



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



**FERRIER HODGSON**

**PERTH**

Level 26 BankWest Tower  
 108 St George's Terrace  
 Perth WA 6000 Australia

GPO Box 2537 Perth WA 6001

phone +61 8 9214 1444

fax +61 8 9214 1400

email fhperth@perth.fh.com.au

www.ferrierhodgson.com

14 May 2010

Dear Shareholder

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

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

**Venue:** The North Shore Room, Mantra Hotel, 10 Brown Street, Chatswood, Sydney NSW, 2067

**Time:** 9.30 a.m. (AEST)

**Date:** 17 June 2010

ADELAIDE  
 BRISBANE  
 MELBOURNE  
 SYDNEY  
 HONG KONG  
 JAKARTA  
 KUALA LUMPUR  
 MANILA  
 MUMBAI  
 SHANGHAI  
 SINGAPORE  
 TOKYO

Affiliated through  
 Zolfo Cooper  
 and  
 Kroll Worldwide  
 UNITED STATES  
 UNITED KINGDOM

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

1. Notice of Meeting and Explanatory Statement.
2. Proxy Form and instructions.
3. Letter from YA Global seeking Shareholders' support.

Shareholders are being asked to approve a Proposal to recapitalise the Company, pursuant to which YA Global and Coffee House will convert their existing debt to equity. The consequence of this conversion will be the dilution of existing Shareholders' interest in the Company to approximately five percent (5%) of the Company's equity following implementation of the Proposal.

The Proposal also provides for a return to creditors of the Company and the establishment of a creditors' trust, which will administer the claims of creditors. This will enable the insolvency administrations of the Company to be brought to an end and the suspension on trading of the Company's shares to be lifted, following approval from the Australian Securities Exchange.

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

If the Proposal is not approved, then unless an alternative proposal is received (and the Administrators have enough time to call a creditors meeting to approve a further extension to the DOCA), the Company will pass into liquidation. In a liquidation of Compass, no value is likely to be preserved for existing Shareholders and the return to Shareholders is likely to be nil.

There are 4 ordinary resolutions to be considered in relation to a proposed issue of new fully paid ordinary shares to YA Global and Coffee House. The resolutions are:

- Resolution 1: approval of the issue of shares to YA Global pursuant to the Proposal.
- Resolution 2: approval of the issue of shares to Coffee House pursuant to the Proposal.
- Resolution 3: approval of the security relating to a working capital loan from YA Global pursuant to the Proposal.
- Resolution 4: appointment of new Auditor.

Please take note of the key dates below:

Event	Date
Deadline for lodgement of Proxy Forms	15 June 2010 at 9.30a.m.
Date and time for determining eligibility to vote (being the date and time you must own shares)	15 June 2010 at 7.00p.m.
General Meeting of Shareholders	17 June 2010 at 9.30a.m.
If Resolutions are approved, proposed date of issue of new shares is on or before	5 July 2010

*\*All times are Australian Eastern Standard Time*

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

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

Yours faithfully



MARTIN JONES  
Joint and Several Deed Administrator of  
Compass Resources Limited

CORPORATE ADVISORY

FORENSICS

CORPORATE RECOVERY



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## Glossary

Abbreviation	Description
<b>Administrators</b>	Darren Weaver, Steven Sherman and Martin Jones, in their capacity as joint and several deed administrators of the Company
<b>Act</b>	The Corporations Act 2001 ( <i>Cth</i> )
<b>Alkane</b>	Alkane Resources Limited ACN 000289216
<b>ASIC</b>	Australian Securities and Investments Commission
<b>Associates</b>	As defined in Section 12 of the Act
<b>ASX</b>	The Australian Securities Exchange operated by ASX Limited
<b>Bonds</b>	Bonds to be issued by the Company under the Proposal to the Trustee
<b>Compass or Company</b>	Compass Resources Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 010 536 820
<b>Convertible Note Funds</b>	The \$5,300,000 held by Compass that was received pursuant to the HNC Convertible Note Facility Agreement
<b>Creditors</b>	Certain creditors of Compass, whose claims against Compass relate to the period before the appointment of the Administrators and as more particularly defined in the Varied DOCA
<b>Creditors' Trust</b>	The creditors trust which will be established for the benefit of Compass' creditor claims
<b>Creditors' Trust Deed</b>	The creditors' trust deed establishing the Creditors' Trust
<b>Coffee House</b>	Coffee House Group Ltd
<b>CMPL</b>	Compass Mining Pty Ltd (in liquidation) ACN 099 550 259
<b>DOCA</b>	Deed of Company Arrangement dated 21 May 2009 appointing the Administrators as deed administrators of Compass
<b>HNC</b>	Hunan Nonferrous Metals Corp Ltd
<b>HAR</b>	HNC (Australia) Resources Pty Ltd ACN 124647823
<b>Listing Rules</b>	The ASX Listing Rules
<b>Loan Funds</b>	The funds which may be loaned to Compass by YA Global as part of the Proposal referred to in paragraph 2.3 of this Explanatory Statement
<b>JV</b>	The joint ventures between Compass and HAR relating to the exploration, development, mining and process of mineral, sulphide and oxide resources
<b>M</b>	Million

<b>Meeting</b>	The extraordinary general meeting of the Company convened by this notice.
<b>New Shares</b>	The issue of share capital to YA Global and Coffee House in exchange of debt to equity pursuant to the terms of the Proposal
<b>NT</b>	Northern Territory
<b>Proposal</b>	The proposal by YA Global and Coffee House to convert their existing debt to equity in the Company and terminate the Varied DOCA as summarised in paragraph 2.3 of this Explanatory Statement
<b>Resolutions</b>	The resolutions set out in the Notice of Meeting for approval by Shareholders
<b>Recapitalisation Deed</b>	A recapitalisation deed between the Administrators, the Company, YA Global and Coffee House to be entered into pursuant to the Varied DOCA.
<b>Shareholders</b>	Shareholders of the Company
<b>Trustee</b>	The trustee of the Creditors Trust appointed under the Creditors Trust Deed
<b>Varied DOCA</b>	A varied deed of company arrangement between the Administrators, the Company, YA Global, Coffee House and CMPL pursuant to a resolution passed by Compass Creditors on 6 January 2010
<b>YA Global</b>	YA Global Investments, L.P.
<b>Yorkville</b>	Yorkville Advisors, LLC



**COMPASS RESOURCES LIMITED**

**(Subject to Deed of Company Arrangement) (Receivers and Managers Appointed)**

**A.C.N. 010 536 820**

**1. NOTICE OF MEETING OF SHAREHOLDERS**

**NOTICE IS GIVEN** that an extraordinary general meeting of the Shareholders of Compass Resources Limited will be held on 17 June 2010 commencing at 9.30a.m. AEST in The North Shore Room, Mantra Hotel, 10 Brown Street, Chatswood Sydney, NSW 2067.

**Agenda**

The following resolutions to be put to the Compass Shareholders are explained in the Explanatory Statement. Words used in this notice have the meanings given to them in the Explanatory Statement.

**Resolution 1 – Approval of issue of shares to YA Global**

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

*“THAT, subject to the passing of Resolution 2 & 3, for the purposes of item 7 of Section 611 and Section 209 of the Act and for all other purposes, Shareholders approve the issue of 2,263,267,330 new fully paid ordinary shares to YA Global in full and final release of the debt owing to YA Global at 29 January 2009, (approximately \$35,538,068 in total) in accordance with terms of the Proposal at a deemed issue price of \$0.025.”*

**Resolution 2 – Approval of issue of shares to Coffee House**

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

*“THAT, subject to the passing of Resolution 1 & 3, for the purposes of ASX Listing Rule 10.11 and Section 209 of the Act and for all other purposes, Shareholders approve the issue of 422,101,919 new fully paid ordinary shares to Coffee House, in full and final release of the debt owing to Coffee House at 29 January 2009, (approximately \$37,798,404 in total) in accordance with terms of the Proposal at a deemed issue price of \$0.025.”*

**Resolution 3 – Approval of security**

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

*“THAT, subject to the passing of Resolutions 1 & 2, for the purposes of ASX Listing Rule 10.1 and all other purposes, Shareholders approve the extension of the fixed and floating charge over all of the Company’s assets granted as security for the Loan Funds, to securing the Company’s obligations in relation to a working capital loan of approximately \$25,800,000 to be advanced by YA Global to the Company pursuant to the Proposal.”*

**Resolution 4 - Appointment of Auditors  
Section 327B Corporations Act Approval**

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

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

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

*be appointed as the Auditor of the Company”.*

### **Voting Exclusion Statement**

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

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

However, the Company may count a vote if:

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

### **Voting Entitlement**

In accordance with Section 1074E(2)(g)(i) of the Act and Regulation 7.11.37 of the Corporations Regulations, the Company has determined that, for the purposes of the meeting, all shares in the capital of the Company will be taken to be held by the persons who held them at 7.00p.m. AEST on 15 June 2010. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

### **Voting Rights And Proxies**

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

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

### **Proxy Lodgement**

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

1. post addressed to Ferrier Hodgson c/: Clinton Roberts, GPO Box 2537, Perth WA 6001;
2. hand delivery to: Ferrier Hodgson, Level 26, 108 St. Georges Terrace, Perth WA 6001;
3. facsimile marked to the attention of Clinton Roberts at +61 08 9214 1400; or
4. scanned and emailed to [croberts@perth.fh.com.au](mailto:croberts@perth.fh.com.au).

