

## ASX ANNOUNCEMENT

9 November 2012

### ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 DECEMBER 2011

Attached are the audited Annual Report and Accounts of Compass Resources Limited (ASX code: CMR) for the period ended 31 December 2011.

Yours faithfully,

A handwritten signature in blue ink that reads "Philip R. Wood".

Philip R. Wood  
Chief Executive Officer  
& Executive Director

Phone: 0438 675 501

Email: [philip.wood@compassresources.com.au](mailto:philip.wood@compassresources.com.au)

#### **Disclaimer**

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

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

ASX Code: CMR

ASX Listed: 15 August 1991

#### **COMPASS RESOURCES LIMITED**

ABN 51 010 536 820

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**Compass Resources Limited**  
**AND ITS CONTROLLED ENTITIES**

A.C.N 010 536 820

**FINANCIAL STATEMENTS**  
**AND**  
**AUDIT REPORT**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2011**

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The Directors present their report together with the financial report of Compass Resources Limited ("the Company") and its controlled entities together, "the Consolidated Entity" for the year ended 31 December 2011 ("Reporting Period") and the Auditor's report thereon.

Other than where expressly stated otherwise, all statements in this report are made solely with respect to the Reporting Period, as at 31 December 2011.

### Directors

The Directors and Company Secretaries of the Company at any time during the Reporting Period and until the date of this report are as follows.

<b>Mark Angelo</b>	Non-executive Chairman (Yorkville Advisors)	Appointed November 2011
<b>Philip Wood</b> B.A. (Syd), LI.B. (Syd), ASIA, Dip.L.C.F (Sorbonne)	Non-executive Director Chief Executive Officer and Executive Director	Appointed June 2012 Appointed August 2012
<b>James Carr</b>	Non-executive Director Managing Director (Yorkville Advisors)	Appointed November 2011 Appointed July 2012
<b>David Gonzalez</b>	Non-executive Director (Yorkville Advisors)	Appointed November 2011
<b>Gerald Eicke</b>	Non-executive Director (Yorkville Advisors)	Appointed November 2011
<b>John Allen</b> LI. M. (Harvard), B.A. (Syd), LI.B. (Hons) (Syd)	Non-executive Director	Appointed June 2012
<b>Richard Swann</b> BE, MBA, FAusIMM	Managing Director	Appointed October 2006 Resigned June 2012
<b>Neil Guest</b> B.B., CPA, F.A.I.C.D., J.P. (NSW)	Company Secretary (and Chief Financial Officer)	Appointed December 2007 Resigned January 2012
<b>Thomas Bloomfield</b> B.A. (Hons), A.C.I.S., M.A.I.C.D.	Company Secretary	Appointed January 2012

#### Mark Angelo

Chairman

Appointed 15 November 2011

President and Managing Member of Yorkville Advisors since co-founding the firm in February 2001. Previously co-head of the Corporate Finance Division of the May Davis Group, a boutique investment bank focused on emerging growth companies. Before joining the May Davis Group, Mr Angelo was a securities trader with The Boston Group L.P., a broker dealer located in New York City. He currently serves on the board of Yorkville Bhn, a company listed on the Italian Stock Exchange. Mr Angelo has not held any other listed company directorships within the last 3 years.

#### Philip Wood, B.A. (Syd), LI.B. (Syd), ASIA, Dip.L.C.F (Sorbonne)

Chief Executive Officer and Executive Director

Appointed Director in June 2012

Appointed Chief Executive Officer in August 2012

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

**James Carr**

Managing Director

Appointed Director 15 November 2011

Appointed Managing Director 10 July 2012

Mr Carr has been at Yorkville Advisors since 2005. He previously worked in various levels of responsibility, including as an engineer for 20 years for companies in data security and telecommunications. He also worked for a year at a venture capital firm helping to fund enterprise software companies. Mr Carr has not held any other listed company directorships within the last 3 years.

**David Gonzalez**

Appointed Non-executive Director 15 November 2011

General Counsel and Managing Member at Yorkville Advisors since 2001, Mr Gonzalez specializes in corporate securities law, hedge fund compliance and regulation as well as Investment Advisor regulation. He is an active member of the Managed Funds Association, ABA Corporate Finance Committee, the ABA Subcommittee on FINRA Rules, the Hispanic Bar Association, and serves on the board of Yorkville Bhn, a listed company on the Italian Stock Exchange.

**Gerald Eicke**

Appointed Non-executive Director 15 November 2011

Managing Member at Yorkville Advisors since 2002, Mr Eicke oversees the asset sales process and manages the firm's team of corporate finance and investment professionals. He is also one of the four members of the firm's Risk and Valuation Committee, and serves on the board of Yorkville Bhn, a company listed on the Italian Stock Exchange.

