan was approved on 19 August 2006, and supplemented and approved annually.

**Non-audit services provided by auditor**
No non-audit services were provided by KPMG in addition to their statutory duties.

KPMG resigned as Auditors in August 2011 and Grant Thornton Audit Pty Ltd were appointed Auditors at the General Meeting of Shareholders in August 2011. Grant Thornton has not performed any non-audit services since the appointment.

**Auditor's independence declaration**
The auditor's independence declaration as required under s307c of the Corporations Act 2011 is set out on page 13 and forms part of the Directors Report.

**Dividends**
No dividend was paid or declared by the Company during the Reporting Period.

**Directors' Interests and Benefits**
The relevant interest of each Director in the capital of the Company as notified by the Directors to the Australian Stock Exchange as at the date of this report is as follows:

| | | Direct | Indirect |
|---|---|---|---|
| J. Carr | Shares<br>Options | -<br>- | -<br>- |
| R. Swann | Shares<br>Options | -<br>- | 100,000<br>- |
| D Gonzalez | Shares<br>Options | -<br>- | 1,084,380,123<br>- |
| G. Eicke | Shares<br>Options | -<br>- | 1,084,380,123<br>- |
| M. Angelo | Shares<br>Options | -<br>- | 1,084,380,123<br>- |
| J Allen | Shares<br>Options | -<br>- | -<br>- |
| P Wood | Shares<br>Options | -<br>- | -<br>- |

**Share Options**

**Options granted to key management personnel**
During the Reporting Period and since then, the Company has not granted unlisted options for no consideration or consideration over un-issued ordinary shares in the Company to any key management personnel.

Under the terms of the executive employment agreement between the Company and Philip Wood, the Company has also agreed to 500,000 unlisted options to acquire ordinary shares in the Company to Philip Wood, subject to the Company first obtaining the approval of the Company's shareholders. The exercise price for these options will be the 20 Trading Day VWAP of the Company's shares for the first 20 Trading Days after the Company's shares are re-instated to trading on ASX, and they will expire on 1 August 2016.

**Un-issued shares under options**
At the date of this report un-issued ordinary shares of the company under option are:

| Expiry date | Exercise price | Number of shares |
|---|---|---|
| 31/12/2012 | $5.04 | 2,700,000 |

**Share options expired**
During or since the end of the Reporting Period 1,500,000 unlisted employee share options were expired.

**Shares issued on exercise of options**
During or since the end of the Reporting Period, no options were exercised.

**Partly Paid Shares Paid In Full**
During or since the end of the Reporting Period there were no partly paid employee shares reissued as fully paid ordinary listed shares upon becoming fully paid pursuant to Call Notices.

**Indemnification and Insurance of Officers**

**Insurance Premiums**
During the Reporting Period and since then the Company paid insurance premiums in respect of Directors' and Officers' Liability for any past, present or future director, secretary, executive or employee of Compass Resources Limited and all subsidiary companies. The insurance premiums related to:

- Costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and

- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums were paid in respect of the following current or former officers of the Company and its controlled entities:

| | |
|---|---|
| G. Toll | N. Guest |
| R. Swann | R. Young |
| P. Cohen | R. Dossor |
| T. Girgensohn | R,Lloyd |
| P. Wood | G.Johansen |
| J Carr | D. Gonzalez |
| G. Eicke | M. Angelo |
| J. Allen | |

The premium paid has not been disclosed as it is subject to the confidentiality provisions of the insurance policy.

**Indemnification**
During and since the end of the Reporting Period, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person that is or has been an officer or auditor of the Company.

**Rounding Off**

The Company is of a kind referred to ASIC class order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Significant Changes in the State of Affairs**
No significant changes in the state of affairs during the Reporting Period. The Company continued to be subject to a Deed of Company Arrangement (DOCA) and the Company continued not to be a voting member under the three joint venture agreements between HNC, Compass Mining Pty Limited and the Company.

**Events Subsequent to Reporting Date**

YA Global Investments L.P. and HNC (Australia) Resources Pty Ltd (HAR) sought to negotiate terms on which the Company could be reconstructed and return to being a voting member under the three joint ventures.

Ultimately these negotiations were successful, and the DOCA and joint venture agreements were amended to reflect the negotiated outcome.

Completion of the DOCA occurred on 15 November 2011 and included the following key events:

- $13.25M was loaned to the Company by YA Global Investments L.P. (YA), pursuant to a new fixed and floating charge in favour of YA, which also secured further funding to be provided by YA;
- $7.5M was paid by the Company to HNC (Australia) Resources Pty Ltd (HAR) in partial satisfaction of debts due to it;
- $5.75M was paid to the Trustee of the CMR Creditors Trust to be split as follows:
    - $2.5M to Compass Mining Pty Ltd; and
    - $3.25M to Company unsecured creditor debts;
- Shares were issued to both YA (1,083,618,669 shares) and Coffee House Group Limited (172,722,511 shares) in exchange for release of the admitted debts owing to them by the Company;
- A new charge was granted in favour of Hunan Nonferrous Metals Corp Ltd in respect of the approx. $15.6M owed by the Company;
- A bond was issued to the Trustee of the CMR Creditors Trust, for the benefit of the creditors of the Company;
- The appointments of the Deed Administrators and Receivers and Managers ceased;
- Control of the Company passed to its new Board of Directors; and
- The Company ceased to be a 'Defaulting Member' under the joint venture agreements and again became a voting member.

As a consequence of Completion occurring, the DOCA terminated. Occurring simultaneously with the termination of the DOCA was the creation of the CMR Creditor's Trust, a mechanism used to accelerate CMR's exit from external administration by transferring the relevant creditors' claims from the Company to the Trust.

As a result of the administration and for other strategic reasons, the Group's present operations as at the date of this report are:

- NT Joint Ventures

  The Company's primary focus continues to be the progression of its three joint ventures with Hunan Non-ferrous Metals Corporation (HNC).

  The operating committees for the joint ventures (consisting of 3 Company representative and 3 HNC representatives) are meeting periodically to assess progress and determine budgets.

Of these joint ventures:

- Sulphide Joint Venture: The present goal of the joint venture is to determine the economic feasibility of pursuing the Sulphide project by acquiring new samples and performing test-work with the goal of initiating a feasibility study.

  New drilling is currently taking place to acquire additional samples for testing. The operator, 50% funded by the Company, has drilled fifteen additional holes to obtain samples for assay and testwork. Additional drilling is on-going.

  Subject to being able to obtain the necessary funding and both JV parties agreement, the Company intends to accelerate development, exploration, and testing with the goal of the joint venture beginning a feasibility study on the Sulphide resource in 2013.

- Oxide Joint Venture: The plant at Browns East that is part of the Oxide JV is currently in a mothball state and is being maintained by the joint venture operator.

- Regional Exploration JV: the regional exploration JV will continue to explore the JV tenements and continues to spend money on exploration. Compass has commissioned a FALCON Airborne Gravity Gradiometry, Magnetics and DTM Survey that, in conjunction with the EM/magnetic survey that was done in 2010, will help identify locations for possible drilling. Additional testing is being done in 2012.

Other Operations

- NT Non-JV Tenements: The Company is exploring the non-JV tenements near Bachelor in the Northern Territory. The FALCON Airborne Gravity Gradiometry, Magnetics and DTM Survey will also include the non-JV tenements. The Company has been approached by parties interested in the iron and uranium ore and intends to further investigate the possibility of forming joint ventures to exploit these areas with interested parties or the sale of the non-JV assets.

- NSW Tenements: Compass has joint ventures with Platsearch and Thomson Resources for tenements in NSW, some of which have been released due to new government regulations. The Company will continue to deal with these tenements in accordance with the terms of the joint ventures.

- Peru Tenement: Compass also has a 70% owned tenement in Peru and is considering its options with respect to this.

In February 2012, the company received a statement of Claim filed in the Supreme Court of NSW on 25 January 2012 on behalf of a number of shareholder plaintiffs. The claim related to the rejection of the proofs of debt that certain shareholders submitted to the trustees of the Creditors' Trust. On 10 April 2012, Registrar Musgrave ordered that the company be removed as a party to the proceedings and the plaintiffs are to pay the Company's costs of the notice of motion and the proceeding to 10 April 2012, as agreed or assessed.

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

In March 2012 it became apparent that the Company would not be able to comply with the reporting requirements under the facilities provided by YA Global Investments L.P. The Company sought and obtained a verbal waiver of this requirement from YA Global Investments, L.P. In July 2012, the Company sought and obtained a written waiver from YA Global Investments, L.P. as confirmation of the previous verbal waiver.

In Apr 2012:

- Compass Resources Limited reached agreement with Alkane Resources Ltd for Alkane to fully acquire a production royalty held by Compass, related to the Tomingley Gold Project.

- The royalty was surrendered by Compass for the acquisition of 6 million Alkane shares and 4 million options exercisable at $1.50 within 12 months.

Richard Swann resigned as Managing Director with effect from 29 June 2012. Mr James Carr was appointed by the board as Managing Director on 09 July 2012. The board appointed Mr Philip Wood and Mr John Allen as Non-executive Directors of the company effective 28 June 2012. Mr Philip Wood was appointed Chief Executive Officer on 22 August 2012.

**FUTURE DEVELOPMENTS**

Subsequent to the completion of the DOCA on the 15th November 2011, the Company is working toward a re-listing in the last quarter of 2012 with a view to eventually repositioning the Company as one of the leading mining exploration companies in Australia.

The Company has been informed by ASX that in order for the Company's shares to be re-instated to trading on ASX, ASX will require (among other things) the Company to demonstrate that it has cash of at least $1,000,000 net of all debt. This is to demonstrate to ASX that the Company meets the requirements of listing rule 12.2.