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

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



MARTIN JONES  
Joint and Several Deed Administrator of  
Compass Resources Limited



## **2. EXPLANATORY STATEMENT**

### **2.1. Background**

The Administrators were appointed to Compass pursuant to Section 436A of the Act on 29 January 2009 and became deed administrators of Compass pursuant to a DOCA executed on 21 May 2009. Accordingly, Compass is currently suspended from trading on ASX.

A general meeting of the Company had been convened for 29 January 2009. That meeting was adjourned without any of the proposed resolutions having been passed. That meeting was not reconvened. The Notice of Meeting convenes a new meeting with a new agenda.

### **2.2. Purpose of Shareholder Meeting**

The resolutions to be put to the Compass Shareholders cover:

- the issue of the New Shares to YA Global and Coffee House pursuant to the Proposal; and
- appointment of new Auditor.

Of the 4 resolutions, the principal resolutions for the approval of the Proposal are resolutions 1 2 and 3. The Proposal is explained in this Explanatory Statement and the Independent Expert's Report.

Before deciding whether to approve the Proposal, we encourage you to read this Explanatory Statement and the Independent Expert's Report. In addition, you may wish to refer to the analysis of the Proposal in the Administrators' report issued to Creditors dated 24 December 2009, which is available from the "Current Matters" section of the Administrators' website: <http://www.ferrierhodgson.com>.

### **2.3. Proposal Summary**

The Administrators have executed the Varied DOCA and the terms of the Recapitalisation Deed have been substantially agreed. Under these documents YA Global and Coffee House have agreed to recapitalise the Company by converting their existing debt to equity. The documents also provide for an agreed plan to terminate the Varied DOCA and bring the insolvency administrations of the Company to an end.

Under the terms of the Recapitalisation Deed and the Varied DOCA, upon implementation of the Proposal, the Company will, amongst other things:

- be released from all Creditors' claims. Thereafter, such claims will simply give rise to rights as a beneficiary in a Creditors' Trust;
- issue new shares to YA Global (2,263,267,330) and Coffee House (422,101,919) in exchange for release of the admitted debts owed to them at 29 January 2009;
- execute a funding agreement with YA Global, pursuant to which YA Global will advance approximately \$19,050,000 (but conceivably closer to \$24,250,000) to Compass at completion of the Proposal, which sum (once combined with funds from Compass) will be used to:
  - i. pay \$6,750,000 to the Trustee of the Creditors' Trust; and
  - ii. pay HAR approximately \$17,500,000;

- execute a further funding agreement with YA Global, pursuant to which YA Global will advance further funds (to a maximum of approximately \$25,800,000) to the Company, which sum will be used to meet the Company's continuing obligations under the JVs;
- retain all its assets for the benefit of post-recapitalisation Compass Shareholders;
- issue Bonds to the Trustees of the Creditors' Trust for the purpose of repaying certain classes of creditors, which Bonds are payable three (3) years from implementation of the Proposal;
- release its claim against CMPL; and
- operate with a board composed of the Nominee Directors, nominated by YA Global and Coffee House.

In addition, when the Creditors' Trust Deed is executed, CMPL will release its security over Compass 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:

- Behind HAR in relation to the Oxide JV interest and Oxide JV Property; and
- First in relation to all other Compass assets.

## **2.4. Appointment of Directors**

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

- (a) YA Global: 4 nominee Directors; and
- (b) Coffee House: 2 nominee Directors.

Day-to-day operational and financial control of Compass will be returned to the new Compass Directors upon the termination of the Varied DOCA and no additional Directors may be appointed by Compass prior to implementation of the Proposal without the prior written consent of YA Global. Details of the nominee directors are set out in the following paragraphs.

### ***Mark Angelo*** ***Founder and President, Yorkville Advisors***

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

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

**Gerald Eicke**  
**Managing Member, Yorkville Advisors**

Jerry manages Yorkville's transaction pipeline and Yorkville's team of corporate finance professionals. Having founded, built, and sold his own company, Jerry lends his experience as a corporate executive to understand and interpret the diverse needs of the companies funded by Yorkville. His entrepreneurial background has been a driving force in Yorkville's overall growth and business development.

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

**David Gonzalez**  
**Managing Member and General Counsel, Yorkville Advisors**

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

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

**Fourth Director**  
**Yorkville Advisors**

To be advised.

**Richard Swann**  
**Director, Coffee House**

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

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

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

**Second Director**  
**Coffee House**

To be advised.

## **2.5. Conditions**

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

- YA Global being satisfied in its absolute discretion with the due diligence to be carried out by it in respect of Compass and the JVs.
- All required regulatory approvals being obtained on conditions satisfactory to YA.
- Shareholders approving the issue of the new shares.
- HNC agreeing not to exercise its right to convert its debt for equity pursuant to a Convertible Note Facility Agreement.
- YA Global and HAR reaching agreement as to the future operation of the JVs.
- HAR agreeing in writing to Compass being reinstated as a non-defaulting, voting member of the operating committees of the JVs.
- HAR agreeing in writing to retire its receivers and managers upon implementation of the Proposal.

The final two conditions are currently the subject of commercial negotiations between HAR and YA Global, and as a “fall-back position”, arbitration proceedings commenced by the Administrators.

## **2.6. Key implications of the Proposal for Shareholders**

The issue of new shares to YA Global and Coffee House will significantly dilute the position of existing Shareholders, to a post-recapitalisation equity holding of approximately 5% of the Company, with YA Global and Coffee House holding the remaining 95%.

Following the issue of shares and implementation of the Proposal, the Varied DOCA will be terminated and YA Global has indicated that it will cause the Company to seek re-quotation of its shares on ASX. In that regard, Compass will need to meet the provisions of Chapter 12 of the Listing Rules before such reinstatement can occur.

Shareholders will then have a small interest in the recapitalised Compass, the shares in which will again be able to be traded on ASX.

If the Proposal is not approved, then the Company may pass into liquidation. In a liquidation of Compass, no value is likely to be preserved for existing Shareholders and the return to Shareholders is likely to be nil.

## **2.7. Advantages of the Proposal**

### *Recapitalisation of CMR*

The Proposal contemplates Compass being recapitalised and released from its position of default in the JVs which arose as a result of the Company having entered into Administration. Accordingly, Compass will be involved in the funding and decision-making pertinent to the remedial works needed to make the Oxide plant commercially operational.

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

### *Preserves some value for Shareholders*

Although implementation of the Proposal will dilute existing shareholdings, the Proposal preserves 5% equity for existing Shareholders.

If the Proposal is not approved, then unless an alternative proposal is received (and the Administrators have enough time to call a creditors meeting to approve a further extension to the DOCA), the Company will pass into liquidation. In a liquidation of Compass, no value is likely to be preserved for existing Shareholders and the return to Shareholders is likely to be nil.

### *Enables Compass Shares to be traded on ASX*

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

## **2.8. Disadvantages of the Proposal**

### *Significantly dilutes Shareholders interests*

The Proposal significantly dilutes the shareholdings of existing Shareholders.

If implemented, existing Shareholders will hold only 5% of the issued shares in the Company.

### *Shareholders will not crystallise capital loss*

Implementation of the Proposal will mean that Compass will recapitalise and is unlikely to proceed to a scenario where existing Shareholders will crystallise a capital loss other than by selling their Compass shares. If the Company is liquidated, then Shareholders will crystallise a capital loss.

## 2.9. Impact on capital structure

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

Shareholder	Shareholding Pre Recapitalisation	New Share Issue	Shareholding Post Recapitalisation
YA Global Total	761,454	2,263,267,330	2,264,028,784
Coffee House Total	2,403,478	422,101,919	424,505,397
Other Shareholders Total	141,501,799	Nil	141,501,799
<b>Total issued shares following implementation of Proposal</b>	<b>144,666,731</b>	<b>2,685,369,249</b>	<b>2,830,035,980</b>

## 2.10. Increase in voting power

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

Shareholder	Pre-recapitalisation voting power	Post-Recapitalisation voting power	Post-Recapitalisation increase in voting power
YA Global	0.5%	80%	79.5%
Other Shareholders	98.5%	20%	-72.8%

If the resolutions are approved and the Proposal is implemented, the voting power of YA Global and its Associates will be approximately 80% of the total votes attaching to ordinary shares in the Company, where previously they held approximately 0.5%

## 2.11. Unaudited, unreviewed Pro-Forma Balance Sheet

YA Global has considered the Company's assets and liabilities and provided a pro-forma balance sheet for the Company upon recapitalisation, as follows:

YA Global DOCA Reconstruction	Note	\$
<b>Current Assets</b>		
Cash at Bank	1	2,500,000
<b>Total Current Assets</b>		<b>2,500,000</b>
<b>Non-Current Assets</b>		
NT Mining Assets	2	100,000,000
ALK Royalty	3	5,000,000
Loan to Subsidiary	4	2,000,000
NT Land	5	1,500,000
Deferred Tax Assets	6	1,500,000
Deposits and Bonds	7	500,000
Peruvian Tenements	8	200,000
Sydney Office Equipment	9	50,000
<b>Total Non-Current Assets</b>		<b>110,750,000</b>
<b>Total Assets</b>		<b>\$ 113,250,000</b>
<b>Current Liabilities</b>		
Restructure costs and expenses	10	(500,000)
<b>Total Current Liabilities</b>		<b>(500,000)</b>
<b>Non-Current Liabilities</b>		
Secured Creditor	11	(24,250,000)
Unsecured Bonds	12	(17,671,199)
<b>Total Non-Current Liabilities</b>		<b>(41,921,199)</b>
<b>Total Liabilities</b>		<b>\$ (42,421,199)</b>
Equity		
<b>Total Equity</b>	13	<b>\$ 70,828,801</b>

## Notes

1. The balance sheet above assumes that Compass, having paid the fixed sums due under the Varied DOCA to the Trustees of the Creditors' Trust (refer note 11), will receive the balance of funds held by the Administrators, estimated for present purposes at \$2.5M.
2. The value attributed to the NT based mining assets is a combination of the going concern values for the uranium, oxide and sulphide interests, combined with Compass' share of the Oxide plant. This aggregated value (and conceivably more) is considered by YA Global to be achievable on a going concern basis, but not in a liquidation scenario. The base metal operations are in a state of transition with remedial works still to be undertaken to the Oxide plant.