**John Allen**

Appointed Non-executive Director 28 June 2012

Mr Allen is an expert in providing strategic advice on JV and strategic alliances, mergers and acquisitions, equity, hybrid and debt raising and complex commercial transactions in Australia and Asia. Mr Allen was a partner in Allen, Allen & Hemsley Lawyers for 16 years and has been a director and chairman of a number of private companies. He is Chairman of the China Research Centre at the University of Technology, Sydney. Mr Allen has not held any other listed company directorships within the last 3 years.

**Richard Swann, B.E., M.B.A., F.Aus.I.M.M.**

Managing Director

Appointed Managing Director October 2006 (Resigned June 2012)

Mr. Swann is a mining engineer with over 30 years technical and management experience in the global minerals industry. He has held senior executive positions with international resource companies in Australia and South America. Mr Swann has not held any other listed company directorships within the last 3 years.

**Company Secretary****Neil Guest, BB, CPA, FAICD, JP (NSW)**

Appointed Company Secretary and Chief Financial Officer 1 December 2007

(Resigned 13 January 2012)

Mr Guest has over 10 years' experience as a Chief Financial Officer of Australian public listed companies, with extensive background in enhanced financial control systems. He has over 30 years' accountancy experience. Mr Guest has not held any other listed company directorships within the last 3 years.

**Thomas Bloomfield, BA (Hons), ACIS, MAICD**

Appointed Company Secretary 13 January 2012

Mr Bloomfield has experience working in the Sydney and London offices of international organisations, both 'in-house' and for Boardroom Pty Limited, a corporate services provider. Mr Bloomfield has not held any other listed company directorships within the last 3 years.

**Directors' Meetings**

There were 2 Directors' meetings held during the Reporting Period attended as follows:

**Board Meetings**

	<b>A</b>	<b>B</b>
J. Carr	2	2
R. Swann	2	2
D. Gonzalez	2	2
G. Eicke	2	2
M. Angelo	1	2

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the Reporting Period.

**Committee Meetings**

There were no Audit or Remuneration Committee meetings during the Reporting Period. Voluntary Administrators were appointed on 29 January 2009 and the appointment continued until 15 November 2011.

**Corporate Governance**

The Company does not include a corporate governance statement due to it being under the control of the Voluntary Administrators from the start of the Reporting Period until 15 November 2011. On 15 November 2011, the Company came out of administration and the Board is currently working on reinstating appropriate corporate governance practices.

**Consolidated Result**

The net profit of the Consolidated Entity was \$22.1mil (December 2010: loss of \$13.9mil).

**Principal Activities**

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

During this period, the Company was not a voting member under the three joint venture agreements.

Subsequent to the DOCA coming into effect, YA Global Investments L.P. (YA) and HAR sought to negotiate terms on which the Company could be reconstructed and return to being a voting member under the three joint venture agreements.

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

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

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

As a consequence of completion occurring, the DOCA terminated. Simultaneously the CMR Creditors Trust was created as a mechanism to accelerate the Company's exit from external administration by transferring the relevant creditors' claims from the Company to the Trust.

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

- **Browns Project Joint Ventures**  
The Company's primary focus continues to be the progression of its three joint ventures with HNC.

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

Of these joint ventures:

- Sulphide Joint Venture: The present goal of the Sulphide Joint Venture is to determine the economic feasibility of pursuing the Browns Sulphide Project by acquiring new mineral samples and performing testwork in order to initiate a feasibility study.

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

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

- Oxide Joint Venture: The plant at Browns East that is part of the Oxide Joint Venture is currently in a mothballed state and is being maintained by the Joint Venture Operator. Under the terms of the Browns Oxide Project Joint Venture (JV), ownership of the Browns Oxide Plant ("the Plant") is shared between the JV parties in proportion to their respective cash contributions. This has resulted in the Company and HNC respectively owning 66% and 34% of the Plant. The value of the Plant on the Company's statement of financial position has been adjusted to reflect this position. The percentage of the Plant ownership is still a best estimate, although the Company is not aware of any disagreement from HNC and the proportion of the Plant has not yet been finalised. Please refer to Note 14.
- Regional Exploration Joint Venture: The Regional Exploration Joint Venture will continue to explore the Joint Venture tenements and continues to spend money on exploration. The Company has commissioned a FALCON Airborne Gravity Gradiometry, Magnetics and DTM Survey for December 2012 that, in conjunction with the EM/magnetic survey that was conducted in 2010, will help identify target locations for possible drilling.