The Company does not presently meet this requirement.

The Company has submitted to ASX that this requirement is not appropriate in the Company's case, and that ASX should apply a different requirement in determining whether the Company meets the requirements of listing rule 12.2.

The Company is awaiting a response from ASX.

If ASX does not agree with the Company's submission, and continues to require as a condition of reinstatement that the Company has cash of at least $1,000,000 net of all debt, then if the Company is to meet the reinstatement requirement it will need to raise additional capital.

The Company has the support of YA Global Investments L.P. by way of the deeds of facility between the Company and YA Global Investments.

Dated at Sydney, this 31 August 2012

Signed in accordance with a resolution of the Directors.

Philip R. Wood

____________________________________

Philip Wood

Chief Executive Officer

Executive Director

## REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Compass Resources Limited (the “Company”).

**Principles of compensation**
Remuneration of directors and executives is referred to as compensation as defined in AASB 124 Related Party Disclosures.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives for the Company and the group including the five most highly remunerated S300A executives.

Compensation levels for key management personnel and secretaries of the company and relevant key management personnel of the consolidated entity are competitively set to attract, motivate and retain appropriately qualified and experienced directors and executives.

The Board decided on the appropriateness of compensation packages of both the Company and consolidated group given trends in comparative companies and the objectives of the Company’s compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- ✓ the capability and experience of the key management personnel;
- ✓ the key management personnel’s ability to control the performance;
- ✓ the amount of incentives within each key management personnel’s compensation.

Compensation packages include a mix of fixed and variable compensation and short / long-term performance based incentives.

In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel.

**Remuneration committee**
The Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director (MD) and the senior management team.

The Board assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

**Remuneration structure**
In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

**Non-executive director remuneration**
The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

**Structure**
The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 22 May 2008 when shareholders approved an aggregate remuneration of $750,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director either receives a fee for being a director of the company or, if other services are provided, under a consultancy agreement. An additional fee may be payable for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market or issued in lieu of fees at a market price). It is considered good governance for directors to have a stake in the company whose board he or she sits.

The remuneration of non-executive directors for the year ended 31 December 2010 is detailed in this report.

Senior manager and executive director remuneration
The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- ✓ reward executives for company and individual performance against targets set by reference to appropriate benchmarks;
- ✓ align the interests of executives with those of shareholders;
- ✓ link reward with the strategic goals and performance of the company; and
- ✓ ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Board subscribed to an independent service that provides detailed guidance on remuneration specifically in relation to the mining industry. The Board uses this report to review executive remuneration.

Remuneration consists of the following key elements:

- ✓ Fixed Remuneration
- ✓ Performance linked remuneration

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each senior manager by the Board. Details of the remuneration of the 5 most highly remunerated senior managers are presented in this report.

**Fixed Remuneration**

**Objective**
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Board of Directors and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

**Structure**
Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

The fixed remuneration component of the 5 most highly remunerated senior managers is detailed in this report.

**Performance-linked remuneration**
Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an “at risk” bonus provided in the form of cash, while the long-term incentive (LTI) is provided as shares or options in the Company under the rules of the Compass Management Share Plans.

**Variable Remuneration — Short Term Incentive (STI)**

**Objective**
The objective of the STI plan is to reward senior managers and other employees in a manner which recognises achievement of key performance indicators as determined by the Board.

**Structure**
STI to executives are delivered in the form of cash.

**Variable Remuneration — Long Term Incentive (LTI)**

**Objective**
The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

**Structure**
LTI grants to executives are delivered in the form of options.

**Service agreements**

It is the company's policy that service contracts for key management personnel (other than the Managing Director), are unlimited in term but capable of termination on at least one month's notice but not exceeding six months notice and that the company retains the right to terminate the contract immediately by making a payment in lieu of notice.

As announced to the Australian Stock Exchange, Mr Richard Swann was appointed Managing Director of the Company on 21 August 2006. Mr Swann's contract has an initial term of three years that can be extended by mutual agreement. The key elements are:

- ✓ a base remuneration of $400,000 per annum;
- ✓ a long-term incentive consisting of a grant of 1,500,000 options over ordinary fully paid shares, subject to the necessary approvals being obtained from shareholders (this was granted in a shareholders meeting on 31 October 2006).

These options vest as follows:

- ✓ Tranche 1 – 500,000 options exercisable on or after 20 August 2007 and expiring 31 December 2010;
- ✓ Tranche 2 – 500,000 options exercisable on or after 20 August 2008 and expiring 31 December 2010;
- ✓ Tranche 3 – 500,000 options exercisable on or after 20 August 2009 and expiring 31 December 2010;

The Company may terminate Mr Swann's appointment without cause by paying the employee an amount equal to the salary and superannuation contributions that the employee would have received during the remaining period of the Service Agreement.

Effective from 1 September 2009, the Company entered into a service contract with Mr Richard Swann for the role of Managing Director until 3 February 2011. This agreement replaced the contract terms and conditions of employment contained in the letter dated 21 August 2006 which expired on 31 August 2009. Accordingly, Mr Swann received consultancy fees during 2010 to the amount of $328,196.

The company entered into a service agreement with Neil Guest as Chief Financial Officer on 1 December 2007. Either party may give three months notice of termination for any reason. The company may terminate the appointment by paying the employee an amount equal to the salary and superannuation contributions that the employee would have received during the period of notice in lieu of such notice. In the event of retrenchment as a result of a change of control of the company, they are entitled to payment of an amount equal to twelve months of total fixed remuneration.

The company entered into a service agreement with Mr Garry Johansen as General Manager – Exploration on 1 July 2008 and Mr Robert John Lloyd as General Manager – NT Operations on 23 June 2008. Either party may give three months notice of termination for any reason. The company may terminate the appointment by paying the employee an amount equal to the salary and superannuation contributions that the employee would have received during the period of notice in lieu of such notice. In the event of retrenchment as a result of a change of control of the company, they are entitled to payment of an amount equal to twelve months of total fixed remuneration. Mr Lloyd resigned on 1 May 2009.

Long service leave entitlements for executive directors and certain employees are 6 months after 10 years continuous service and 3 months for each additional 5 years continuous service. For all other employees the entitlement is calculated in accordance with the relevant State or Territory Long Service Leave legislation.

The remuneration of key management personnel are reviewed annually.

**KEY MANAGEMENT PERSONNEL COMPENSATION**

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

**Non-executive directors:**

Mr Gordon Toll (resigned 10 June 2010)
Mr Philip Wood (appointed 1 August 2007, resigned 10 June 2010, reappointed in Jun 2012)
Mr Phillip Cohen (Ceased as executive director and became non-executive director in January 2008, resigned 3 June 2010)

**Executive directors:**

Mr Richard Swann (resigned June 2012)
Mr Jim Carr (Director appointed in November 2011 and appointed to managing director in July 2012)

**Executives:**

Mr Neil Guest (Chief Financial Officer, appointed 1 December 2007, Company Secretary appointed 1 February 2008)
Mr Richard Dosser (General Manager – New Projects, appointed 20 August 2007)

Mr Garry Johansen (General Manager – Exploration, appointed 1 July 2008)

Director and key management remuneration for the year ended 31 December 2010

Details of the nature and amount of each major element of remuneration of each director of the Company and key management who receive the highest remuneration are:

| | | Short term employee benefits | | | Post-employment benefit | | Long term bene-fits | Equity-settled share based payments | | Cash settled share-based Payments | Termin-ation benefits | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees | Profit share and bonuses | Non-monet-ary /others | Pension and Superan-nuation | others | | Shares/ Units | Options /Rights | | | |
| **Non-Executive Directors** | | | | | | | | | | | | |
| Mr G Toll | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | - | - | - | - | - | - | - | - | - | - | **-** |
| Mr P Cohen | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 5,208 | - | - | - | - | - | - | - | - | - | **5,208** |
| Mr P Wood | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 5,925 | - | - | - | - | - | - | - | - | - | **5,925** |
| **Executive Directors** | | | | | | | | | | | | |
| Mr R Swann* | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 137,576 | - | - | - | - | - | - | - | - | - | **137,576** |
| **Key Management** | | | | | | | | | | | | |
| Mr N Guest | **2010** | 300,000 | - | - | - | - | - | - | - | - | - | **300,000** |
| | 2009 | 296,538 | - | - | - | - | - | - | - | - | - | **296,538** |
| Mr R Lloyd | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 24,465 | - | - | - | - | - | - | - | - | - | **24,465** |
| Mr G Johansen | **2010** | 214,532 | - | - | - | - | - | - | - | - | - | **214,532** |
| | 2009 | 158,963 | - | - | - | - | - | - | - | - | - | **158,963** |
| Mr R Dossor | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 31,071 | - | - | - | - | - | - | - | - | - | **31,071** |
| **Total** | **2010** | **514,532** | - | - | - | - | - | - | - | - | - | **514,532** |
| | 2009 | 659,746 | - | - | - | - | - | - | - | - | - | **659,746** |

* Effective from 1 September 2009, the Company entered into a service contract with Mr Richard Swann for the role of Managing Director. This agreement replaced the contract terms and conditions of employment contained in the letter dated 21 August 2006 which expired on 31 August 2009. Accordingly, Mr Swann received consultancy fees during 2010 to the amount of $328,196.

There is no performance related benefit paid during the year 2010 and 2009. All the benefits shown above are non-performance based.

Options granted as part of remuneration have been valued using the Black Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for further details.