During October 2009, the Deed Administrators commenced a marketing program for the sale of assets or financial reorganisation of the Company. The Deed Administrators received in excess of 80 expressions of interest with offers submitted for the non-JV mineral tenements, uranium assets, Peruvian assets and the Alkane Royalty.

As a result of the feedback received from key Compass stakeholders, the Thompson JV offer for the NW NSW Tenements was executed on 1 March 2010. Whilst outside the traditional realisation course for an insolvency regime, the Deed Administrators recommended the Thompson JV be executed on the basis that the Thomson JV:

- May provide a future upside to Shareholders post-DOCA or otherwise to Compass creditors;
- Creditors approved the Varied DOCA and the Thomson JV was consistent with the Varied DOCA;

- It provides for the maximised retention of the assets at no imminent cost to Compass; and
- It is expected that Compass will be adequately funded from its other assets and that the NSW JV rights will be saleable in the future by Compass Liquidators or a DOCA proponent in the event the Varied DOCA does not complete.

In respect to the uranium, Alkane Royalty and Peruvian assets, the Administrators received a number of competitive offers, but which have been held in abeyance having regard to the terms of the Varied DOCA. Cumulatively, those offers were viewed by the Administrators as being no more favourable than the Varied DOCA.

In a liquidation scenario, the Administrators considered the JV Assets would prove to be onerous, as a result of a combination of factors, including the:

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

The Regional Exploration JV is non-revenue producing and operates as a feeder to the Oxide and Sulphide JVs with the costs of exploration met by the JV parties in proportions to the JV Agreements.

In respect to the Sulphide JV, the Administrators' view was that net present value of the project could not be ascertained on the basis that the price of metal indicated that is not economically viable to construct and operate the plant. Notwithstanding this, under the terms of the Sulphide JV, HAR is required to fund a Definitive Feasibility Study (estimate cost of \$30m). Accordingly, the asset may have strategic value attributed to it either in the event that:

- HAR comply with the JV requirement to undertake and fund the study in which case Compass may benefit from the more precisely formulated costings and flowsheets for the plant if the outcome is then that construction and operation would be economically viable; and
- HAR fail to comply with the JV requirement to undertake and fund the study, then the Sulphide JV may be brought to an end and the tenement rights revert to Compass potentially adding value.

In such circumstances and for the purposes of a liquidation analysis, the Administrators assumed that the Compass share of the JV assets would provide a nil cash contribution value to Creditors, a position to be contrasted with the going concern basis adopted for the purposes of the pro-forma, post-recapitalisation balance sheet.

3. It is difficult to value this potential future royalty income stream. Alkane is continuing to undertake due diligence in relation to the merits of open pit and underground mining operations. The sum disclosed above represents a conservative estimate of the asset's value in a going concern situation, a discount on the sum that Alkane and Compass' valuers have acknowledged it may be worth.
4. The loan to subsidiary represents the sum estimated to be recoverable from wholly owned Compass subsidiary Raptor Minerals Limited. A joint venture was recently entered into with Thomson Resources Limited in relation to these North-Western New South Wales tenements. The going concern value of this asset has been adopted.
5. The NT land is in three parcels and is arguably subject to certain joint venture operator rights. The aggregated value of the land above is consistent with market appraisals obtained in the first half of 2009.



6. The pre-administration book value for this asset has been discounted by 50% to reflect an estimate of the losses that will ultimately be available to Compass having regard to the extent of dividend payable to Compass' unsecured creditors through the Creditors' Trust.
7. A number of bonds have been placed on deposit by Compass in support of various mining obligations. The estimated realisable value is disclosed above.
8. The Peruvian tenements are estimated to be worth in the vicinity of \$200,000.
9. A going concern value has been attributed to the Sydney office furniture and equipment.
10. There will be a range of restructure costs (including corporate advisory fees, legal costs, meeting costs, placement fees, disbursements) to be paid by Compass in respect of the recapitalisation process. These have been estimated at \$500,000.
11. Terms of the Proposal provide for YA Global to advance various sums to Compass under a facility agreement. YA Global will obtain a fixed and floating charge secured over 100% of Compass' assets in respect of these sums:
  - CMPL cash sum: \$3.5M;
  - Compass Upfront cash sum: \$3.25M;
  - HAR contribution notices, pre-VA sum and to completion: \$17.5M; and
  - JV future remedial work and care and maintenance costs, conceivably a further \$25.8M.

It is noted that Compass is not required to obtain shareholder approval for entry into the facility agreement, as a result of the final exception referred to in Listing Rule 10.3, having regard to the fact that YA Global is only a related party by reason of the transaction for the issues of the securities and the operation of Section 228(6) of the Act.

12. Non-current unsecured creditors' claims will be comprised of Bonds payable to the Trustees of the Creditors' Trust (estimated at \$15.597M for HAR and \$2.074M for other Compass creditors).
13. The post-recapitalisation equity of Compass will be 2,830,035,980 fully paid ordinary shares.

Other:

Contingent assets include legal claims against the NT Territory Revenue Office in respect of a duty refund claim and a claim against HNC for breach of a Memorandum of Understanding entered into with Compass in November 2008. These assets have not been attributed a value and so remain off the balance sheet.

## **2.12. Post recapitalisation Funding**

Under the terms of the Proposal, YA Global undertakes to fund loans to the Company in order that the Company can be released from creditors' claims (and therefore the administration), and with the objective of enabling the Company to be reinstated as a non-defaulting JV party to the NT-based JVs with HAR, including Compass paying Compass' share of the remedial costs in relation to the Oxide JV. In terms of the:

- Sulphide JV, Compass has no unfulfilled obligations; and
- Regional Exploration JV, Compass's past obligations (circa \$150,000) will also be satisfied.

## **2.13. Taxation**

The Proposal may have income tax implications for the Company. Existing Shareholders are advised to seek independent tax advice in respect of the impact of the resolutions on their personal circumstances. The Company, the Administrators, the current and future Directors and advisers to the Company accept no responsibility for any individual existing Shareholders' tax consequences of any aspect of the Proposal.

## **2.14. Forgiveness of Creditors' Claims**

The Proposal provides for 2,675,490,186 shares to be issued at completion of the Proposal in return for release of the YA Global and Coffee House debts which are currently owed by Compass. Further, under the terms of the Varied DOCA, all Creditors' claims against Compass are released and extinguished (with the exception of the then created Compass Bond obligations) by the Varied DOCA with Creditors becoming beneficiaries of the proceeds available in the Creditors' Trust.

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

The factors which influenced the outcome of these negotiations included:

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

## **2.15. Financial Statements and ASIC Exemptions**

The Company has applied to ASIC seeking exemptions in respect of:

- Financial reporting obligations in Part 2M.3 of the Act for the financial year ended 31 December 2009 and each financial year and half year on or after 1 January 2010 until the earlier of 2 years or the termination of the Varied DOCA; and
- Annual General Meeting obligations in Part 2G.2 of the Act in relation to the financial years ended 30 June 2009 and 30 June 2010.

Following implementation of the Proposal, the Company will resume compliance with its full financial reporting obligations.

## **2.16. Directors' Recommendation**

The Directors are required to make a recommendation in relation to certain resolutions put to Shareholders, or alternatively, explain why they do not make a recommendation. Further, Section 219(c)(iii) of the Act requires an explanation where a Director was not available to make a recommendation and why not. Due to the administration of the Company, the powers of the Directors have been suspended under Section 437C of the Act and under the DOCA and Varied DOCA for more than twelve months, with a number of Directors having limited engagement occurring in respect of the administration and therefore certain Directors have not provided a recommendation. Gordon Toll and Richard Swann have been working with the Administrators throughout the administration and the Administrators have consented to the inclusion of their recommendation in this Explanatory Statement.

Mr Toll is also a Director of, controls and is the ultimate beneficial shareholder of Coffee House, and therefore has an interest in the Resolution 2. Mr Swann, with his background in Compass's technical and administrative affairs developed in his role as Compass's current Managing Director and as a nominee Director for Coffee House for the recapitalised Compass, may expect to be remunerated for his future role as a Director. Both Mr Toll and Mr Swann declare a personal interest in the resolution, but state that they consider the Resolutions are in the interests of Compass and its Existing Shareholders.

