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29 November 2010

Compass Resources Limited
(Subject to Deed of Company Arrangement)
(Receivers and Managers Appointed) (CMR)
ACN 010 536 820
(Formerly Compass Resources NL)

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Update – Arbitration, Officers and Recapitalisation

We refer to the YA Global (YA) DOCA and the recent Arbitration proceedings between CMR and HNC (Australia) Resources Pty Ltd (HAR).

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

Arbitration Background

On the 16 August 2010 the Arbitration matter was heard in order to seek resolution with regards to the following issues:

- To determine whether the payment of the amounts contemplated by the DOCA which has been put forward by YA would remedy the existing Events of Default under the Oxide JV, Sulphide JV and Regional Exploration JV and therefore that each of those joint ventures would be regularised; and
- Whether once the abovementioned payments have been made, the Receivers appointed by HAR to CMR are required to be retired from their appointment under the charges.

The Arbitration proceedings were commenced in order to attempt to satisfy certain conditions precedent under YA's DOCA which contemplated that even if YA could not reach the agreement with HAR as to the way forward under the JVs, depending on the outcome of the Arbitration, YA may be prepared to proceed to Completion under the DOCA.

Arbitration Outcome

On 26 November 2010, the Arbitrator made final orders in the Arbitration which addressed the abovementioned issues as follows:

1. In essence, if Completion occurred under the YA DOCA, subject to the issue discussed at 2. below, CMR's existing Events of Default (and those arising out of Completion) would be remedied, with the consequence that CMR would be a full voting member of the JVs; and



2. Because all of the relevant events for the purposes of Completion have not occurred, the issue of whether the Receivers must be retired by HAR at Completion is not one in relation to which the Arbitrator was prepared to make final orders. That said, CMR was satisfied with the guidance provided by the Arbitrator to the parties, as to the issues that needed to be considered by the Receivers and HAR, in maintaining the appointment of the Receivers, in the event that Completion occurred.

Officers/Staffing

Having regard to CMR's limited funds, the Deed Administrators have issued notices to initiate notice periods for the remaining CMR staff, including the contractual arrangement with CMR's Managing Director, Mr Richard Swann.

We would like to take this opportunity to thank Mr Swann and his team for their efforts during the administration.

Messrs Guest (Company Secretary) and Johansen (Exploration Manager) are expected to be with CMR until early in the New Year when their notice periods expire.

Recapitalisation

We will continue our consultation with YA as to implications of the Arbitration outcome, and as to the next steps in the recapitalisation of CMR. In this regard, we:

- Note that the DOCA has been extended to 31 December 2010 on the basis that YA has agreed to fund certain costs and that a further DOCA variation proposal is received from YA without delay; and
- Understand that, over recent weeks, YA has been involved in extensive negotiations with HAR/HNC as to the way forward, and we anticipate being able to provide an update to creditors in the short term.

For further details regarding the future of the DOCA and CMR, we recommend that shareholders give consideration to future creditor reports/updates particularly Committee of Inspection minutes that will be available from our website:

<http://www.ferrierhodgson.com/en/Current%20Matters/Corporate%20Recovery%20Matters/Compass%20Resources%20Limited.aspx>

Compass Resources Limited

Martin Jones

Joint and Several Deed Administrator

CORPORATE ADVISORY 

FORENSICS 

CORPORATE RECOVERY 