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## Auditor's Independence Declaration
## To the Directors of Compass Resources Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Compass Resources Limited for the year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner - Audit & Assurance

Perth, 31 August 2012

## *Consolidated Statement of Comprehensive Income*
***For the year ended 31 December 2010***

| *In AUD (thousands)* | **Notes** | **Consolidated Group** ***2010*** ***$'000's*** | ***2009*** ***$'000's*** |
|---|---|---|---|
| *Revenue* | | - | 1,840 |
| *Cost of Goods sold* | | - | (2,108) |
| *Gross Margin* | | **-** | **(268)** |
| *Other Income* | | 267 | 5,542 |
| *Employee benefits expense* | 4 | (665) | (3,476) |
| *Legal and professional expenses* | | (1,214) | (1,238) |
| *Tenement Expenditure* | | (424) | (109) |
| *Travel and accommodation expenses* | | - | (6) |
| *Administrators Fees and Disbursements* | 5 | (686) | (2,984) |
| *Other corporate & administration expense* | | (728) | (1,136) |
| *Miscellaneous Expenditure* | | (21) | (1,560) |
| *JV Operating Expenditure* | 6 | (6,662) | (18,846) |
| *Depreciation* | | - | - |
| *Impairment* | | - | (3,595) |
| *Finance income* | 7 | 71 | 93 |
| *Finance costs* | 7 | (3,848) | (8,099) |
| ***Loss before income tax*** | | **(13,910)** | **(35,682)** |
| *Income tax benefit* | 8 | - | - |
| ***Loss for the period*** | | **(13,910)** | **(35,682)** |
| **Other Comprehensive Income for the year :** | | | |
| Other Comprehensive Income for the year, net of tax | | - | - |
| **Total Comprehensive loss for the year** | | **(13,910)** | **(35,682)** |
| **Attributable to:** | | | |
| Equity holders of the parent | | **(13,910)** | **(35,682)** |
| *Basic and diluted loss per share* | 20 | **(9.62 cent)** | **(24.66 cent)** |

The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

***CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***
***For the year ended 31 December 2010***

| In AUD (thousands) | **Share capital** | **Reserve for own shares** | **Retained earnings** | **Total** |
|---|---|---|---|---|
| Balance at 1 January 2009 | 152,171 | 14,386 | (162,015) | **4,542** |
| Other Comprehensive (loss) for the period | - | - | (35,682) | **(35,682)** |
| Share options issued during the year | - | 968 | - | **968** |
| Balance at 31 December 2009 | **152,171** | **15,354** | **(197,697)** | **(30,172)** |
| | | | | |
| Balance at 1 January 2010 | **152,171** | **15,354** | **(197,697)** | **(30,172)** |
| Other Comprehensive (loss) for the period | - | - | (13,910) | (13,910) |
| Balance at 31 December 2010 | **152,171** | **15,354** | **(211,607)** | **(44,082)** |

The Consolidated Statement of changes in equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Financial Position

### As at 31 December 2010

| In AUD (thousands) | Notes | Consolidated Group 2010 $'000's | 2009 $'000's |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 1,524 | 5,274 |
| Receivables | 10 | - | - |
| Inventory | | - | - |
| Prepayments | | - | - |
| **Total current assets** | | **1,524** | **5,274** |
| **Non-current assets** | | | |
| Receivables | 10 | 783 | 783 |
| Deferred tax assets | | - | - |
| Property, plant and equipment | 11 | 73,430 | 73,430 |
| Intangible - Exploration and evaluation expenditure | 12 | 27,394 | 27,394 |
| **Total non-current assets** | | **101,607** | **101,607** |
| **Total assets** | | **103,131** | **106,881** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 56,856 | 46,622 |
| Loans and Borrowings | 16 | 88,933 | 88,933 |
| Appointees Fees and Disbursements | | 59 | 132 |
| Employee benefits | 17 | 1 | 2 |
| **Total current liabilities** | | **145,849** | **135,689** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 16 | - | - |
| Restoration provision | | 1,364 | 1,364 |
| Employee benefits | 17 | - | - |
| **Total non-current liabilities** | | **1,364** | **1,364** |
| **Total liabilities** | | **147,213** | **137,053** |
| **Net assets** | | **(44,082)** | **(30,172)** |
| **Equity** | | | |
| Issued capital | 18 | 152,171 | 152,171 |
| Reserves | 18 | 15,354 | 15,354 |
| Accumulated losses | | (211,607) | (197,697) |
| **Total equity attributable to equity holders of the parent** | | **(44,082)** | **(30,172)** |
| **Total equity** | | **(44,082)** | **(30,172)** |

The Consolidated Statement of changes in equity should be read in conjunction with the accompanying notes.

## Consolidated Statements of Cash Flows
### For the year ended 31 December 2010

| In AUD (thousands) | Notes | Consolidated Group 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash received from customers | | 267 | 5,914 |
| Cash paid to suppliers and employees | | (4,088) | (16,010) |
| Cash used in operations | | (3,821) | (10,096) |
| **Net cash from operating activities** | 26 | **(3,821)** | **(10,096)** |
| **Cash flows from investing activities** | | | |
| Proceeds from interest | | 71 | - |
| Proceeds from security deposits | | - | 6,301 |
| Acquisition of property, plant and equipment | | - | (193) |
| Payments / receipts for exploration and evaluation expenditure | | - | 93 |
| **Net cash from investing activities** | | **71** | **6,201** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | - | 4,183 |
| Payment for finance lease and other financing | | - | (7,048) |
| **Net cash from/(used in) financing activities** | | **-** | **(2,865)** |
| Net decrease in cash and cash equivalents | | (3,750) | (6,760) |
| Cash and cash equivalents at 1 January | | 5,274 | 12,034 |
| **Cash and cash equivalents at 31 December** | 9 | **1,524** | **5,274** |

The Consolidated Statement of Cash flows should be read in conjunction with the accompanying notes

**1. Reporting entity**

Compass Resources Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 5, 384 Eastern Valley Way, Roseville NSW.

This financial report includes the consolidated financial statements and notes of Compass Resources Limited and controlled entities ("Consolidated Group" or "Group"). The separate financial statements and notes of Compass Resources Limited as an individual parent entity, Compass Resources Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001.*

The financial statements were approved by the Board of Directors on 31 August 2012.

**2. Basis of preparation**

**(a) Statement of compliance**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

Except for cashflow information, the financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**(b) Going Concern**

The financial report has been prepared on the going concern basis.

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.

Under the terms of the Further Revised DOCA, which was approved at the EGA on 18 August 2011, 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; (note this resolution was passed at the EGM held 18th August 2011)

- borrow funds from YA Global under three loan agreements 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; and
(c) to fund the Company's future cash calls by the JV Operator;

- grant security to YA Global to secure the repayment of the Loan Funds; (note this resolution was passed at the EGM held 18th August 2011)

- a funding agreement is yet to be reached for ongoing Corporate and Administrative expenses.

- 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; (note this resolution was passed at the EGM held 18th August 2011);

- 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.

The DOCA was completed on 15 November 2011 and on that date the Voluntary Administrators and Receivers and Managers retired. All of the above matters have been completed.

As the DOCA has been concluded, the company is in the process of seeking re-quotation of its shares to the ASX. The Company has been informed by ASX that in order for the Company's shares to be re-instated to trading on ASX, ASX will require (among other things) the Company to demonstrate that it has cash of at least $1,000,000 net of all debt. This is to demonstrate to ASX that the company meets the requirements of listing rule 12.2.The Company does not presently meet this requirement.

The Company has submitted to ASX that this requirement is not appropriate in the Company's case, and that ASX should apply a different requirement in determining whether the Company meets the requirements of listing rule 12.2. The Company is awaiting a response from ASX.

If ASX does not agree with the Company's submission, and continues to require as a condition of reinstatement that the Company has cash of at least $1,000,000 net of all debt, then if the Company is to meet the reinstatement requirement it will need to raise additional capital. The Company has obtained funding from YA Global and has the support of YA Global Investments L.P. by way of the deeds of facility between the company and YA Global Investments, L.P.

The consolidated entity has reported a net loss for the period of $13,910,000 (2009: $35,682,000) and a cash outflow from operating activities of $3,821,000 (2009: 10,096,000). The current liabilities exceed current assets by $144,325,000 (2009: $130,415,000).

The directors are confident that the consolidated entity will be able to continue its operations as a going concern, however, the above conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

**(c) Functional and presentation currency**

The consolidated financial statements are presented in Australian dollars, which are the Company's functional currency and the functional currency of the majority of the Group. The group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with the Class Order, all financial information presented in Australian dollars has been rounded to nearest thousand unless otherwise stated.

**(d) Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about impairments, considered to be a significant area of estimation uncertainty and critical judgements made has been included in Note 3(w).

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

### (a) Basis of consolidation

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

A list of controlled entities is listed in Note 27 to the financial statements.

**(ii) Transactions eliminated on consolidation**

Intragroup balances and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

### (b) Jointly controlled operations and assets

The interest of the Company and of the group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

### (c) Foreign currency

**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation.

**(ii) Foreign operations**

Foreign currency differences are recognised directly in equity.

### (d) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.
Financial assets and financial liabilities are measured initially at fair value adjusted by transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

**(i) Financial Assets**

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- held-to-maturity investments
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs', 'finance income' or 'other financial items', except for impairment of trade receivables which is presented within 'other expenses'.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

**(iii) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

**(iv) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Group has the intention and ability to hold them until maturity. The Group currently holds listed bonds designated into this category.

Held-to-maturity investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

**(v) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

**(vi) Financial Liabilities**

The Group's financial liabilities include borrowings, trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

**(e) Share capital**

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

**(f) Property, plant and equipment**

**(i) Recognition and measurement**
Items of property, plant and equipment are  at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**(ii) Subsequent costs**
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(g) Intangible assets**

**(i) Exploration and Evaluation**
Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on a project by project basis pending determination of the technical feasibility and commercial viability of the project. The capitalised costs are presented as either tangible or intangible exploration assets according to the nature of the assets acquired. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where the activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When a licence is relinquished or a project abandoned, the related costs are recognised in profit and loss immediately.