## **2.17. Approval sought under s.611 of the Act**

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

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

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

A person has a relevant interest in securities if they:

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

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

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

Pursuant to the Proposal, the Company has agreed to allot and issue 2,263,267,330 shares to YA Global as outlined in Resolution 1.

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

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

## **2.18. Approval sought under Section 209 of the Act**

Section 209 of the Act provides that a company must obtain the approval of its members to give a financial benefit to a related party.

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

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

Control is defined as the ability to influence the operating and financial decision making of a Company. Following implementation of the Proposal YA Global and its Associates will hold approximately 80% of the issued share capital of the Company and will have nominated all of the Directors of the Company. Therefore YA Global and its Associates will be in a position

to influence the decision making of the Company and accordingly Shareholder approval is sought under Section 209 of the Act as part of Resolution 1.

A related party also includes an entity which is controlled by a director of a company. Gordon Toll, a director of Compass, controls Coffee House, accordingly Shareholder approval for the issue of shares to Coffee House is sought under Section 209 of the Act as part of Resolution 2.

## **2.19. Effect of approval of Resolutions 1 and 2 with respect to Listing Rule 7.1**

Listing Rule 7.1 prevents a company from issuing shares which represent more than 15% of a company's equity securities, unless approved by Shareholders. If the Proposal is implemented, Compass will issue approximately 95% of its equity securities to Coffee House and YA Global. There is an exception to Listing Rule 7.1 for issues approved for the purposes of item 7 of section 611 of the Act and another exception for issues approved for the purposes of Listing Rule 10.11. Accordingly, approval of Resolutions 1 and 2 will refresh the 15% limit under Listing Rule 7.1, meaning that the Company will be able to issue up to 15% of its share capital without Shareholder approval during the period of 12 months from the date of the approval.

## **2.20. Approval sought under Listing Rule 10.11**

Listing Rule 10.11 prevents a company from issuing shares to a related party, unless approved by Shareholders. Coffee House is a related party of Compass, because Gordon Toll is a director of Compass and also controls Coffee House. Accordingly, Compass seeks Shareholder approval of the issue of ordinary shares to Coffee House under Resolution 2.

### **Deemed issue price of shares**

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

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

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

Therefore, the value of the Company that has been assumed for the purposes of determining the deemed share price is based on the estimate of Compass' post-recapitalisation equity, being \$70.8M (see section 2.11 of this explanatory statement). If that sum is divided by the number of shares in the recapitalised Compass (2,845,764,805), the deemed issue price is 2.5 cents per share.

### **Timing of allotment and issue of shares**

The shares will be issued to Coffee House and YA Global upon the recapitalisation of Compass in accordance with the Varied DOCA, which in turn is expected to occur on or before 5 July 2010.

## **2.21. Approval sought under Listing Rule 10.1**

Listing Rules 10.1 prevents a company from disposing of a substantial asset to a related party or a substantial shareholder, unless approved by Shareholders. A substantial asset is an asset which has a value of greater than 5% of the equity value of a company and 'disposal' of a substantial asset includes using the asset as collateral. Following the issue of shares to YA Global under Resolution 1, YA Global will be a related party and a substantial

shareholder of Compass. Under the terms of the Proposal, when YA Global advances the initial loan of approximately \$19,050,000 to Compass (which occurs prior to the issue of the shares to YA Global), Compass will grant YA Global a fixed and floating charge over all of Compass's assets to secure the Loan Funds. Following the issue of shares to YA Global, YA Global will advance a working capital loan of approximately \$25.8 million to the Compass, which will be secured under the same fixed and floating charge. Accordingly, Compass seeks Shareholder approval for the extension of the fixed and floating charge, to securing the Company's obligations in relation to the working capital loan from YA Global.

## **2.22. Appointment of Auditors - Section 327B Corporations Act Approval**

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

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

## **3. Independent Expert's Report**

The Independent Expert's Report prepared by DMR Corporate sets out a detailed examination of the issue of shares and the grant of security to YA Global pursuant to the Proposal to enable Shareholders to assess the merits and decide whether to approve the issue of shares and the grant of security to YA Global. Shareholders should note that the Independent Expert's Report does not consider the issue of shares to Coffee House as it is not a requirement under Listing Rule 10.11 or under Section 209 of the Act.

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

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

14 May 2010

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

Dear Sirs,

**Re: Independent Expert's Report**

**1. Introduction**

You have requested DMR Corporate Pty Ltd ("DMR Corporate") to prepare an independent expert's report in respect of a proposal under which the shareholders of Compass Resources Limited ("Compass" or the "Company") approve the issues of new shares as part of the recapitalization of the Company.

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

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

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

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

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

**2. The Proposed Transaction**

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

**Resolution 1 - Approval of issue of new shares to YA Global by way of conversion of existing debt to equity**

That subject to the passing of resolutions 2 & 3 shareholders approve the issue of 2,263,267,330 new fully paid ordinary shares to YA Global Investments, L.P., which carries on business as Cornell Capital Partners L.P., in full and final release of the debt owing to YA Global at 29 January 2009, (approximately \$35,538,068) in accordance with the terms of the Deed of Company Arrangement at a deemed issue price of \$0.025 on the terms and conditions set out in the Explanatory Statement.

**Resolution 2 - Approval of issue of new shares to Coffee House by way of conversion of existing debt to equity**

That subject to the passing of resolution 1 & 3, shareholders approve the issue of 422,101,919 new fully paid ordinary shares to Coffee House Group Limited, in full and final release of the debt owing to Coffee House at 29 January 2009, (approximately \$37,798,404) in accordance with the terms of the Deed of Company Arrangement at a deemed issue price of \$0.025 on the terms and conditions set out in the Explanatory Statement.

**Resolution 3 - Approval of security for the working capital loan of \$25,800,000**

That subject to the passing of resolutions 1 & 2, for the purposes of Listing Rule 10.1 and all other purposes, shareholders approve the extension of the fixed and floating charge over all of the Company's assets granted as security for the loan funds, to securing the Company's obligations in relation to a working capital loan of approximately \$25,800,000 to be advanced by YA Global to the Company pursuant to the Proposed Transaction.

Resolutions 1, 2 and 3 are interdependent and if approved then YA Global will be issued with 2,263,267,330 new fully paid shares, which would increase its voting power in Compass to 80%.

Whilst resolutions 1 to 3 are interdependent and represent the proposed transaction, we are only required to opine on resolutions 1 and 3 (approving the issue of shares to YA Global and the approval of the giving of a security to YA Global for the working capital loan of \$25,800,000). For the purposes of this report the YA Global transactions are hereinafter referred to as the "Proposed Transaction".

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

	<u>YA</u>		<u>Coffee House</u> <u>Other</u>				<u>Total</u>	
	Number		Non-Associated Shareholders				Number	
			Number		Number			
Present	761,454	0.53%	2,403,478	1.66%	141,501,799	97.81%	144,666,731	100.00%
Resolution 1(a)	2,263,267,330						2,263,267,330	
Resolution 1(b)			422,101,919				422,101,919	
Total	<u>2,264,028,784</u>	80.00%	<u>424,505,397</u>	15.00%	<u>141,501,799</u>	5.00%	<u>2,830,035,980</u>	100.00%

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

### 3. Summary Opinion

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

3.1 Our principal reasons for reaching the above opinion are:

- we have assessed the current value of the Non-Associated Shareholders' interests in Compass at nil (Section 7.8).
- we have valued the Coffee House 15% interest in Compass after the Proposed Transaction at \$10,624,000 (Section 10).
- we have valued the Other Non-Associated Shareholders 5% interest in Compass after the Proposed Transaction at \$3,541,000 (Section 10).
- we have reviewed the terms of the YA Global working capital loan agreement and we consider it is normal commercial practice for a lender to obtain a fixed and floating charge over a company's assets to secure loan funds.

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

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

### 4. Structure of this Report

This report is divided into the following Sections:

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

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

- **Corporations Act 2001**

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

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

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

- **ASX - Listing Rules**

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

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

Listing Rule 10.2 defines a substantial asset as being an asset whose value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to the ASX under the listing rules. Under the terms of the Proposed Transaction YA Global will advance Compass a working capital loan of approximately \$25.8 million. This loan will be secured by a fixed and floating charge over the assets of Compass and this charge is deemed to be a substantial asset.

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

- **ASIC Regulatory Guides**

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

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

RG 111.21 An issue of shares by a company otherwise prohibited under S606 may be approved under item 7 of S611 and the effect on the company’s shareholding is comparable to a takeover bid. Examples of such issues approved under item 7 of S611 that are comparable to takeover bids under Ch 6 include:

- (a) a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged businesses. The vendor could have achieved the same or a similar outcome by launching a scrip takeover for the company .....

RG111.24 There may be circumstances in which the allottee will acquire 20% or more of the voting power of the securities in the company following the allotment or increase an existing holding of 20% or more, but does not obtain a practical measure of control or increase its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the issue price is ‘reasonable’ if it has assessed the issue price as being ‘not fair’ applying the test in RG111.10.

RG111.9 It has long been accepted in Australian mergers and acquisitions practice that the words ‘fair and reasonable’ in S640 established two distinct criteria for an expert analysing a control transaction:

- (a) is the offer ‘fair’; and
- (b) is it ‘reasonable’?