- **Other Operations**

- Wholly-owned Northern Territory Tenements: The Company is exploring its wholly-owned tenements near Batchelor in the Northern Territory. The FALCON Airborne Gravity Gradiometry, Magnetics and DTM Survey will also include these tenements. The Company has been approached by parties interested in iron, manganese and uranium ore potential on these tenements and intends to further investigate the possibility of forming joint ventures to explore these areas with interested parties or the outright sale of the Company's tenements.
- New South Wales Tenements: The Company has joint ventures with Platsearch and Thomson Resources for tenements in NSW, some of which have been released due to new government regulations. The Company will continue to deal with these tenements in accordance with the terms of the joint ventures.
- Peru Tenement: The Company also has a 70% owned tenement in Peru (the Nangali Gold Project) and is considering its options with respect to this.

### **Key Business Strategies and Future Prospects**

The Consolidated Entity's business strategies and prospects for growth in future financial years have not been included in this report, as they are still under development after emerging from Voluntary Administration.

### **Proceedings on Behalf of the Consolidated Entity**

During the Reporting Period, no person applied for leave of Court to bring proceedings on behalf of the Consolidated Entity or intervene in any proceedings to which the Consolidated Entity is a party. The Consolidated Entity was not a party to any such proceedings during the Reporting Period.

### **Remuneration Report**

The Remuneration Report is set out on page 7 and forms part of this report.

### **Environmental Regulation**

The Consolidated Entity's operations are subject to environmental regulation under Northern Territory legislation in relation to its exploration and development activities.

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

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

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

**Non-Audit Services Provided by Auditor**

KPMG resigned as Auditor in August 2011 and no non-audit services were provided by KPMG in addition to its statutory duties as Auditor.

Grant Thornton Audit Pty Ltd was appointed Auditor at the General Meeting of Shareholders in August 2011. Grant Thornton has not performed any other non-audit services since the appointment.

**Auditor's Independence Declaration**

The Auditor's Independence Declaration as required under s307c of the Corporations Act 2001 is set out on page 11 and forms part of the Directors' Report.

**Dividends**

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

**Directors' Interests and Benefits**

The relevant interest of each Director in the capital of the Company as notified by the Directors to the Australian Stock Exchange (ASX) as at the date of this report is as follows:

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

**Share Options****Options granted to key management personnel**

No options were granted to key management personnel during or since the end of the Reporting Period.

**Share Options Cancelled**

During or since the end of the Reporting Period, no unexercised unlisted employee options have been cancelled.

**Shares Issued on Exercise of Options**

During or since the end of the Reporting Period, no options were exercised.

**Partly Paid Shares Paid In Full**

During or since the end of the Reporting Period, there were no partly paid employee shares reissued as fully paid ordinary shares pursuant to call notices.

**Indemnification and Insurance of Officers****Insurance Premiums**

During and since the end of the Reporting Period, insurance premium was paid for indemnification of Directors and Officers of the Company.

**Indemnification**

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

**Rounding Off**

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

**Significant Changes in the State of Affairs**

These are described under the heading 'Principal Activities' on pages 3 and 4.



**Events Subsequent to Reporting Date**

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

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

In April 2012:

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

Mr Richard Swann resigned as Managing Director with effect from 29 June 2012. Mr James Carr was appointed by the Board as Managing Director on 9 July 2012. The Board appointed Mr Philip Wood and Mr John Allen as Non-executive Directors of the Company effective 28 June 2012. Mr Philip Wood was appointed Chief Executive Officer and Executive Officer of the Company on 22 August 2012.

**Future Developments**

Subsequent to the completion of the DOCA on 15 November 2011, the Company is working toward a re-listing, with a view to eventually repositioning the Company as a significant mining and exploration company in Australia.

The Company has been informed by ASX that in order for the Company's shares to be re-instated to trading on ASX, ASX will require (among other things) the Company to demonstrate that it has cash of at least \$1,000,000 net of all debt. This is to demonstrate to ASX that the Company meets the requirements of listing rule 12.2. The Company does not presently meet this requirement. The Company has submitted to ASX that this requirement is not appropriate in the Company's case, and that ASX should apply different conditions in determining whether the Company meets the requirements of listing rule 12.2. The Company is awaiting a response from ASX. If ASX does not agree with the Company's submission, and continues to require as a condition of reinstatement that the Company has cash of at least \$1,000,000 net of all debt, then if the Company is to meet the reinstatement requirement it will need to raise additional capital or otherwise eliminate debt.

The Company has the support of YA by way of the deeds of facility between the Company and YA.

Signed in accordance with a resolution of the Directors.