**(ii) Research and Development**

Development costs are capitalised upon the consolidated entity demonstrating (i) the technical feasibility of completing the development so that it will be available for use and (ii) how the development costs will generate probable future economic benefits.

Exploration, evaluation and development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. (See impairment accounting policy (h)).For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to where the exploration activity relates. The cash-generating unit shall not be larger than the area of interest.

When production commences, carried forward exploration, valuation and development costs will be amortised to the income statement on a units of production basis over the life of the economically recoverable reserves.

**(h) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.
Other leases are operating leases and the leased assets are not recognised on the Group’s balance sheet.

**(i) Impairment**

The carrying amounts of the Group’s non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised (refer to Note 30).

**(j) Employee benefits**

**(i) Long-term employee benefits**

**Defined contribution superannuation funds**
Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

**Other long-term employee benefits**
The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

**(ii) Short term benefits**
Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(iii) Share-based payment Transactions**
The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

**(k) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**Dismantling and rehabilitation**
Provision is made for close-down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) at the end of mine life in the accounting period when the obligation arises, based on the estimated future costs.

**(l) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**(m) Finance income and expenses**

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

**(n) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

**(o) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

**(p) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(q) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**(r) Segment reporting**

In identifying its operating segments, management generally follows the Group's main operation, which represents the only service provided by the Group.

The Group has only one material segment, being the *mineral exploration and development segment* in Australia.

This operating segment is managed solely by the Group.

The measurement policies the Group uses for segment reporting under AASB 8 are the same as those used in its financial statements, except that:

- post-employment benefit expenses
- expenses relating to share-based payments

are not included in arriving at the operating profit of the operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

**(s) Revenue Recognition**

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and service tax (GST)

**(t) Borrowing Costs**

Borrowing costs are recognized in income in the period in which they are incurred.

**(u) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(v) New standard and interpretations not yet adopted**

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

**AASB 9 *Financial Instruments* (effective from 1 January 2013)**

The AASB aims to replace AASB 139 *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

**Consolidation Standards**

A package of consolidation standards are effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. The Group's management have yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

***AASB 10 Consolidated Financial Statements (AASB 10)***

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements (AASB 127) and Interpretation 112 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

**AASB 11 *Joint Arrangements (AASB 11)***

AASB 11 supersedes AASB 131 Interests in Joint Ventures (AASB 131). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, AASB 131's option of using proportionate consolidation for joint ventures has been eliminated. AASB 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

**AASB 12 *Disclosure of Interests in Other Entities (AASB 12)***

AASB 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Consequential amendments to AASB 127 and AASB 128 Investments in Associates and Joint Ventures (AASB 128)

AASB 127 now only deals with separate financial statements. AASB 128 brings investments in joint ventures into its scope. However, AASB 128's equity accounting methodology remains unchanged.

**AASB 13 *Fair Value Measurement (AASB 13)***

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

**Amendments to AASB 101 Presentation of Financial Statements (AASB 101 Amendments)**

The AASB 101 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

**Amendments to AASB 119 *Employee Benefits (AASB 119 Amendments)***

The AASB 119 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognise all gains and losses arising in the reporting period

- streamline the presentation of changes in plan assets and liabilities

- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The amended version of AASB 119 is effective for financial years beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this revised standard on the Group's consolidated financial statements.

**(w) Significant management judgement in applying accounting policies**

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

**Significant management judgement**
The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

**Recognition of service and construction contract revenue**
Determining when to recognise revenues from after-sales services requires an understanding of the customer's use of the related products, historical experience and knowledge of the market. Recognising construction contract revenue also requires significant judgment in determining milestones, actual work performed and the estimated costs to complete the work.

**Capitalisation of Internally developed software**
Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

**Recognition of deferred tax assets**
The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions

**4** *Personnel expenses*

| | | Consolidated Group | |
|---|---|---|---|
| *In AUD (thousands)* | **Note** | **2010** | **2009** |
| Wages and salaries | | (538) | (2,327) |
| Other associated personnel expenses | | (33) | (250) |
| Contributions to defined contribution superannuation funds | | (94) | 69 |
| Equity settled share based payment transactions | | - | (968) |
| | | **(665)** | **(3,476)** |

**5** ***Appointees Fees and Disbursements***

| | Consolidated Group | |
|---|---|---|
| *In AUD (thousands)* | **2010** | **2009** |
| Administrators Fees and Disbursements | (686) | (2,984) |
| | **(686)** | **(2,984)** |

**6** ***JV Operating Expenditure***

| | Consolidated Group | |
|---|---|---|
| | **2010** | **2009** |
| Pre VA Called Sums that CMR has failed to pay and which have been the subject of Contribution Notices paid by HAR. | - | (3,537) |
| Post VA Called Sums that CMR has failed to pay and which have been the subject of Contribution Notices paid by HAR. | (4,230) | (8,226) |
| Called Sums that CMR has failed to pay and which have been the subject of Contribution Notices paid by HAR. | (89) | (119) |
| Interest on Called Sums that CMR has failed to pay and which have been the subject of Contribution Notices paid by HAR. | (2,343) | (6,964) |
| | **(6,662)** | **(18,846)** |

*On entering into administration, Compass Resources Limited was no longer involved in the JV operations with HAR. HAR made all of Compass Resource Limited's portions of the contributions.*

**7** ***Finance income and expense***

| | Consolidated Group | |
|---|---|---|
| *In AUD (thousands)* | **2010** | **2009** |
| Interest income | 71 | 93 |
| Interest expense on financial liabilities | (1) | (4,674) |
| HAR Debt – Interest Accrued | (3,847) | (3,425) |
| ***Net finance income and expense*** | **(3,777)** | **(8,006)** |

**8** ***Income Tax Expense in the Income Statement***

| | Consolidated Group | |
|---|---|---|
| *In AUD (thousands)* | **2010** | **2009** |
| Current tax benefit | - | - |
| Deferred tax expense | - | - |
| Income tax benefit in income statement | - | - |

**Numerical reconciliation between tax benefit and**

**pre-tax net loss**

| In AUD (thousands) | Consolidated Group 2010 | Consolidated Group 2009 |
|---|---|---|
| *Loss before tax* | *(13,910)* | *(35,682)* |
| *Prima facie Income tax benefit using the domestic corporation tax rate of 30%* | *(4,173)* | *(10,705)* |
| *Increase/(decrease) in income tax expense due to:* | | |
| *Non-deductible expenses* | *-* | *290* |
| *Current year deferred tax assets not recognised* | *4,173* | *10,415* |
| *Deferred tax asset no longer recognised* | *-* | *-* |
| *Income tax (expense) benefit on pre-tax net loss* | *-* | *-* |

Due to the Company being in administration during the period, the Company considers it prudent to estimate that the Company will not be able to utilise any carried forward losses that the Company have incurred in the past.

### 9 Cash and Cash Equivalents

| In AUD (thousands) | Consolidated Group 2010 | Consolidated Group 2009 |
|---|---|---|
| *Bank balances* | *1,524* | *5,274* |
| *Cash and cash equivalents* | ***1,524*** | ***5,274*** |

### 10. Receivables

| In AUD (thousands) | Consolidated Group 2010 | Consolidated Group 2009 |
|---|---|---|
| ***Current*** | | |
| *Other receivables* | *1,817* | *1,817* |
| *Provision for impairment of other receivables* | *(1,817)* | *(1,817)* |
| | ***-*** | ***-*** |
| ***Non-Current*** | | |
| *Security deposit* | *1,201* | *1,201* |
| *Provision for impairment of Security Deposit* | *(418)* | *(418)* |
| | ***783*** | ***783*** |

### 11. Property, Plant and Equipment

| In AUD (thousands) | Consolidated Group 2010 $'000 | Consolidated Group 2009 $'000 |
|---|---|---|
| ***Plant and Equipment*** | | |
| *Plant and Equipment:* | | |
| *At cost* | *4,343* | *4,343* |
| *Accumulated Depreciation* | *(1,232)* | *(1,232)* |
| *Accumulated Impairment losses* | *(1,585)* | *(1,585)* |
| *Total Plant & Equipment* | ***1,526*** | ***1,526*** |
| | | |
| ***Fixture & Fittings*** | | |
| *Fixture & Fittings:* | | |
| *At cost* | *101* | *101* |
| *Accumulated Depreciation* | *(70)* | *(70)* |
| *Accumulated Impairment losses* | *(31)* | *(31)* |
| *Total Fixture & Fittings* | ***-*** | ***-*** |
| | | |
| ***Mining & processing Equipment*** | | |
| *Mining & processing Equipment:* | | |

| | | |
|---|---|---|
| *At cost* | *146,878* | *146,878* |
| *Accumulated Depreciation* | *(3,649)* | *(3,649)* |
| *Accumulated Impairment losses* | *(71,325)* | *(71,325)* |
| *Total Mining & processing Equipment* | ***71,904*** | ***71,904*** |
| | ***73,430*** | ***73,430*** |

**a. Movement in Carrying Amounts**

Movement in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

| | ***Consolidated Group*** | | | |
|---|---|---|---|---|
| In AUD (thousands) | **Plant and equipment** | **Fixtures & fittings** | **Mining & processing equipment** | **Total** |
| Balance at 1 January 2009 | 3,573 | - | 71,904 | **75,477** |
| Additions | 193 | - | - | **193** |
| Disposals | (2,079) | - | - | **(2,079)** |
| Depreciation charge for the year | - | - | - | **-** |
| Impairment for the year | (161) | - | - | **(161)** |
| Balance at 31 December 2009 | **1,526** | **-** | **71,904** | **73,430** |
| | | | | |
| Balance at 1 January 2010 | 1,526 | - | 71,904 | **73,430** |
| Additions | - | - | - | **-** |
| Disposals | - | - | - | **-** |
| Depreciation charge for the year | - | - | - | **-** |
| Impairment for the year | - | - | - | **-** |
| Balance at 31 December 2010 | **1,526** | **-** | 71,904 | **73,430** |