That is, ‘fair and reasonable’ is not regarded as a compound phrase.

RG111.10 Under this convention, an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or ‘portfolio’ parcel of shares.

RG111.11 An offer is ‘reasonable’ if it is fair. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

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

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

- **General**

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

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

Reasonableness - the Proposed Transaction is “reasonable” if it is fair. It

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

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

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

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

## **6. Compass - Key Information**

### **6.1 Background**

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

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

6.1.3 The DOCA provided for:

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

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

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

- a. the conversion of the YA Global and Coffee House debts and designing a separate mechanism for payment of the HNC debt, has the effect of improving the return immediately available to other creditors from the non-JV assets, potentially removing approximately 90% of the creditors' claims (on a dollar value basis) that would otherwise be entitled to claim in a liquidation scenario;
- b. YA Global and Coffee House will take an interest in the restructured equity of a revitalised Compass. By these groups taking up the risk of that part of the assets, and YA Global making a guaranteed sum available for distribution to external creditors it mitigates, at least in part, the financial risk for creditors in the ongoing investment in the JV and other assets;
- c. the proposal provides some certainty for creditors, with some cash up-front (the return to creditors from the DOCA is itself comparable to or higher than the anticipated liquidation return) and the prospect of further funds from the Compass bond. Any further contribution will depend on the financial success of the reconstructed Compass with the additional payments not due until approximately March 2013;
- d. it will provide some financial relief to HNC which has, since early in Compass's Administration, funded all of the JV expenditure, with future remedial work and care and maintenance costs potentially in the order of \$50M being funded jointly by HNC and YA Global;
- e. the proposal minimises the insolvency practitioner and legal costs which should, consistent with general practice, be lower than those of a liquidation; and
- f. in a liquidation, recoveries from the voidable and other transactions are uncertain or unlikely.

6.1.6 The creditors have voted and approved the variation to the existing DOCA and the proposed resolution in Section 2 above is now to be put to shareholders for approval.

6.1.7 Prior to the appointment of Administrators on 29 January 2009 Compass' principal activities were:

- (a) the development of the Browns Oxide Project in the Northern Territory. The mining contractor had commenced work in preparation for plant start up of the 1.3 Mtpa copper-cobalt-nickel mine and processing plant. This development was projected to produce approximately 10,000 tpa copper cathode, 800 tpa contained nickel plus 950 tpa contained cobalt in carbonate form. The plant had commenced operations and was producing copper, but was still in the commissioning phase as to nickel and cobalt.
- (b) the preparation of pre-feasibility studies ("PFS") for the base and speciality metals sulphide project. The PFS was to be funded by HNC and should HNC wish to proceed with the Sulfide Project development, it will provide the entire capital cost of the Sulfide processing plant.

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

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

- (f) exploration and evaluation of mining tenements for base and precious metals in NSW and Peru.

## **6.2 Share Capital**

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

In addition to the shares on issue there are also 9,400,000 options on issue with exercise prices between \$2.20 and \$5.04 and expiry dates between 14 December 2010 and 31 December 2012. If the variation to the DOCA is approved by the Non-Associated Shareholders then all of these options will be cancelled.

## **6.3 Financial Performance**

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

## **6.4 Financial Position**

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

## **6.5 Cash Flow Statements**

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

# **7. Valuation of Compass Before the Proposed Transaction**

## **7.1 Value Definition**

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

## **7.2 Valuation Methodologies**

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

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

### **7.3 Share Price History**

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

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

#### **7.3.3 Summary – Share Price History**

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

### **7.4 Capitalization of Future Maintainable Earnings**

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

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

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

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

### **7.5 Net Present Value of Future Cash Flows**

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

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

### **7.6 Asset Based Methods**

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

- (a) **Net Assets**

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

**(b) Orderly Realisation of Assets**

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

**(c) Liquidation of Assets**

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

Compass is presently under Administration and the Administrators have considered both the orderly realisation of assets valuation methodology (via the DOCA) and the liquidation of assets valuation methodology.

In the report by Deed Administrators dated 24 December 2009 the Administrators stated:

“...we expect, in a liquidation scenario, that the unsecured creditors of Compass will receive in the vicinity of 32 cents in the dollar...”.

In the 24 December 2009 report the Administrators stated that the proposed variation to the DOCA would improve the return to the creditors as against the estimated return under the winding up of the Company. As this improved return can only be generated if the Varied DOCA (and hence the Proposed Transaction) is approved by the Non-Associated Shareholders, we have viewed the valuation on a liquidation basis as the only alternative that can be adopted to value Compass and the Non-Associated Shareholder interests prior to the Proposed Transaction.

Under the liquidation of assets valuation methodology, the Administrators estimate that the Company would have a deficiency of assets of \$66,647,967 and unsecured creditors would be writing off a substantial portion of their debts.

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

## **7.7 Alternate Acquirer**

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

In this instance the Administrators have marketed all of the Compass assets over the last 12 months. Potential acquirers have conducted their own due diligence and formulated offers for the assets. The Administrators have assessed these offers and used them to quantify the proceeds that may be received if the assets were to be sold. We have reviewed the Administrators' December 2009 assessments and updated these assessments with additional information received since December and we consider that there would still be a substantial deficiency of net assets if the bids from the alternative acquirers were accepted by the Administrators.

## **7.8 Conclusion**



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

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

As the Other Non-Associated Shareholders control 97.81% of the Compass shares their interests are valued at nil before the Proposed Transaction.

## 8. Valuation of Compass After the Proposed Transaction

### 8.1 Value Definition

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

### 8.2 Valuation Methodologies

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

### 8.3 Net Assets on a Going Concern Basis

To utilise this valuation methodology Compass has prepared the following pro forma balance sheet showing Compass' net asset position, after the terms of the Varied DOCA have been completed:

	YA DOCA Reconstruction
<b>Current Assets</b>	
Cash at bank	2,500,000
<b>Total Current Assets</b>	<b>2,500,000</b>
<b>Non-Current Assets</b>	
Northern Territory mining assets	100,000,000
Alkane royalty	5,000,000
Loan to subsidiary	2,000,000
NT Land	1,500,000
Deferred tax assets	1,500,000
Deposits and bonds	500,000
Peruvian tenements	200,000
Sydney office equipment	50,000
<b>Total Non-Current Assets</b>	<b>110,750,000</b>
<b>Total Assets</b>	<b>113,250,000</b>
<b>Current Liabilities</b>	
Restructure costs and expenses	(500,000)
<b>Total Current Liabilities</b>	<b>(500,000)</b>
<b>Non-Current Liabilities</b>	
Secured creditor	(24,250,000)
Unsecured creditors	(17,671,199)
<b>Total Non-Current Liabilities</b>	<b>(41,921,199)</b>
<b>Total Liabilities</b>	<b>(42,421,199)</b>
<b>Total Equity</b>	<b>70,828,801</b>

The pro forma balance sheet prepared by Compass indicates that the net assets will be approximately \$70,829,000 after the implementation of the Varied DOCA (including the giving of the security to YA Global).

We have reviewed the major valuations prepared by AMC Consultants Pty Ltd and



Beevis & Co that were used by Compass to prepare the above pro forma balance sheet, together with other information made available to us by Compass and from public sources. We have also discussed the above pro forma balance sheet with the Administrators and we consider that \$70,829,000 is a conservative estimate of the value of the equity and it could be up to \$20,000,000 higher in a best-case scenario.

#### **8.4 Conclusion**

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

In our opinion the value of the equity in Compass will be approximately \$70,829,000 after completion of the Proposed Transaction.

### **9. Control Premium**

A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of the company could be acquired. Control premiums are normally in a range of 25% to 35% above the value of a minority share. The actual control premium paid is transaction specific and depends on a range of factors, such the level of synergies available to the purchaser, the level of competition for the assets and strategic importance of the assets. In this instance there are no synergies to be gained by YA Global.

In the present circumstances Compass has a deficiency of net assets of approximately \$66,000,000 on a liquidation basis and its shares have a nil value.

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

### **10. Assessment as to Fairness**

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

In Section 8.4 above we assessed Compass' net assets to be approximately \$70,829,000 after the Proposed Transaction.

As Coffee House will have a 15% interest in Compass after the Proposed Transaction the value of their interests will be approximately \$10,624,000.

As the Other Non-Associated Shareholders will have a 5% interest in Compass after the Proposed Transaction the value of their interests will be approximately \$3,541,000.

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

### **11. Other Significant Considerations**

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

- In Section 10 above we concluded that the Proposed Transaction is fair.
- If the Proposed Transaction is approved, and the other conditions precedent are met, then Compass will continue to remain in business and its net value may increase beyond the current estimation of \$70,829,000. If this occurs then this will add additional value to the Non-Associated Shareholders interests after the Proposed Transaction.
- Due to the size of the present deficiency of net assets (\$66,647,967 – Section 7.6) it is unlikely that any other proposals to restructure Compass will be received.
- If the Proposed Transaction is approved, and the other conditions precedent are met, then Compass will apply to have its shares requoted on the ASX. This will create a market for the Compass shares and this will enable shareholders to crystallise their losses for taxation purposes.
- Following implementation of the Proposed Transaction a new board of directors nominated by YA Global and Coffee House will be appointed.
- The Proposed Transaction will result in the capitalisation of the YA Global loan of \$35,538,068 and YA Global committing to loan further funds of approximately \$19,050,000 on the day of completion and a further \$25,800,000 to fund monthly cash call requests by the JV Operator.
- YA Global is advancing the working capital loan of \$25,800,000 on a monthly basis to meet future cash calls by the Joint Venture operator. Interest will be payable on the funds advanced at the rate of 10% per annum, capitalised each year and paid on the expiration of the term of the loan. Funds advanced by YA Global will be repaid by Compass upon the first to occur of:
  - a) the date 3 years after the date of the termination of the varied DOCA; and
  - b) 6 months after the Oxide Joint Venture becomes cash-flow positive for a period of not less than 3 consecutive months; and

YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default.