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Philip R Wood  
Chief Executive Officer  
& Executive Director

Sydney  
8<sup>th</sup> November 2012

This report outlines the remuneration arrangements in place for directors and executives of the Company.

#### **Principles of compensation**

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

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

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

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

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

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

#### **Remuneration committee**

The Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and the senior management team.

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

#### **Remuneration structure**

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

#### **Non-executive director remuneration**

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

#### **Structure**

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

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

Each non-executive director either receives a fee for being a director of the company or, if other services are provided, under a consultancy agreement. An additional fee may be payable for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees. However, there are presently no board committees.

The remuneration of non-executive directors for the year ended 31 December 2011 is detailed in this report.

#### **Senior manager and executive director remuneration**

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

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

## Remuneration Report

Remuneration consists of the following key elements:

- Fixed Remuneration
- Performance linked remuneration

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

### Fixed Remuneration

#### Objective

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

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

#### Structure

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

The fixed remuneration component of all of the senior managers is detailed in this report.

### Performance-linked remuneration

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

### Variable Remuneration - Short Term Incentive (STI)

#### Objective

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

#### Structure

STI to executives are delivered in the form of cash.

### Variable Remuneration - Long Term Incentive (LTI)

#### Objective

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

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

The Board shall also determine the number of options which each staff member shall be invited to acquire in accordance with the LTI plan.

#### Structure

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

The following vesting schedule will apply to grants made under the LTI plan:

1st anniversary after grant date	33.3%
2nd anniversary after grant date	33.3%
3rd anniversary after grant date	33.4%

### Service agreements

Mr Richard Swann was employed on 21 August 2006 and appointed Managing Director of the Company on 9 October 2006. Mr Swann's contract has an initial term of three years and was extended by mutual agreement on the 21 August 2009 and 3 February 2011. Mr Swann resigned as Managing Director and Director on 29 June 2012.

The Company entered into a service agreement with Neil Guest as Chief Financial Officer on 1 December 2007. Mr Guest's service agreement was extended 2 February 2011. After this date, Mr Guest was engaged as a consultant to the Company and resigned from this role on 13 January 2012.

The Company entered into a service agreement with Garry Johansen as General Manager of Exploration on 17 June 2008. This service agreement expired on 2 February 2011, and on the 3 February 2011 the Company engaged Mr Johansen as a consultant to advise the Company were appropriate.

Mr Philip Wood was appointed as a Non-executive Director of the Company on 28 June 2012. Mr Wood was appointed Chief Executive Officer and Executive Director of the Company on 21 August 2012.

#### **Key Management Personnel Compensation**

The following were key management personnel of the Consolidated Entity at any time during the Reporting Period.

##### **Non-executive directors:**

Mr. J. Carr

Mr. D. Gonzalez

Mr. G. Eicke

Mr. M. Angelo

##### **Executive directors:**

James Carr (Director appointed November 2011, Managing Director, appointed July 2012)

Mr R. Swann (Managing Director, appointed 9 October 2006, resigned 29 June 2012).

##### **Executives:**

Mr Neil Guest (Chief Financial Officer, appointed 1 December 2007, Company Secretary appointed 1 February 2008, resigned January 2012).

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

## Remuneration Report



## Director and key management remuneration for the year ended 31 December 2011

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

		Short term employee benefits			Post-employment benefit		long term benefits	Equity-settled share based payments		Total
		Salary & Fees	Profit share and bonuses	Non-monetary/ others	Pension and Superannuation	others		Shares/ Units	Options /Rights	
<b>Non-Executive Directors</b>										
Mr J. Carr	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-
Mr D. Gonzalez	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-
Mr G. Eicke	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-
Mr M. Angelo	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-
These Non-executive Directors have not received any remuneration during the Reporting Period.										
<b>Executive Directors</b>										
Mr R Swann*†	2011	131,109	-	-	-	-	-	-	-	131,109
	2010	-	-	-	-	-	-	-	-	-
<b>Key Management</b>										
Mr N Guest*†	2011	135,948	-	-	2,476	-	-	-	-	138,424
	2010	300,000	-	-	-	-	-	-	-	300,000
Mr G Johansen*	2011	106,763	-	-	1,968	-	-	-	-	108,731
	2010	214,532	-	-	-	-	-	-	-	214,532
<b>TOTAL 2010</b>		<b>514,532</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>514,532</b>
<b>TOTAL 2011</b>		<b>373,820</b>	<b>-</b>	<b>-</b>	<b>4,444</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>378,264</b>

\* Effective from 3 February 2011, CMR entered into service agreements with Mr Swann, Mr Guest and Mr Johansen. In 2011, Mr Swann, Mr Guest and Mr Johansen received service fees of \$131,109, \$93,305 and \$74,250 respectively.