## *12. Intangible Assets - Exploration and Mining Expenditure*

| *In AUD (thousands)* | ***Consolidated Group*** | |
|---|---|---|
| | ***2010*** | ***2009*** |
| *Mining Development – Mining reserves acquired* | *20,282* | *20,282* |
| *Mining Development – Capitalised exploration* | *15,572* | *15,572* |
| *Provision for impairment of Mining development* | *(8,460)* | *(8,460)* |
| | ***27,394*** | ***27,394*** |

*Costs carried forward in respect of areas of interest in the exploration and/or evaluation are as follows:*

| | | |
|---|---|---|
| *Opening balance, at costs* | *27,394* | *27,394* |
| *Expenditure incurred in current period* | *-* | *624* |
| *Provision for impairment of Mining Development* | *-* | *(624)* |
| | ***27,394*** | ***27,394*** |

## *13. Interest in Joint Venture Operations*

The group has entered into joint ventures for the purpose of mineral exploration and mining with interests in joint venture areas as follows:

**Browns/Browns East/Area 55/ Mt. Fitch Projects - NT**
The Company (90%) and its wholly owned subsidiary Guardian Resources Pty. Ltd. (10%) hold 100% of these projects. These projects are subject to the Company's pending agreements with Hunan Nonferrous Metals Corp covering the Oxide Mining Joint Venture, the Sulfide Mine Development Joint Venture, the Regional Exploration Joint Venture, under which each party will hold a 50% joint venture interest.

The respective interests are also subject to Cameco (Australia) Pty. Ltd's 3% Net Profits Interest on certain tenements, and Anglo Gold Ltd's Net Smelter Return entitlement of 1% or 3% on certain tenements (excluding the Browns tenements).

**Batchelor Iron Ore - NT**
**13. Interest in Joint venture operations (Cont.)**

Under an agreement with the Company (90%) and its subsidiary Guardian Resources Pty. Ltd. (10%), Territory Resources Ltd. will test the iron ore mining potential of and, if positive, mine iron ore in sections of ERL125, ERL 146 and ML N1163 north of the Browns Leases. Under the agreement Territory Iron has paid the Company/Guardian Resources $150,000 in 2004 and annually pays $50,000 pending a development decision or withdrawal. These payments are non-refundable advances against the purchase by Territory Iron of ore ex-mine gate at $1 per tonne plus or minus an adjustment for ore grades more or less than 60% iron.

**Cuttaburra/Yancannia - NSW**
The Company holds this project subject to an agreement with Bohuon Resources Pty. Ltd., whereby the Company will pay a success fee in the event of mine development , equivalent to a 3% Net Profits Interest or $3 million, at the Company's election. No value has been assigned to this asset.

**Alectown Southeast NSW**
A majority of the joint venture area was relinquished in 2007 (Alectown East/Houston Exploration Licences). Defined sections in the Alectown Southeast tenement is subject to a joint venture with Metallic Resources Pty Ltd whereby the Company funds coventurer's 10%. The balance of the tenement area is held 100% by the Company. No value has been assigned to this asset.

**Nangali - Peru**
The Company acquired 70% interest, and Indo Mines Ltd (formerly AKD Ltd.) a 30% interest in the Nangali gold project from Newmont's Peruvian subsidiary. Compass and Indo Mines proportionally contributed to the Nangali acquisition of US$180,000 plus a 1.5% royalty on future commercial production.

Included in the assets of the Company are mining tenements which represent the Company's interest in the assets and liabilities in the Joint Ventures.

**Current status of joint venture**
For current status of operation activities relating to the JV interests mentioned above, refer to Principal Activities in the Director's Report.

***14 Trade and other payables***

| | Consolidated Group | |
|---|---|---|
| *In AUD (thousands)* | ***2010*** | ***2009*** |
| *Trade payables* | *63,214* | *52,980* |
| *Provision for impairment of trade and other payables* | *(6,358)* | *(6,358)* |
| | ***56,856*** | ***46,622*** |

***15. Recognised tax assets and liabilities***
A potential deferred tax asset may be available to Compass. Compass will need to consider professional taxation advice in the future as to the availability of such losses having regard to the pertinent issues.

***16 Loans and Borrowings***

| | Consolidated Group | |
|---|---|---|
| *In AUD (thousands)* | ***2010*** | ***2009*** |

| | | |
|---|---|---|
| ***Current liabilities*** | | |
| *Borrowing - HNC (i, iv)* | *15,597* | *15,597* |
| *Borrowing - Coffee House Group (ii, iv)* | *37,798* | *37,798* |
| *Borrowing - Cornell Corporation (iii, iv)* | *35,538* | *35,538* |
| | ***88,933*** | ***88,933*** |

(i) In November 2008, a Convertible Note facilities agreement was entered between HNC and the company. Under the agreement, a convertible note was issued at each loan advanced. Subject to Condition Precedent, those convertible notes will be converted into ordinary shares. Otherwise, they become debt to the company with interest accrued daily.

(ii) In July 2008, The Company entered into a loan agreement with Coffee House which enables the company to borrow USD 24 million, interest rate at 10%. Lender has the option of converting the advanced amounts into ordinary shares with by 30 days' notice to the company with the committed period to December 31, 2009.

(iii) In November 2007, The Company entered into a convertible loan agreement with YA Global. YA agreed to lend the company USD36 million with term of 36 months, interest rate at 9.85%. Lender has the option to convert the options into ordinary shares priced at 125@VWAP 20 days before funding date.

(iv) All above 3 loans are unsecured loans and went into default when the Company went into Administration in January 2009. These loans have been settled by new loans and equity according to the revised DOCA completed in November 2011. (Refer to Note 33)

Terms and conditions of outstanding loans were as follows:

| In AUD (thousands) | | | | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|---|---|---|
| | **Currency** | **Nominal interest Rate** | **Year of maturity** | **Face Value** | **Carrying amount** | **Face Value** | **Carrying amount** |
| * Borrowing – HNC | AUD | 0% | 2011 | 15,597 | 15,597 | 15,597 | 15,597 |
| * Borrowing – Coffee House Group Ltd | USD | 0% | 2011 | 37,798 | 37,798 | 37,798 | 37,798 |
| * Borrowing - Cornell Corporation | USD | 0% | 2011 | 35,538 | 35,538 | 35,538 | 35,538 |

* The company went into Administration and the nominal interest rate is 0% as the borrowings are to remain as the agreed upon book value.

Borrowings of the group are payable as follows:

| In AUD (thousands) | **Principal 2010** | **Interest 2010** | **Total Loan payments 2010** | **Principal 2009** | **Interest 2009** | **Total Loan payments 2009** |
|---|---|---|---|---|---|---|
| Less than 1 year | - | - | - | - | - | - |
| Between 1 and 5 years | 88,933 | - | - | 88,933 | - | - |
| | **88,933** | **-** | **-** | **88,933** | **-** | **-** |

### *17 Employee Benefits - Current*

| *In AUD (thousands)* | ***Consolidated Group 2010*** | ***2009*** |
|---|---|---|

| | | |
|---|---|---|
| *Liability for employee entitlements* | *1* | *10* |
| *Impairment of employee benefits* | *-* | *(8)* |
| ***Total employee benefits*** | ***1*** | ***2*** |
| ***Non-current*** | | |
| *Liability for employee entitlements* | *-* | *-* |
| *Impairment of employee benefits* | *-* | *-* |
| ***Total employee benefit*** | ***-*** | ***-*** |

***Expense recognised in profit and loss***

*The expense is recognised in the following line item in the income statement*

| | | |
|---|---|---|
| *Employee benefits expense* | ***-*** | ***-*** |

## 18 Issued capital and reserves

**Share capital**

**Consolidated Group**

| *In AUD (thousands)* | ***2010*** | ***2009*** |
|---|---|---|
| *Fully paid ordinary shares* | *152,171* | *152,171* |
| | ***152,171*** | ***152,171*** |

| | ***Number of Ordinary shares*** | |
|---|---|---|
| *In number of shares* | ***2010*** | ***2009*** |
| *On issue at 1 January* | *144,666,731* | *144,666,731* |
| *On issue at 31 December – fully paid* | *144,666,731* | *144,666,731* |

*The group has also issued share options (see note 20).*

The share capital of Compass Resources Limited consists only of fully paid ordinary shares with no par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Compass Resources Limited. No shares were issued during 2010 (2009: Nil)

***Option reserve***

Option reserve represents the value of options held by an entity compensation plan that the group is required to include in the consolidated financial statements. For further information relating to share options issued refer to Note 20 – Share-based payment.

**Dividends**

*No dividends were paid or declared during 2010*

| *In AUD (thousands)* | ***2010*** | ***2009*** |
|---|---|---|
| *30% franking credit available to shareholders of Compass Resources Limited for subsequent financial years* | ***-*** | ***-*** |

The above available amounts are based on the balance of the dividend franking account at year end.

The ability to utilise franking credits is dependent upon these being sufficient available profits to declare dividends.