Compass will grant to YA Global a fixed and floating charge over all of its assets to secure the repayment of the advances by it, which will rank:

- a) second in relation to the Oxide Joint Venture interest and Oxide Joint Venture property (behind the HAR security); and
- b) first in relation to all other assets of Compass.

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

- As part of the terms of the DOCA, Coffee House has agreed to the capitalisation of its \$37,798,404 loan for which it will receive 422,101,919 new Compass shares.
- If the Non-Associated Shareholders reject the Proposed Transaction then the Company will be placed in liquidation and the Non-Associated Shareholders will

receive nothing and the creditors will receive a substantially lower distribution.

- The Other Non-Associated Shareholders will lose their collective influence in Compass as their interests will be severely diluted – from 97.81% at the date of this report to 5% after the Proposed Transaction.

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

## **12. Financial Services Guide**

### **12.1 Financial Services Guide**

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

### **12.2 DMR Corporate**

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

### **12.3 Financial Services Offered by DMR Corporate**

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

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

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

### **12.4 General Financial Product Advice**

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

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

### **12.5 Independence**

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

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

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

DMR Corporate issued an independent expert's report dated 17 December 2008 in respect of a proposed issue of shares to Coffee House. The extraordinary general meeting to approve this issue of shares together with share issues to Cornell Partners L.P. and HNC were never approved by shareholders as the meeting was adjourned as a result of the appointment of the Administrators.

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

#### **12.6 Remuneration**

DMR Corporate is entitled to receive a fee of approximately \$40,000 for the preparation of this report, plus out of pocket expenses. With the exception of the above, DMR Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

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

#### **12.7 Compensation Arrangements and Complaints Process**

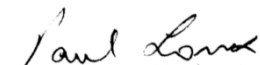
As the holder of an Australian Financial Services Licence, DMR Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement DMR Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

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

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

Yours faithfully

**DMR Corporate Pty Ltd**



**Paul Lom - Director**



**Derek Ryan - Director**

**Appendix A-1**

## Compass Resources Limited

## 20 Largest Shareholders as at 8 April 2010

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

## Compass Resources Limited

## Income Statements

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

## Compass Resources Limited

## Balance Sheets

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

## Compass Resources Limited

## Cash Flow Statements

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



## Compass Resources Limited

## Variation to DOCA – 24 December 2009

MATTER	PROPOSAL
<b>YA Global Debt</b>	YA Global will convert 100% of its debt for the issue of new shares in CMR, so that following the issue of all shares in CMR to be issued under this proposal ( <b>Recapitalisation</b> ) YA Global holds a minimum of 80% of CMR shares as a result of the conversion.
<b>Coffee House Debt</b>	Coffee House will convert 100% of its debt (approximately \$37,798.404.43) into equity for the issue of new shares in CMR, so that following the Recapitalisation, Coffee House holds a minimum of 15% of CMR shares as a result of the conversion.
<b>HAR Debt</b>	<ul style="list-style-type: none"> <li>On the day of completion of the Recapitalisation, CMR will pay HAR the total amount of the outstanding pre and post-administration cash calls (in the case of post-VA calls having been converted into contribution notices or the “balancing payment” in relation to the pre-VA cash calls) under the Oxide JV (understood to be \$17,040,000) through 31 December 2009.</li> <li>The proceedings commenced by the deed administrator for directions regarding the treatment of the \$5,300,000 held by CMR received pursuant to the HNC Convertible Note Facility Agreement (<b>Convertible Note Funds</b>) will be discontinued with no order as to costs. The funds the subject of the proceedings will be available to CMR.</li> </ul>
<b>Other Debt</b>	All other debt will be dealt with by way of a creditors’ trust.
<b>Establishment of Creditors’ Trust</b>	<ul style="list-style-type: none"> <li>A creditor’s trust will be established and named the “Compass Resources Creditors’ Trust” (<b>Creditors’ Trust</b>).</li> <li>The deed administrators will be appointed as the trustees of the Creditors’ Trust.</li> <li>The purpose of the Creditors’ Trust will be to enable certain tasks ordinarily undertaken by the deed administrators (including, but not limited to, the calling for and the adjudication of creditors’ proofs of debt) to be performed by the trustees of the Creditors’ Trust in order to facilitate the termination of the DOCA.</li> <li>There will be three classes of creditors under the Compass Resources Creditors’ Trust. These will be the CMPL Creditors, the CMR Creditors and HNC.</li> </ul>

## Compass Resources Limited

## Variation to DOCA – 24 December 2009

	<ul style="list-style-type: none"> <li>• Those classes will be: <ul style="list-style-type: none"> <li>○ <b>CMPL Creditors:</b> means the admitted indemnity claim of Compass Mining Pty Ltd (in liquidation) whose claim is a Liability (as that term is defined in the Oxide Joint Venture Agreement dated 26 April 2007) properly and reasonably incurred or sustained by Compass Mining Pty Ltd (in liquidation) in its capacity as Oxide Operator (as that term is defined in the Oxide Joint Venture Agreement dated 26 April 2007).</li> <li>○ <b>CMR Creditors:</b> means the admitted unsecured creditors (including any remaining priority claims currently unpaid in respect of staff whose employment is terminated before the date of the Recapitalisation) of Compass Resources Ltd (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), including PWC and Orica (if admitted) but excluding YA Global, HAR, HNC, Compass Mining Pty Ltd (in liquidation) and Coffee House. The CMR Creditors include any admitted claims of shareholders of Compass Resources. To avoid the risk of double proof, creditors of the Oxide operation whose claims are taken into account in calculating the CMPL Creditors shall be excluded from the CMR Creditors.</li> <li>○ <b>HNC:</b> means HNC for its admitted claim of approximately \$15,596,999.98.</li> </ul> </li> <li>• The deed administrators will transfer to the trustees of the Creditors' Trust such of the Compass Mining Creditors' Asset Pool, the Compass Resources Creditors' Asset Pool and the HNC Asset Pool that are available to be transferred upon the Recapitalisation.</li> </ul>
<b>CMPL Creditors' Asset Pool</b>	<ul style="list-style-type: none"> <li>• The assets available for distribution to the CMPL Creditors will be: <ul style="list-style-type: none"> <li>○ \$3,500,000 cash (paid from the Loan Funds) or such lesser amount as is required to pay CMPL's admitted claim in full; and</li> <li>○ to the extent that the admitted claim of CMPL exceeds \$3,500,000, a bond issued by CMR for an amount equivalent to the balance of CMPL's</li> </ul> </li> </ul>

## Compass Resources Limited

## Variation to DOCA – 24 December 2009

	<p>admitted claim subject to a maximum cap of \$3,400,000, maturing 3 years after the termination of the Varied DOCA and paying 10% interest per annum, with interest being capitalised in each year and payable upon maturity of the bond. (together <b>CMPL Creditors' Asset Pool</b>).</p> <ul style="list-style-type: none"> <li>The creditors' claims within the class will rank equally and, if the available CMPL Creditors' Asset Pool is insufficient in any given year to meet the claims of the CMPL Creditors in full, amounts will be paid proportionately and by way of interim dividend.</li> </ul>
<b>CMR Creditors' Asset Pool</b>	<ul style="list-style-type: none"> <li>The assets available for distribution to the CMR Creditors will be: <ul style="list-style-type: none"> <li>\$3,250,000 cash (paid from the Loan Funds);</li> <li>any part of the \$3,500,000 otherwise forming part of the CMPL Creditors' Asset Pool that exceeds the amount of CMPL's admitted claim; and</li> <li>a bond issued by CMR for an amount equivalent to 20% of the aggregate amount of the admitted claims of CMR Creditors plus the <b>Top Up Payment</b> (as specified below) subject to a maximum cap on the bond of \$16,208,769.79, maturing 3 years after the termination of the Varied DOCA and paying 10% interest per annum, with interest being capitalised in each year and payable upon maturity of the bond. (together <b>CMR Creditors' Asset Pool</b>).</li> </ul> </li> <li>The Fund will be applied by the Trustees in the manner and order of priority as follows: <ul style="list-style-type: none"> <li>To pay any liabilities properly incurred by the Deed Administrators and Trustees during the course of the DOCA/Trust (and tail off Administration/DOCA trading liabilities, if any);</li> <li>To pay the Deed Administrators'/Trustees' remuneration and out of pocket expenses in the course of them carrying out their duties;</li> <li>To pay dividends to the priority beneficiaries (if any);</li> <li>To pay dividends to the ordinary beneficiaries (formerly the CMR Creditors ordinary unsecured creditors)</li> </ul> </li> </ul>