† Mr R Swann resigned 29 June 2012; Mr N Guest resigned 13 January 2012.

**Fair values of options:**

No options have been issued to Directors or Key Management Personnel during the Reporting Period.



# Grant Thornton

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Compass Resources Limited for the year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

M J Hillgrove  
Partner – Audit & Assurance

Perth, 8 November 2012

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		Consolidated Group	
		2011	2010
	Notes	\$'000's	\$'000's
Revenue	4	57,511	267
Finance income	8	33	71
Income		57,544	338
Employee benefits expense	5	(26)	(665)
Legal and professional expenses		(734)	(1,214)
Tenement expenditure		(449)	(424)
Appointees fees and disbursements	6	(616)	(686)
Other corporate and administration expense		(481)	(728)
JV operating expenditure	7	(3,958)	(6,662)
Finance costs	8	(2,099)	(3,848)
Inventory impairment	9	(1,880)	-
Adjustment due to re-instatement in JVs	14	(25,233)	-
Miscellaneous expenditure		-	(21)
Profit/(loss) before income tax		22,068	(13,910)
Income tax expense	10	-	-
Profit/(loss) for the period		22,068	(13,910)
Other comprehensive income for the year		-	-
Other comprehensive income for the year net of tax		22,068	(13,910)
Total comprehensive income/(loss) for the year		22,068	(13,910)
Attributable to:			
Equity holders of the parent		22,068	(13,910)
Basic earnings/(loss) per share	19	7.28 cents	(9.62 cents)
Fully diluted earnings/(loss) per share	19	7.28 cents	(9.62 cents)

The accompanying notes form part of these financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2011



		Consolidated Group	
	Notes	2011	2010
		\$'000's	\$'000's
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	11	3,029	1,524
Current receivables	12	108	-
Assets held for sale	13	5,000	-
Other assets		188	-
<b>Total current assets</b>		<b>8,325</b>	<b>1,524</b>
<b>Non-current assets</b>			
Non current receivables	12	94	783
Property, plant and equipment	14	48,970	73,430
Deferred exploration, evaluation and development costs	15	31,505	27,394
<b>Total non-current assets</b>		<b>80,569</b>	<b>101,607</b>
<b>Total assets</b>		<b>88,894</b>	<b>103,131</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	479	56,916
Loans and borrowings - current	17	15,850	88,933
<b>Total current liabilities</b>		<b>16,329</b>	<b>145,849</b>
<b>Non-current liabilities</b>			
Restoration provision		1,364	1,364
Loans and borrowings - non current	17	38,713	-
Deferred revenue	15	4,248	-
<b>Total non-current liabilities</b>		<b>44,325</b>	<b>1,364</b>
<b>Total liabilities</b>		<b>60,654</b>	<b>147,213</b>
<b>Net assets</b>		<b>28,240</b>	<b>(44,082)</b>
<b>Equity</b>			
Issued capital	18	202,425	152,171
Reserves	18	15,354	15,354
Accumulated losses		(189,539)	(211,607)
<b>Total equity attributable to equity holders of the parent</b>		<b>28,240</b>	<b>(44,082)</b>
<b>Total equity</b>		<b>28,240</b>	<b>(44,082)</b>

*The accompanying notes form part of these financial statements*



# Consolidated Statement of Cash Flows

For the year ended 31 December 2011



		Consolidated Group	
	Notes	2011 \$'000's	2010 \$'000's
Cash flows from operating activities			
Cash received from customers		7,462	267
Cash paid to suppliers and employees		(5,438)	(4,088)
Cash used in operations		2,024	(3,821)
Interest received		33	-
Net cash from operating activities	25	2,057	(3,821)
Cash flows from investing activities			
Proceeds from interest		-	71
Payments / receipts for exploration and evaluation expenditure		(550)	-
Net cash from investing activities		(550)	71
Cash flows from financing activities			
Payment of borrowings		(2)	-
Net cash from/(used in) financing activities		(2)	-
Net decrease in cash and cash equivalents		1,505	(3,750)
Cash and cash equivalents at 1 January		1,524	5,274
Cash and cash equivalents at 31 December	11	3,029	1,524