## *19 Earnings per share*

*The calculation of basic and diluted earnings per share at 31 December 2010 was based on the loss attributable to ordinary shareholders of $13,910,502 (2009: $35,681,729) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2010 of 144,666,731 (2009: 144,666,731), calculated as follows:*

**Loss attributable to ordinary shareholders**

| *In AUD (thousands)* | ***Consolidated Group*** ***2010*** | ***2009*** |
|---|---|---|
| *Loss for the period* | *(13,910)* | *(35,682)* |

| *Weighted average numbers of ordinary shares ('000)* | ***Number of shares*** | |
|---|---|---|
| *Issued ordinary shares at 1 January* | *144,666* | *144,666* |
| *Effect of shares issued throughout 2008* | - | - |
| *Effect of shares issued throughout 2009* | - | - |
| *Weighted average number of ordinary shares at 31 December* | ***144,666*** | ***144,666*** |

| | ***Consolidated Group*** ***2010*** | ***2009*** |
|---|---|---|
| *Basic and diluted loss per share* | *(9.62 cents)* | *(24.66 cents)* |

**20** ***Share-based payments***

*On 1 May 2005 the group established a share option programme that entitles key management personnel and senior employees to purchase shares in the entity.*

*The terms and conditions of the grants are as follows, All options are settled by physical delivery of shares, the following share-based payment arrangements existed at 31 December 2010*

| ***Grant date / employees entitled*** | ***Number of instruments*** | ***Vesting conditions*** | ***Contractual life of options*** |
|---|---|---|---|
| *Option grant to key management at 16 November 2006* | *1,500,000* | *1/3 on 20 August 2007*<br>*1/3 on 20 August 2008*<br>*and 1/3 on 20 August 2009* | *31 December 2010* |
| *Option grant in relation to Cornell Borrowings at 14 December 2007* | *3,460,000* | *100% on 14 December 2007* | *14 December 2010* |
| *Option grant in relation to Cornell Borrowings at 23 May 2008* | *1,540,000* | *100% on 20 June 2008* | *31 December 2011* |
| *Option grant to key management at 20 June 2008* | *2,700,000* | *700,000 on 1 Jul 2008*<br>*1,000,000 on 1 Jul 2009*<br>*1,000,000 on 1 Jul 2010* | *31 December 2012* |

*The number and weighted average exercise prices of share options is as follows:*

| | ***Weighted average exercise price*** | ***Number of options*** | ***Weighted average exercise price*** | ***Number of options*** |
|---|---|---|---|---|

| *In number of options* | *2010* | *2010* | *2009* | *2009* |
|---|---|---|---|---|
| *Outstanding at 1 January* | *$4.15* | *9,200,000* | *$3.99* | *10,558,000* |
| *Forfeited during the period* | *$3.86* | *(4,960,000)* | *$3.45* | *(1,358,000)* |
| *Exercised during the period* | - | - | - | - |
| *Granted during the period* | - | - | - | - |
| *Outstanding at 31 December* | *$4.48* | *4,240,000* | *$4.15* | *9,200,000* |
| *Exercisable at 31 December* | *$4.48* | ***4,240,000*** | *$4.04* | ***8,200,000*** |

*The options outstanding at 31 December 2010 have an exercise price in the range of $2.32 to $5.04 and a weighted average contractual life of 19 months.*

*The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a Black-Scholes model. The contractual life of the option is used as an input into this model. Expectations of early exercise are not incorporated into the Black-Scholes model. Each option grant was measured separately.*

| | *Directors* | *Directors* | *Key management personnel* | *Key management personnel* |
|---|---|---|---|---|
| Fair value of share options and assumptions | *2010* | *2009* | *2010* | *2009* |
| *Fair value at grant date* | *1.07* | *2.11* | *1.15* | *2.10* |
| *Share price range* | *2.46* | *0.15* | *2.25* | *0.15* |
| *Exercise price range* | *5.04* | *2.20-5.04* | *2.32* | *2.20-5.04* |
| *Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes model)* | *70%* | *70%* | *70%* | *70%* |
| *Option life (expressed as weighted average life used in the modelling under the Black Scholes model)* | *24-55 Months* | *8-48 month* | *24-47 Months* | *8-48 month* |
| *Expected dividends* | - | - | | - |
| *Risk-free interest rate (based on national government bonds)* | *4.6%* | *5.0%* | *4.6%* | *5.0%* |

*The expected volatility is based on the historic volatility adjusted for any expected changes to future volatility due to publicly available information.*

*Share options are granted under a service condition and, for grants to key management personnel, a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.*

### *21 Financial instruments and capital management strategies*

Voluntary administrators were appointed to the Company on 29 January 2009.

Receivers and managers were appointed over all assets of the Company and Compass Mining Pty Ltd on 17 February 2009.

On 21 May 2009 the creditors of the Company agreed to a Deed of Company Arrangement, and the voluntary administrators became deed administrators.

The deed administrators and receivers and managers continued to be appointed for the balance of the Reporting Period.

As a result of the appointments:

1. management of the Company was in the hands of the administrators, and management of the Company's assets was in the hands of receivers and managers;

2. the Company's credit risk, liquidity risk, market risk and interest rate risk were managed by the administrators whose focus was to ensure the maximum return possible to the creditors.

***Effective interest rates and repricing analysis***

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the end of the reporting period and the periods in which they reprice.

**2010 Consolidated Group**

| In AUD (thousands) | Note | Effective interest rate | Total | 6 months or less | 6-12 months | 1-5 years |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 9 | 2.65% | 1,524 | 1,524 | - | - |
| Security deposits | 10 | 0% | 783 | 783 | - | - |
| Borrowing – Cornell | 16 | *0%* | *35,538* | - | *35,538* | - |
| - Coffee House | 16 | *0%* | *37,798* | - | *37,798* | - |
| - HNC | 16 | *0%* | *15,597* | - | *15,597* | - |

**2009 Consolidated Group**

| *In AUD (thousands)* | ***Note*** | ***Effective interest rate*** | ***Total*** | ***6 months or less*** | ***6-12 months*** | ***1-5 years*** |
|---|---|---|---|---|---|---|
| *Cash and cash equivalents* | *7* | *3.64%* | *5,274* | *5,274* | - | - |
| *Security deposits* | *10* | *4.21%* | *783* | *783* | - | - |
| *** Borrowing – Cornell* | *16* | *0%* | *35,538* | - | *35,538* | - |
| *- Coffee House* | *16* | *0%* | *37,798* | - | *37,798* | - |
| *- HNC* | *16* | *0%* | *15,597* | *15,597* | *15,597* | - |

* These assets / liabilities bear interest at a fixed rate.
** The company went into Administration and the nominal interest rate is 0% as the borrowings are to remain as the agreed upon book value.

**Fair values of financial asset and liabilities**

*The fair values together with the carrying amounts shown in the balance sheet are as follows:*

| ***Consolidated*** *In AUD (thousands)* | ***Note*** | ***Carrying amount 2010*** | ***Fair value 2010*** | ***Carrying amount 2009*** | ***Fair value 2009*** |
|---|---|---|---|---|---|
| *Trade and other receivables* | *10* | *783* | *783* | *783* | *783* |
| *Cash and cash equivalents* | *9* | *1,524* | *1,524* | *5,274* | *5,274* |
| *Trade and other payables* | *14* | *56,857* | *56,857* | *46,622* | *46,622* |
| *Borrowing* | *16* | *88,933* | *88,933* | *88,933* | *88,933* |

## 22 *Operating Leases*

***Leases as Lessee***

*Non-cancellable operating lease rentals are payable as follows:*

| *In AUD (thousands)* | ***Consolidated Group 2010*** | ***2009*** |
|---|---|---|
| *Less than one year* | *72* | *127* |
| *Between one and five years* | *146* | *181* |
| | ***218*** | ***308*** |

*The Group leases commercial office space for its head office situated at Level 5, 384 Eastern Valley Way, Roseville, NSW, Australia.*

### 23 Other commitments

| *In AUD (thousands)* | ***Consolidated Group* 2010** | **2009** |
|---|---|---|
| ***Exploration expenditure commitments*** | | |
| *Contracted but not provided for and payable:* | | |
| *Within one year* | *267* | 210 |
| *One year or later and no later than five years* | *960* | 879 |
| *Later than five years* | *809* | 1,131 |
| | **2,036** | **2,220** |

### 24 Contingencies

*The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.*

| **In AUD (thousands)** | ***Consolidated Group* 2010** | **2009** |
|---|---|---|
| The company has bank guarantees and security deposits in respect of the Company's performance under Australian exploration and mining titles | 783 | 783 |

### 25 Reconciliation of cash flows from operating activities

| *In AUD (thousands)* | **Note** | ***Consolidated* 2010** | **2009** |
|---|---|---|---|
| *Cash flows from operating activities* | | | |
| *Profit/(Loss) for the period* | | *(13,910)* | *(35,682)* |
| *Adjustments for:* | | | |
| ***Add/(less) non-cash items*** | | | |
| *Loss on disposal of assets* | | *-* | *8,099* |
| *Unrealised Forex* | | *-* | *18,846* |
| *Equity settled transactions* | | *-* | *968* |
| *Impairment loss* | | *-* | *3,595* |
| *Other* | | *(74)* | *-* |
| | | ***(13,984)*** | ***(8,779)*** |
| **Operating profit/(loss) before changes in working capital and provisions** | | | |
| *Change in receivables* | | *-* | *3,497* |
| *Change in prepayments* | | *-* | *910* |
| *Change in employee provisions* | | *1* | *(99)* |
| *Change in trade and other payables* | | *10,162* | *(5,625)* |
| *Cash generated from the operations* | | ***10,163*** | ***(1,317)*** |
| *Net cash from operating activities* | | ***(3,821)*** | ***(10,096)*** |

### 26 Related parties

The following were key management personnel of the group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

**Managing Director**
James Carr (appointed as Director on 15 November 2011, appointed as Managing Director on 10 July 2012)

**Non-executive directors**
Mr Gordon Toll
David Gonzalez (Appointed November 2011)
Gerald Eicke (Appointed November 2011)

Mark Angelo (Appointed November 2011)
John Allen (Appointed 1 July 2012)
Mr Philip Wood (Appointed 1 July 2012)

**Executive directors**
Mr Richard Swann (Resigned June 2012)
Mr Phillip Cohen (Ceased as executive director in January 2008 and is now on the board as a non-executive director)

**Executives**
Neil Guest (Chief Financial Officer, appointed 1 December 2007, Company Secretary in February 2008 and resigned 13 January 2012)
Garry Johansen (General Manager Exploration, appointed 1 July 2008)
Bob Lloyd (General Manager NT Operations, appointed 23 June 2008, resigned 1 May 2009)

**Employment contracts**

Mr Richard Swann was employed on 21 August 2006 and appointed Managing Director of the Company on 9 October 2006. The contract terms and conditions in relation to Mr Swann's full time employment under his original agreement expired on 31 August 2009. In light of the Company's Administration and subsequent DOCA, the Deed Administrator's engaged the consulting services of Mr Swann via his company, RSFT Management Pty Ltd, effective from 1 September 2009.