## Compass Resources Limited

## Variation to DOCA – 24 December 2009

	<p>whose debts and claims against CMR arose on or before 29 January 2009 and are admitted to proof.</p> <ul style="list-style-type: none"> <li>○ The Top Up Payment will be distributed proportionately, between those CMR Creditors with admitted claims of \$100,000 or less. The Top Up Payment is to pay this subset of the CMR Creditors a final dividend in order that their total return is 100 cents in the dollar on their admitted claims. The Top Up Payment will be capped at an aggregate total of \$300,000.</li> <li>• Section 444DB of the Act applies to the DOCA and the Trust.</li> <li>• If the CMR Creditor's Asset Pool is insufficient to meet the claims of the CMR Creditors in full, amounts will be paid proportionately and by way of interim dividend.</li> </ul>
<b>HNC Asset Pool</b>	<p>The assets available for distribution to HNC will be a bond issued by CMR for \$15,596,999.98 (the full admitted amount of the claim), maturing 3 years after the date of termination of the Varied DOCA and paying 10% interest per annum, with interest being capitalised in each year and payable upon maturity of the bond. (HNC Asset Pool)</p>
<b>New CMR Directors</b>	<ul style="list-style-type: none"> <li>• Existing CMR directors resign or are removed by the deed administrators, upon execution of the Varied DOCA.</li> <li>• After execution of the Varied DOCA but prior to the date of termination of the Varied DOCA, the deed administrator will appoint the new CMR directors (<b>New CMR Directors</b>). These New CMR Directors will be nominated by, and in the number of nominees (or equivalent proportion), stated below: <ul style="list-style-type: none"> <li>○ YA Global: 4 nominee directors.</li> <li>○ Coffee House: 2 nominee directors.</li> </ul> </li> <li>• CMR shall be returned to the New CMR Directors upon termination of the Varied DOCA.</li> </ul>
<b>Other CMR Assets</b>	<ul style="list-style-type: none"> <li>• All other CMR assets (excluding the shares held by CMR in CMPL) remain with CMR, except the Alkane Royalty where YA grants its consent to the sale of the Alkane Royalty.</li> <li>• For clarity, the only assets available for distribution to admitted creditors are the CMPL Asset Pool, the CMR Asset Pool and the HNC Asset Pool.</li> </ul>

## Compass Resources Limited

## Variation to DOCA – 24 December 2009

<b>Funding by YA Global</b>	<p>YA Global will enter into funding agreements with CMR following execution of the Varied DOCA (<b>Loan Funds</b>), conditional upon completion of the Recapitalisation, to fund required payments to the Creditors' Trust and CMR's immediate future working capital requirements, under which:</p> <ul style="list-style-type: none"> <li>• On the day of completion of the Recapitalisation, YA Global will loan CMR sufficient funds (currently estimated at \$19,050,000) for the purpose of enabling CMR to meet its payment obligations under this proposal and its immediate working capital requirements, subject to terms including but not limited to: <ul style="list-style-type: none"> <li>○ interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan;</li> <li>○ funds advanced by YA Global will be repaid by CMR upon the first to occur of: <ul style="list-style-type: none"> <li>▪ the date 3 years after the date of termination of the Varied DOCA; and</li> <li>▪ 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months; and</li> </ul> </li> <li>○ YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default.</li> </ul> </li> <li>• YA Global will loan further funds (to a maximum of approximately \$25,800,000) to the Recapitalised CMR, subject to conditions acceptable to YA Global including, but not limited to: <ul style="list-style-type: none"> <li>○ funds will be provided on a monthly basis to meet future cash calls by the JV Operator based on funding requests by the Recapitalised CMR (such request to be made on or before the 20<sup>th</sup> of the preceding month);</li> <li>○ interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan;</li> <li>○ funds advanced by YA Global will be repaid by</li> </ul> </li> </ul>
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## Compass Resources Limited

## Variation to DOCA – 24 December 2009

	<p>CMR upon the first to occur of:</p> <ul style="list-style-type: none"> <li>▪ the date 3 years after the date of termination of the Varied DOCA; and</li> <li>▪ 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months; and</li> <li>○ YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default.</li> </ul> <ul style="list-style-type: none"> <li>• CMR will grant YA Global a fixed and floating charge over all of its assets to secure the repayment of the advances by it, which will rank: <ul style="list-style-type: none"> <li>○ Second in relation to the Oxide JV interest and Oxide JV Property (behind the HAR security); and</li> <li>○ First in relation to all other assets of CMR.</li> </ul> </li> </ul>
<b>Outstanding Warrants</b>	All outstanding warrants will be cancelled.
<b>Notification of Termination of DOCA</b>	<ul style="list-style-type: none"> <li>• The Deed Administrators will give written notice to the creditors that the DOCA has terminated.</li> </ul>
<b>Enforcement against the company</b>	<ul style="list-style-type: none"> <li>• Consistent with the execution of the earlier DOCA, the company, any officer or member of the company or any creditor bound by the provisions of the DOCA must not make any application to wind up the company, continue any such application or commence or continue any enforcement process in relation to the property of the company.</li> </ul>
<b>Costs during the DOCA</b>	<ul style="list-style-type: none"> <li>• During the course of the DOCA and prior to the Recapitalisation, the Deed Administrators' remuneration and costs shall be paid from funds held by CMR. This does not include cash calls received from HAR in relation to JV Expenditure.</li> </ul>
<b>Committee of Inspection</b>	<ul style="list-style-type: none"> <li>• At the meeting of creditors held to consider this proposal, creditors may appoint a new Committee of Inspection, to replace the existing Committee.</li> <li>• The newly formed Committee (or continuing existing Committee) shall be comprised, as a variation to clause 11</li> </ul>



## Compass Resources Limited

## Variation to DOCA – 24 December 2009

	of Schedule 8A of the Corporations Regulation, of a number of members determined by the creditors at the meeting and may include one shareholder representative as a full member of the Committee.
<b>Other terms</b>	<ul style="list-style-type: none"> <li>• That any other terms and conditions as contained in Schedule 8A of the Corporations Regulations be retained so as to give effect to the DOCA.</li> <li>• Sections 440C and 440D will apply while the DOCA is on foot.</li> </ul>
<b>Termination of DOCA and Creditors' Trust</b>	<ul style="list-style-type: none"> <li>• The DOCA and the appointment of the deed administrators will terminate on the earlier of the following events: <ul style="list-style-type: none"> <li>◦ the conditions precedent to this proposal not being met or waived on or before the required date for satisfaction of them;</li> <li>◦ a resolution to that effect is passed by the creditors at a meeting convened by the deed administrators;</li> <li>◦ upon the execution by the trustees of the Creditors' Trust and simultaneously with the receipt of all relevant assets comprising the Compass Mining Creditors' Asset Pool, the Compass Resources Creditors' Asset Pool and the HNC Asset Pool;</li> <li>◦ otherwise in accordance with the Act; or</li> <li>◦ by an order of the Court.</li> </ul> </li> <li>• The Creditors' Trust will terminate on the earlier of the following events: <ul style="list-style-type: none"> <li>◦ the date that is 80 years after the date that the Creditors' Trust becomes operative;</li> <li>◦ the conditions precedent to this proposal not being met or waived on or before the required date for satisfaction of them;</li> <li>◦ the satisfaction of the admitted claims of creditors in all classes of beneficiaries in full or, if the assets available for distribution to a relevant class of creditors is insufficient to meet the claims of that class of creditors</li> </ul> </li> </ul>

## Compass Resources Limited

## Variation to DOCA – 24 December 2009

	<p>in full, the payment of such amounts (paid proportionately) permitted by the class's available assets;</p> <ul style="list-style-type: none"> <li>○ otherwise in accordance with the Trustees Act or the Trust Deed; or</li> <li>○ by an order of the Court.</li> </ul>
<b>Conditions Precedent</b>	<ul style="list-style-type: none"> <li>• The proposal is subject to and conditional upon: <ul style="list-style-type: none"> <li>○ YA Global being satisfied (in its absolute discretion) with the due diligence to be carried out by it in respect of CMR, the JVs, and the Alkane Royalty.</li> <li>○ CMR not claiming against CMPL in respect of debts incurred by CMR by way of JV expenditure.</li> <li>○ All required regulatory approvals being obtained on conditions satisfactory to YA Global.</li> <li>○ CMR shareholders approving the issue of the new shares.</li> <li>○ HNC relinquishing any claim as to the Convertible Note Funds and its right to convert its debt for equity.</li> <li>○ HAR agreeing in writing to CMR being reinstated as a Non-Defaulting, voting member of the Operating Committees of the Oxide, Sulphide and Regional Exploration JVs.</li> <li>○ YA Global and HAR reaching agreement as to the future operation of the JVs, including an arrangement for payment of CMR's share of JV Expenditure relevant to the period commencing 1 January 2010 to the date of the Recapitalisation.</li> <li>○ HAR agreeing in writing to retire its receivers and managers upon the Recapitalisation.</li> <li>○ CMPL releasing its security over CMR which will occur concurrently with the advance of the loan funds and execution of the Creditors' Trust.</li> </ul> </li> <li>• Any condition precedent may be waived in writing solely at the election of YA Global.</li> <li>• The intended terms of any bonds to be issued by the</li> </ul>