*The accompanying notes form part of these financial statements*

# Statement of Changes in Equity

For the year ended 31 December 2011



Consolidated Group	Share capital \$'000's	Share option reserve \$'000's	Retained earnings \$'000's	Total \$'000's
Balance at 1 January 2011	152,171	15,354	(211,607)	(44,082)
Total profit for the period	-	-	22,068	22,068
Other comprehensive profit/(loss) for the period	-	-	-	-
Issue of ordinary Shares	50,254	-	-	50,254
Balance at 31 December 2011	<u>202,425</u>	<u>15,354</u>	<u>(189,539)</u>	<u>28,240</u>
Balance at 1 January 2010	152,171	15,354	(197,697)	(30,172)
Total loss for the period	-	-	(13,910)	(13,910)
Other comprehensive profit/(loss) for the period	-	-	-	-
Balance at 31 December 2010	<u>152,171</u>	<u>15,354</u>	<u>(211,607)</u>	<u>(44,082)</u>

*The accompanying notes form part of these financial statements.*

## 1. Reporting Entity

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

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

The financial statements were approved by the Board of Directors with effect on 8<sup>th</sup> November 2012.

## 2. Basis of Preparation

### (a) Statement of compliance

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

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

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

### (b) Going concern

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

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

Under the terms of the Further Revised DOCA, which was approved at the Extraordinary General Meeting (EGM) on 18 August 2011, upon implementation of the Proposal, the Company will amongst other things:

- be released from all Creditors' claims. Thereafter, such claims will simply give rise to rights as a beneficiary in a Creditors' Trust;
- issue new shares to YA (1,083,618,669) and Coffee House (172,722,511) in exchange for release of the admitted debts owed to them at 29 January 2009; (note this resolution was passed at the EGM held 18th August 2011);
- borrow funds from YA under three loan agreements which will enable the Company to meet its payment obligations under the Further Revised DOCA including:
  - payments to the Creditor's Trust;
  - dealing with Compass's debts to HNC and HAR; and
  - to fund the Company's future cash calls by the JV Operator;
- grant security to YA to secure the repayment of the Loan Funds; (note this resolution was passed at the EGM held 18th August 2011);
- a funding agreement is yet to be reached for ongoing Corporate and Administrative expenses;
- issue a secured Bond to HNC in satisfaction of the Company's existing debt to HNC, estimated to be \$16m at Completion, the principal amount of which will be convertible (if HNC so elect) into 10.4% of the Company's Shares; (note this resolution was passed at the EGM held 18th August 2011);
- pay HAR \$7,500,000 and issue a secured Bond to HAR in satisfaction of the Company's existing debt to HAR, estimated to be \$29M at Completion;

- retain all its mining assets for the benefit of post-recapitalisation the Company's Shareholders;
- issue unsecured Bonds to the Trustees of the Creditors' Trust for distribution to certain classes of creditors, which Bonds are payable three (3) years from implementation of the Proposal;
- release its claim against Compass Mining Pty Limited (CMPL);
- following re-quotation of the Company's shares on the ASX, issue the New Options to Shareholders; and
- operate with a board composed of the Nominee Directors, nominated by YA and Coffee House, together with a further suitably qualified person from among nominees put forward by other shareholders.

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

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

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

As the DOCA has been concluded, the company is in the process of seeking re-quotation of its shares to the ASX. One of the requirements of the relisting is that the Company must have \$1,000,000 cash net of debt. This will require the Company to raise additional capital.

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

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

The consolidated entity has reported a net profit for the period of \$22.1 mil (2010: loss of \$13.9 mil) and a cash inflow from operating activities of \$2.1 mil (2010: a cash outflow of \$3.8 mil). The current liabilities exceed current assets by 8.0 mil (2010:\$144.3 mil).

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

#### (c) Functional and presentation currency

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

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

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

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

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

### 3. Significant accounting policies

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

#### (a) Basis of consolidation

##### (i) Subsidiary

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

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

##### (ii) Transactions eliminated on consolidation

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

#### (b) Jointly controlled operations and assets

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

#### (c) Foreign currency

##### (i) Foreign currency transactions

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

##### (ii) Foreign operations

Foreign currency differences are recognised directly in equity.

#### (d) Financial instruments

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

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

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value adjusted by transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

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

##### (i) Financial assets

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

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

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

## Notes to Financial Statements

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

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

### (ii) Loans and receivables

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All other available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

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

### (vi) Financial liabilities

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

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

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

### (vii) Derivative financial instrument

## Notes to Financial Statements

A specific accounting treatment is required for derivatives designated as hedging instruments in cash flow hedge relationships. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All other derivative financial instruments are accounted for at fair value through profit or loss.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

### (e) Share capital

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

### (f) Property, plant and equipment

#### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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

#### (ii) Subsequent costs

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

### (g) Intangible assets

#### (i) Exploration and Evaluation

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

#### (ii) Research and Development

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

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

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

### (h) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value

## Notes to Financial Statements

and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

### (i) Impairment

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

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

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

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

### (j) Non-current assets classified as held for sale

When the Group intends to sell a non-current asset and if sale within 12 months is highly probable, the asset is classified as "held for sale" and presented separately in the statement of financial position.