The company entered into a service agreement with Neil Guest as Chief Financial Officer on 1 December 2007. Mr Guest's agreement provides that he may give three month notice of termination for any reason. The company may terminate the appointment by paying the employee an amount equal to the salary and superannuation contributions that the employee would have received during the period of notice in lieu of such notice. In the event of retrenchment as a result of a change of control of company, Mr Guest is entitled to payment of an amount equal to twelve months of total fixed remuneration. Mr Guest's full time employment contract with the Company was terminated on 2 February 2011. In light of the Company's DOCA, the Deed Administrator's engaged the consulting services of Mr Guest via his company, Ginnrg Pty Ltd, effective from 3 February 2011.

The company has entered into a service agreement with Mr. Robert Lloyd General Manager NT Operations on 23 June 2008 and Garry Johansen as General Manager Exploration on 1 July 2008. Either party may give three month notice of termination for any reason. The company may terminate the appointment by paying the employee an amount equal to the salary and superannuation contributions that the employee would have received during the period of notice in lieu of such notice. In the event of retrenchment as a result of a change of control of company, the parties are entitled to payment of an amount equal to twelve months of total fixed remuneration. Mr Johansen's full time employment contract with the Company was terminated on 2 February 2011. In light of the Company's DOCA, the Deed Administrator's engaged the consulting services of Mr Johansen via his company, G F Johansen & Associates, effective from 3 February 2011.

Currently there are no other employees employed under contract that has a defined expiry date. The remuneration of key management personnel are reviewed annually.

Mr Guest and Mr Johansen employment contracts specify that the Company is required to give three month notice if their employment is to be terminated. All other employees are under a standard one month of notice in writing contracts.

## 26. Related Parties (continued)

### Key management personnel disclosures (continued)

Details of the nature and amount of each major element of remuneration of each director of the Company and key management who receive the highest remuneration are:

| | | Short term employee benefits | | | Post-employment benefit | | Long term bene-fits | Equity-settled share based payments | | Cash settled share d-based Pay ment s | Termin-ation benefits | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees | Profit share and bonuses | Non-monet-ary /others | Pension and Superan-nuation | others | | Shares/ Units | Options /Rights | | | |
| **Non-Executive Directors** | | | | | | | | | | | | |
| Mr G Toll | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | - | - | - | - | - | - | - | - | - | - | **-** |
| Mr P Cohen | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 5,208 | - | - | - | - | - | - | - | - | - | **5,208** |
| Mr P Wood | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 5,925 | - | - | - | - | - | - | - | - | - | **5,925** |
| **Executive Directors** | | | | | | | | | | | | |
| Mr R Swann* | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 137,576 | - | - | - | - | - | - | - | - | - | **137,576** |
| **Key Management** | | | | | | | | | | | | |
| Mr N Guest | **2010** | 300,000 | - | - | - | - | - | - | - | - | - | **300,000** |
| | 2009 | 296,538 | - | - | - | - | - | - | - | - | - | **296,538** |
| Mr R Lloyd | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 24,465 | - | - | - | - | - | - | - | - | - | **24,465** |
| Mr G Johansen | **2010** | 214,532 | - | - | - | - | - | - | - | - | - | **214,532** |
| | 2009 | 158,963 | - | - | - | - | - | - | - | - | - | **158,963** |
| Mr R Dossor | **2010** | - | - | - | - | - | - | - | - | - | - | **-** |
| | 2009 | 31,071 | - | - | - | - | - | - | - | - | - | **31,071** |
| **Total** | **2010** | **514,532** | - | - | - | - | - | - | - | - | - | **514,532** |
| | 2009 | 659,746 | - | - | - | - | - | - | - | - | - | **659,746** |

* Effective from 1 September 2009, the Company entered into a service contract with Mr Richard Swann for the role of Managing Director. This agreement replaced the contract terms and conditions of employment contained in the letter dated 21 August 2006 which expired on 31 August 2009. Accordingly, Mr Swann received consultancy fees during 2010 to the amount of $328,196.

Directors remuneration includes amounts paid by the Company during the period to indemnify directors, but does not include insurance premiums paid by the Company or related parties in respect of Directors' and Officers' Liabilities and Legal Expenses insurance contracts, as the insurance policies do not specify premiums paid in respect of individual directors.

**26 Related parties (continued)**

**Key management personnel disclosures (continued)**

**Equity Instruments**
**Movement in shares**
The movement during the reporting period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each key management personnel, including their personally-related entities is as follows:

| | Held at 1 January 2010 | Purchases | Shares received upon exercise of options | Sales/ Divestments | Held at 31 December 2010 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| **Mr G Toll** | | | | | |
| - Fully Paid Ordinary Shares | 2,043,478 | | | | 2,043,478 |
| **Mr P Cohen** | | | | | |
| - Fully Paid Ordinary Shares | 1,353,571 | | | | 1,353,571 |
| **Mr R Swann** | | | | | |
| - Fully Paid Ordinary Shares | 100,000 | | | | 100,000 |

The above equity holdings include directors' entitlements arising under the Company Staff Equity Participation Plan.

**Options and rights over equity instruments**
The movement during the reporting period in the number of options per ordinary shares The Group held, directly, indirectly or beneficiary, by each key management personnel, including their related parties, is as follows:

| | Held at 1 January 2010 | Granted as compensation | Exercised/ expired | Held at 31 December 2010 | Vested during the year | Vested and exercisable at 31 December 2010 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr G Toll | 1,700,000 | - | - | - | 1,000,000 | 2,700,000 |
| Mr R Swann | 1,500,000 | - | 1,500,000 | - | - | - |

No vested options held by key management personnel were unexercised during the year ended 31 December 2010 and 31 December 2009.

**Other key management personnel transactions**
Compass Resources Limited entered into a 36 month contract with Toll Resources Ltd, a company which is a related entity to Mr G Toll, a director of the Company, for the provision of consultancy services in relation to the Browns project. The contract expired on 1 July 2010. The services outlined in this contract were not utilised during the course of the year given the voluntary appointment of the Administrators and Receivers and Managers over the Company.

Effective from 1 September 2009, the Company entered into a service contract with Mr Richard Swann for the role of Managing Director. This agreement replaced the contract terms and conditions of employment contained in the letter dated 21 August 2006 which expired on 31 August 2009.

The details of the transactions with Toll Resources Ltd are as follows:

| AUD | Transaction | 2010 | 2009 |
|---|---|---|---|
| **Key management personnel** | | | |
| Mr G Toll | Consultancy Fees | - | - |
| | And expenses | | - |
| | Reimbursement | - | |
| Mr R Swann | Consultancy Fees | 328,196 | 140,804 |
| | And expenses | | |
| | Reimbursement | | |

**26 Related parties (continued)**

Apart from the details disclosed in this note, no other Director has entered into a material contract with the Company or the group since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

Non Key management personnel disclosures

**Identity of related parties**
The group has a related party relationship with its subsidiaries (see note 28), joint venture (see note 13) and with its directors and executive officers.

***27 Controlled Entities***

| | Country of Incorporation | Ownership interest 2010 | 2009 |
|---|---|---|---|
| ***Parent entity*** | | | |
| *Compass Resources Limited* | ***Australia*** | | |
| ***Significant subsidiaries*** | | | |
| *Compass Staff Equity Pty. Ltd* | *Australia* | *100%* | *100%* |
| *Raptor Minerals Ltd (formerly Four Points Exploration Limited)* | *Australia* | *100%* | *100%* |
| *Compass Mining Pty Ltd( formerly Compass Exploration Pty. Ltd)* | *Australia* | *100%* | *100%* |
| *Guardian Resources Pty Ltd.* | *Australia* | *100%* | *100%* |
| *Rum Jungle Mining Ltd* | *Australia* | *100%* | *100%* |

***28 Prepayment***

| | Consolidated Group 2010 | 2009 |
|---|---|---|
| *In AUD (thousands)* | | |
| *Prepayment* | *287* | *287* |
| *Provision of Impairment for Prepayment* | *(287)* | *(287)* |
| | - | - |

***29 Impairment***

| | Consolidated Group 2010 | 2009 |
|---|---|---|
| *In AUD (thousands)* | | |
| *Receivables – current i)* | - | *3,326* |
| *Prepayment (i)* | - | *93* |
| *Receivables – non current (i)* | - | *15* |
| *Property, plant and equipment (ii)* | - | *161* |
| | - | *3,595* |

(i) No recoverable amounts were identified as a result of the administrators work.

(ii) On 29 January 2009, the Group went into Administration. The ultimate effect of the administration on the value of the assets was that the Directors needed to consider if any of the assets were impaired. The Directors sought valuations of the assets. AMC Consultants Pty Ltd provided the fair market calculation on the tenements and Alkine royalty originally obtained during April 2010 and subsequently updated during June 2011. The Alkaine Royalty (Tomingley Gold Project) was subsequently sold in April 2012 at an amount in excess of its current carrying value. Refer to note 34. The Browns Oxide Plant was originally valued by Beevis & Co auctioneers & valuers in June 2009 and was subsequently updated by Graysasset Services in June 2012.