**Compass Resources Limited****Variation to DOCA – 24 December 2009**

	<p>recapitalised CMR must be approved by the relevant parties and YA Global prior to the termination of the Varied DOCA.</p> <ul style="list-style-type: none"><li>• Subject to the two immediately following dot points, all conditions precedent must be satisfied or waived within 90 days of the date of the meeting of creditors to vote upon this proposal, save for the condition precedent as to required regulatory approvals, which must be satisfied within 180 days of the date of the meeting of creditors to vote upon this proposal.</li><li>• At the request of YA Global, the deed administrators may at their discretion extend the final date for satisfying or waiving the conditions precedent, up to a final extended date of 180 days of the date of the meeting of creditors to vote upon this proposal.</li><li>• If any condition precedent is not satisfied or waived by the required date for satisfaction or waiver of that condition, then the deed administrators may convene a meeting of creditors to put an alternate proposal for the reconstruction of CMR or otherwise terminate the Varied DOCA.</li></ul>
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**Compass Resources Limited****Sources of Information**

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

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

**Declarations, Qualifications and Consents****1. Declarations**

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

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

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

**2. Qualifications**

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

Mr Ryan has had over 35 years experience in the accounting profession and he is a Fellow of the Institute of Chartered Accountants in Australia. He has been responsible for the preparation of many expert reports and is involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Chartered Accountant and a Registered Company Auditor with more than 30 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

**3. Consent**

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

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# **Annexure 1**

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## **Proxy Form**

PROXY FORM

COMPASS RESOURCES LIMITED  
(Subject to Deed of Company Arrangement)(Receivers and Managers Appointed)  
ACN 010 536 820

I/We

being a shareholder of Compass Resources Limited entitled to attend and vote at the Meeting,

hereby appoint

Name of Proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the General Meeting of shareholders to be held at 9.30a.m (AEST) on 17 June 2010 in The North Shore Room, Mantra Hotel, 10 Brown Street, Chatswood, Sydney, NSW 2067 and at any adjournment thereof. If no directions are given, the Chairman will vote in favour of all of the Resolutions.

**Voting on Business of the General Meeting**

	For	Against	Abstain
<b>Resolution 1:</b> Issue of shares to YA Global	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 2:</b> Issue of shares to Coffee House	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 3:</b> Approval of grant of security to YA Global	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 4:</b> Appointment of new auditors, Grant Thornton Australia Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In relation to the Resolutions, if the Chairperson is to be your proxy and you do not wish to direct your proxy how to vote on these Resolutions, please place a mark in this box ☐

By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not be counted in calculating the required majority if a poll is called on these Resolutions. The Chairman intends to vote in favour of these Resolutions.

**IF THE CHAIRMAN IS TO BE YOUR PROXY IN RELATION TO THE RESOLUTIONS YOU MUST EITHER MARK THE BOXES DIRECTING YOUR PROXY HOW TO VOTE OR MARK THE BOX INDICATING THAT YOU DO NOT WISH TO DIRECT YOUR PROXY HOW TO VOTE, OTHERWISE THIS APPOINTMENT OF PROXY IN RELATION TO THE RESOLUTION WILL BE DISREGARDED.**

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is: \_\_\_\_\_%

**PLEASE SIGN HERE**

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented. *Executed in accordance with Section 127 of the Corporations Act.*

**Individual or Shareholder 1**

**Joint Shareholder 2**

**Joint Shareholder 3**

<input type="text"/>	<input type="text"/>	<input type="text"/>
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Sole Director & Sole Company Secretary

Director

Director/Company Secretary

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2010

\_\_\_\_\_  
Contact Name

\_\_\_\_\_  
Contact Business Telephone/Mobile

## INSTRUCTIONS FOR COMPLETING PROXY FORM

1. Security holders sponsored by a broker on the CHESS subregister should advise their broker of any changes relating to your securities. Please note, you cannot change ownership of your securities using this form.
2. Completion of a proxy form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid proxy form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
3. A Shareholder entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of a Shareholder's voting rights. If the Shareholder appoints two proxies and the appointment do not specify this proportion, each proxy may exercise half of the votes.
4. A proxy need not be a Shareholder of the Company.
5. If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.
6. If a representative of a company Shareholder is to attend the Meeting, a properly executed original (or certified copy) of the appropriate "Certificate of Appointment of Corporate Representative" should be produced for admission to the Meeting. Previously lodged "Certificates of Appointment of Corporate Representative" will be disregarded by the Company.
7. If a representative as Power of Attorney of a Shareholder is to attend the Meeting, a properly executed original (or originally certified copy) of an appropriate Power of Attorney should be produced for admission to the Meeting.

### 8. Signing Instructions

You must sign this form as follows in the spaces provided:

Individual	Where the holding is in one name, the holder must sign.
Joint Holding	Where the holding is in more than one name, all of the Shareholders should sign.
Power of Attorney	If you are signing under a Power of Attorney, you must lodge an original or certified photocopy of the appropriate Power of Attorney with your completed Proxy Form.
Companies	<p>Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person.</p> <p>If the Company (pursuant to Section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone.</p> <p>Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.</p>

### 9. Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address below not later than 7 p.m. AEST on 15 June 2010 (48 hours before the commencement of the Meeting).

Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Complete and return the enclosed proxy form by either:

1. post addressed to Ferrier Hodgson c/: Clinton Roberts, GPO Box 2537, Perth WA 6001;
2. hand delivery to: Ferrier Hodgson, Level 26, 108 St. Georges Terrace, Perth WA 6001;
3. facsimile marked to the attention of Clinton Roberts at +61 08 9214 1400; or
4. scanned and emailed to [croberts@perth.fh.com.au](mailto:croberts@perth.fh.com.au)

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## **Annexure 2**

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### **Letter from YA Global**



## **A LETTER TO COMPASS SHAREHOLDERS FROM MARK ANGELO**

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

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

This statement seeks to set out who we are, and why we believe you should vote in favour of the shareholder resolutions.

### **Who we are**

YA Global is a limited partnership which invests in and provides finance to listed companies.

Yorkville, a Delaware limited liability company, serves as the investment manager to YA Global.

The managing members and principals of Yorkville are Mark A. Angelo, Matthew J. Beckman, Gerald Eicke and David Gonzalez.

### **Proposal**

As we see the proposal:

- In exchange for being offered new shares in CMR:
  - YA Global and Coffee House release the existing debts owed to them by CMR;
  - YA Global provides CMR with approximately \$19,050,000 immediately to pay HAR and the newly created Creditor's Trust;
  - YA Global enters into a further funding agreement with CMR under which YA Global agrees to advance further funds (up to approximately \$25,800,000);
- CMR will pay \$6,750,000 (from the funds provided by YA) and issue bonds to the newly created Creditor's Trust;
- CMR will pay HAR (from the funds provided by YA) a balancing payment to redress the disparity in contributions to the Joint Ventures by HAR and CMR;
- CMR will be released from all creditors' claims and retain the bulk of its assets for the benefit of post-recapitalisation CMR shareholders; and
- Immediately post-recapitalisation, CMR will operate with a board of directors nominated by YA Global and Coffee House.



## Why vote for the proposal

We believe that the proposal is the best available option for CMR shareholders.

The issue of new shares to YA Global and Coffee House will mean that the shareholdings of existing shareholders are significantly diluted.

We know that most CMR shareholders would prefer not to be diluted.

For our part, YA Global would prefer that its existing \$35.5 million investment in CMR and Coffee House's existing \$37.8 million investment in CMR would have helped make the company tremendously successful for all stakeholders. Instead, YA Global will have to put significant additional cash into CMR to try and achieve that success.

Unfortunately, while we all wish things were different, the position of CMR is what it is, and we are all in the position of having to seek the best available option.

Our understanding is that:

- if our proposal is not approved, then unless an alternative proposal is received, the Company will pass into liquidation;
- prior to receiving our proposal, the administrators did not receive any other DOCA proposals capable of acceptance; and
- in a liquidation of CMR, the return to shareholders is likely to be nil.

On that basis, the likely outcomes of the voting on the shareholder resolutions seem to be:

- the resolutions are not passed, the Company is liquidated, and shareholders receive nothing; or
- the resolutions are passed and (subject to the other conditions to the proposal being met), shareholders retain a shareholding in the recapitalised CMR (albeit a diluted one).

All of this is backed up by the independent expert's report, which sets out that in the opinion of the independent expert, the proposal is fair and reasonable to shareholders, and offers shareholders the potential for some return (as opposed to no return).

As a result, we consider it is in the best interests of shareholders to vote in favour of the resolutions, and we ask you to do so.

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

Yours faithfully,  
YA Global Investments L.P.  
By: Yorkville Advisors, LLC  
Its: Investment Manager



Mark Angelo  
President and Managing Member

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## **Annexure 3**

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### **Nomination of Auditor Letter**



4 May 2010

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

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

Dear Sir

YA Global Investments, L.P., (f/k/a Cornell Capital Partners L.P.), being a member of CMR ACN 010 536 820, hereby nominate Grant Thornton Australia Audit Pty Ltd (Audit Registration No. 327221) of Level 1, 10 Kings Park Road, West Perth 6005 for appointment as auditor of the company at the General Meeting to be convened for 10 June 2010, or as soon as practicable thereafter.

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

Yours Faithfully  
YA Global Investments L.P.  
By: Yorkville Advisors, LLC  
Its: Investment Manager



Mark Angelo  
President and Managing Member