Assets classified as "held for sale" are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Once classified as "held for sale", the assets are not subject to depreciation or amortisation.

### (k) Employee benefits

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

**Defined contribution superannuation funds**

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

**Other long-term employee benefits**

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

#### (ii) Short term benefits

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

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

#### (iii) Share-based payment Transactions



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

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

## **(l) Provisions**

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

### **Dismantling and rehabilitation**

Provision is made for close-down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) at the end of mine life in the accounting period when the obligation arises, based on the estimated future costs. At the time of establishing the provision, a corresponding asset is recognised (where it gives rise to a future benefit) and is depreciated.

## **(m) Lease payments**

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

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

## **(n) Finance income and expenses**

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

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

## **(o) Cash and cash equivalents**

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

## **(p) Income tax**

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

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

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

## Notes to Financial Statements

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

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

### (q) Goods and services tax

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

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

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

### (r) Earnings per share

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

### (s) Segment reporting

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

The Group has only one material segment, being the mineral exploration and development segment in Australia. This operating segment is managed solely by the Group.

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

- post-employment benefit expenses
- expenses relating to share-based payments
- research costs relating to new business activities
- revenue, costs and fair value gains from investment property

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

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

### (t) Revenue Recognition

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods.

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

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

### (u) Inventory

Inventories are measured at the lower of cost and net realisable value. The costs of mining stocks include direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

### (v) Borrowing Costs

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

**(w) Comparative Figures**

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

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

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

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

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

***AASB 9 Financial Instruments (effective from 1 January 2015)***

The AASB aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

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

**Consolidation Standards**

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

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

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements (AASB 127) and Interpretation 112 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same. There will be no impact on the Company's consolidation and financial statements.

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

AASB 11 supersedes AASB 131 Interests in Joint Ventures (AASB 131). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, AASB 131's option of using proportionate consolidation for joint ventures has been eliminated. AASB 11 now requires the use of the equity accounting method, which is currently used for investments in associates. The directors are still considering the full impact of the standard. An immediate impact will be that those joint venture assets and liability disclosures by separate line items in the Consolidated Statement of Financial Position will no longer be disclosed as such and will appear via the equity accounting method. Details of these balances are disclosed in note 15 to the financial statements.

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

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

***AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income***

AASB 2011-9 requires an entity to group items presented in other comprehensive income into those that, in accordance with other Australian Accounting Standards: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

***AASB 119 (September 2011)***

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

- o eliminate the 'corridor method', requiring entities to recognise all gains and losses arising in the Reporting Period

## Notes to Financial Statements

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

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

### **(y) Significant management judgement in applying accounting policies**

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

#### **Significant management judgement**

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

#### **Proportion of ownership of the Browns Oxide Project Plant (the Plant)**

Under the terms of the Browns Oxide Project Joint Venture, ownership of the Plant is shared between the JV parties in proportion to their respective cash contributions. This has resulted in the Company and HNC respectively owning 66% and 34% of the Plant. The value of the Plant on the Company's statement of financial position has been adjusted and the Company's carrying value of Mining and Processing Equipment has been reduced by \$25.3 mil to reflect this portion. (Refer to Note 14). The percentage of the Plant ownership is still a best estimate, although the Company is not aware of any disagreement from HNC and the proportion of the Plant has not yet been finalised

#### **Recognition of deferred tax assets**

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions. There are a number of transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Current tax liabilities and assets are recognised at the amount expected to be paid to or recovered from the taxation authorities.

#### **Impairment**

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, the Directors sought valuations of the assets by independent valuers to estimate the present value of the assets. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.

	Consolidated Group	
	2011	2010
	\$'000's	\$'000's
<b>4. Revenue</b>		
Receipt of security bond	70	-
Forgiveness of debt*	23,082	-
Forgiveness of cash contributions by HAR	21,092	-
CMR cash call write-back†	13,042	-
Miscellaneous income	225	267
	<u>57,511</u>	<u>267</u>

\* As one of the completion terms of the DOCA, the loan balances due to Coffee House Group and Cornell Corporation which amounted to approximately \$73.3 mil was fully settled with the issuance of shares at approximately \$50.3 mil resulting in the gain of \$23 mil.

† Subsequent to the completion of the DOCA, the Company resumes its 50% participating shares of the Brown Project Joint Ventures. The gain reflects write-back of the previous CMR's cash calls being written-off during the voluntary administration.