## 30 *Auditors' remuneration*

*In AUD (thousands)*

***Audit services***

*Auditors of the Company*

Pursuant to the EGM held on 8 August 2011, Grant Thornton Australia Audit Pty Ltd was appointed as auditors for Compass Resources Limited. Grant Thornton Audit Pty Ltd has audited the following periods:

- 31 December 2008
- 30 June 2009 (half-year)
- 31 December 2009
- 30 June 2010 (half-year)
- 31 December 2010

Fees charged to complete these assignments are $205,000

## 31 *PARENT ENTITY INFORMATION*

| | ***2010*** | ***2009*** |
|---|---|---|
| *In AUD (thousands)* | | |
| ***STATEMENT OF FINANCIAL POSITION*** | | |
| ***ASSETS*** | | |
| *Current assets* | *1,524* | *5,274* |
| *Non-current assets* | *98,713* | *98,712* |
| ***TOTAL ASSETS*** | ***100,237*** | ***103,986*** |
| ***LIABILITIES*** | | |
| *Current liabilities* | *143,349* | *133,187* |
| *Non-current liabilities* | 1,364 | 1,364 |
| ***TOTAL LIABILITIES*** | ***144,713*** | ***134,551*** |
| ***NET ASSETS*** | ***(44,476)*** | ***(30,565)*** |
| ***EQUITY*** | | |
| *Issued capital* | *152,171* | *152,171* |
| *Reserve* | *15,354* | *15,354* |
| *Accumulated losses* | *(212,001)* | *(198,090)* |
| ***TOTAL EQUITY*** | ***(44,476)*** | ***(30,565)*** |
| ***STATEMENT OF COMPREHENSIVE INCOME*** | | |
| *Total profit ( Loss)* | *(13,911)* | *(33,519)* |
| ***Total comprehensive income ( Loss)*** | ***(13,911)*** | ***(33,519)*** |

**Guarantees**

Compass Resources Limited is a listed Public Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

**Contractual commitments**

At 31 December 2010, Compass Resources Limited as a Listed Public Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2009: Nil ).

### *33. Segment Reporting*

The group operates predominately in the exploration and evaluation and development of base energy and process metals in Australia.

The Group has only one material segment being mineral exploration and development in Australia.

### *34. Subsequent events*

**Events Subsequent to Reporting Date**

YA Global Investments L.P. and HNC (Australia) Resources Pty Ltd (HAR) sought to negotiate terms on which the Company could be reconstructed and return to being a voting member under the three joint ventures.

Ultimately these negotiations were successful, and the DOCA and joint venture agreements were amended to reflect the negotiated outcome.

Completion of the DOCA occurred on 15 November 2011 and included the following key events:

- $13.25M was loaned to the Company by YA Global Investments L.P. (YA), pursuant to a new fixed and floating charge in favour of YA, which also secured further funding to be provided by YA;
- $7.5M was paid by the Company to HNC (Australia) Resources Pty Ltd (HAR) in partial satisfaction of debts due to it;
- $5.75M was paid to the Trustee of the CMR Creditors Trust to be split as follows:
    - $2.5M to Compass Mining Pty Ltd; and
    - $3.25M to Company unsecured creditor debts;
- Shares were issued to both YA (1,083,618,669 shares) and Coffee House Group Limited (172,722,511 shares) in exchange for release of the admitted debts owing to them by the Company;
- A new charge was granted in favour of Hunan Nonferrous Metals Corp Ltd in respect of the approx. $15.6M owed by the Company;
- A bond was issued to the Trustee of the CMR Creditors Trust, for the benefit of the creditors of the Company;
- The appointments of the Deed Administrators and Receivers and Managers ceased;
- Control of the Company passed to its new Board of Directors; and
- The Company ceased to be a ‘Defaulting Member’ under the joint venture agreements and again became a voting member.

As a consequence of Completion occurring, the DOCA terminated. Occurring simultaneously with the termination of the DOCA was the creation of the CMR Creditor’s Trust, a mechanism used to accelerate CMR’s exit from external administration by transferring the relevant creditors’ claims from the Company to the Trust.

As a result of the administration and for other strategic reasons, the Group’s present operations as at the date of this report are:

- NT Joint Ventures

  The Company’s primary focus continues to be the progression of its three joint ventures with Hunan Non-ferrous Metals Corporation (HNC).

  The operating committees for the joint ventures (consisting of 3 Company representative and 3 HNC representatives) are meeting periodically to assess progress and determine budgets.

Of these joint ventures:

- Sulphide Joint Venture: The present goal of the joint venture is to determine the economic feasibility of pursuing the Sulphide project by acquiring new samples and performing test-work with the goal of initiating a feasibility study.

  New drilling is currently taking place to acquire additional samples for testing. The operator, 50% funded by the Company, has drilled fifteen additional holes to obtain samples for assay and testwork. Additional drilling is on-going.

Subject to being able to obtain the necessary funding and both JV parties agreement, the Company intends to accelerate development, exploration, and testing with the goal of the joint venture beginning a feasibility study on the Sulphide resource in 2013.

- Oxide Joint Venture: The plant at Browns East that is part of the Oxide JV is currently in a mothball state and is being maintained by the joint venture operator.
- Regional Exploration JV: the regional exploration JV will continue to explore the JV tenements and continues to spend money on exploration. Compass has commissioned a FALCON Airborne Gravity Gradiometry, Magnetics and DTM Survey that, in conjunction with the EM/magnetic survey that was done in 2010, will help identify locations for possible drilling. Additional testing is being done in 2012.

Other Operations

- NT Non-JV Tenements: The Company is exploring the non-JV tenements near Bachelor in the Northern Territory. The FALCON Airborne Gravity Gradiometry, Magnetics and DTM Survey will also include the non-JV tenements. The Company has been approached by parties interested in the iron and uranium ore and intends to further investigate the possibility of forming joint ventures to exploit these areas with interested parties or the sale of the non-JV assets.
- NSW Tenements: Compass has joint ventures with Platsearch and Thomson Resources for tenements in NSW, some of which have been released due to new government regulations. The Company will continue to deal with these tenements in accordance with the terms of the joint ventures.
- Peru Tenement: Compass also has a 70% owned tenement in Peru and is considering its options with respect to this.

In February 2012, the company received a statement of Claim filed in the Supreme Court of NSW on 25 January 2012 on behalf of a number of shareholder plaintiffs. The claim related to the rejection of the proofs of debt that certain shareholders submitted to the trustees of the Creditors' Trust. On 10 April 2012, Registrar Musgrave ordered that the company be removed as a party to the proceedings and the plaintiffs are to pay the Company's costs of the notice of motion and the proceeding to 10 April 2012, as agreed or assessed.

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

In March 2012 it became apparent that the Company would not be able to comply with the reporting requirements under the facilities provided by YA Global Investments L.P. The Company sought and obtained a verbal waiver of this requirement from YA Global Investments, L.P. In July 2012, the Company sought and obtained a written waiver from YA Global Investments, L.P. as confirmation of the previous verbal waiver.

In Apr 2012:

- Compass Resources Limited reached agreement with Alkane Resources Ltd for Alkane to fully acquire a production royalty held by Compass, related to the Tomingley Gold Project.
- The royalty was surrendered by Compass for the acquisition of 6 million Alkane shares and 4 million options exercisable at $1.50 within 12 months.

Richard Swann resigned as Managing Director with effect from 29 June 2012. Mr James Carr was appointed by the board as Managing Director on 09 July 2012. The board appointed Mr Philip Wood and Mr John Allen as Non-executive Directors of the company effective 28 June 2012. Mr Philip Wood was appointed CEO on 22 August 2012.

# Directors' Declaration

1 In the opinion of the directors of Compass Resources Limited ("the Company"):

(a) The financial statements and notes, set out on pages 14 to 44, are in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the of the Company's and the consolidated entity's financial position as at 31 December 2010 and of their performance, for the year ended on that date; and

(ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) The financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and

(c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations from the Managing Director for the financial year ended 31 December 2010 required by Section 295A of the Corporations Act 2001.

Dated at Sydney 31 day of Aug 2012.

Signed in accordance with a resolution of the directors:

Philip Wood
Chief Executive Officer
Executive Director

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# Independent Auditor's Report
# To the Members of Compass Resources Limited

## Report on the financial report

We have audited the accompanying financial report of Compass Resources Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**

In our opinion:

a the financial report of Compass Resources Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Report on the remuneration report**

We have audited the remuneration report included in pages 9 to 12 of the directors' report for the year ended 31 December 2010. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Qualified Auditor's opinion on the remuneration report**

We have not been able to obtain sufficient audit evidence, to enable us to form an opinion as to whether or not, the remuneration report of Compass Resources Limited for the year ended 31 December 2010, complies with Accounting Standard AASB 124.

**Significant uncertainty regarding continuation as a going concern**

Without qualifying our opinion, attention is drawn to the following matter. As described in Note 2(b) in the financial report which indicates that the consolidated entity incurred a net loss of $13,910,000 for the year ended 31 December 2010 and, as of that date, the consolidated entity' current liabilities exceed current assets by $144,325,000. Therefore, the ability of Compass Resources Limited to pay its debts as when they fall due is dependent upon the continued support of its lender and upon its successful re-capitalisation. Because of these matters, there exists a material uncertainty which may cast significant doubt about the Group's ability to realise its assets and extinguish its liabilities in the normal course of business, and at the amounts stated in the financial report.

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GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner - Audit & Assurance

Perth, 31 August 2012