#### 5. Personnel expenses

Wages and salaries	18	538
Other associated personnel expenses	1	33
Contributions to defined contribution superannuation funds	7	94
	<u>26</u>	<u>665</u>

#### 6. Appointees fees and disbursements

Administrators fees and disbursements	616	686
	<u>616</u>	<u>686</u>

#### 7. JV operating expenditure

Post VA called sums that CMR has failed to pay and which have been the subject of Contribution Notices paid by HAR.	-	4,230
Called sums that CMR has failed to pay and which have been the subject of Contribution Notices paid by HAR.	-	89
Interest on called sums that CMR has failed to pay and which have been the subject of Contribution Notices paid by HAR.	420	2,343
Care and maintenance expenses of the Oxide JV	3,538	-
	<u>3,958</u>	<u>6,662</u>

#### 8. Finance income and expenses

Interest income	33	71
Finance expenses		
Interest expense on financial liabilities	5	1
Interest expense on borrowings	685	3,847
JV interest in regards to forgiveness for the cash calls of HAR	1,409	-
	<u>2,099</u>	<u>3,848</u>
Net finance income/(expenses)	<u>(2,066)</u>	<u>(3,777)</u>

#### 9. Joint venture inventory impairment

Inventory - Stockpiles	1,504	-
Inventory - Stores	376	-
	<u>1,880</u>	<u>-</u>

## Notes to the Financial Statements

Consolidated Group	
2011	2010
\$'000's	\$'000's

### 10. Income tax expense in the income statement

The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective tax rate of Compass Resources Limited at 30% (2010: 30%) and the reported tax expense in profit or loss are as follows:

(a) The components of income tax expense comprise:

Current income tax		
Current income tax charge	8,089	-
Recognition of previously unused tax losses	(8,089)	-
Deferred tax	(8,192)	(4,173)
Deferred tax not recognised	8,192	4,173
	-	-

(b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

Profit before tax	22,068	(13,910)
Domestic tax rate for Compass Resources Limited	30%	30%
Prima facie tax benefit	6,620	(4,173)
Effect of tax losses not recognised	-	4,173
Recognition of temporary differences	1,468	-
Recognition of previously unused tax losses	(8,089)	-
Income tax expense /(benefit)	-	-

It is expected that the current year taxable profit can be offset against brought forward losses. The Company will need to consider professional taxation advice in the future as to the availability of such losses having regard to the Creditor's Trust and other pertinent issues.

### 11. Cash and cash equivalents

Cash at bank	1,705	1,524
Restricted cash	1,324	-
Cash and cash equivalents	3,029	1,524

Restricted cash represents the environmental bond held by the bank which is under administration of the NT state government.

### 12. Receivables

Current receivables		
Other receivables	1,925	1,817
Provision for impairment	(1,817)	(1,817)
	108	-
Non-current receivables		
Other receivables	512	1,201
Provision for impairment	(418)	(418)
	94	783

### 13. Assets classified as held for sale

The carrying amount of asset is summarised as follows:

Non current assets		
Exploration, evaluation and development costs*	5,000	-
Assets classified as held for sale	5,000	-

\* This is related to disposal of royalty over Tomingley Gold Project in April 2012. Please refer to Note 31 for details.

	Consolidated Group	
	2011	2010
	\$'000's	\$'000's
<b>14. Property, plant and equipment</b>		
Plant and equipment		
Plant and equipment:		
At cost	4,343	4,343
Accumulated depreciation	(1,232)	(1,232)
Accumulated impairment losses	(1,585)	(1,585)
<b>Total Plant &amp; Equipment</b>	<b>1,526</b>	<b>1,526</b>
Fixture and fittings		
Fixture and fittings:		
At cost	101	101
Accumulated depreciation	(70)	(70)
Accumulated impairment losses	(31)	(31)
<b>Total Fixture and fittings</b>	<b>-</b>	<b>-</b>
Mining and processing equipment		
Mining and processing equipment:		
At cost	147,651	146,878
Accumulated depreciation	(3,649)	(3,649)
Accumulated impairment losses	(71,325)	(71,325)
Adjustment due to re-instatement in JVs <sup>a</sup>	(25,233)	-
<b>Total Mining and processing equipment</b>	<b>47,444</b>	<b>71,904</b>
<b>Total property, plant and equipment</b>	<b>48,970</b>	<b>73,430</b>

<sup>a</sup> Under the terms of the Browns Oxide Project Joint Venture, ownership of the Browns Oxide Plant (the Plant) is shared between the JV parties in proportion to their respective cash contributions. This has resulted in the Company and HNC respectively owning 66% and 34% of the Plant. The value of the Plant on the Company's statement of financial position has been adjusted to reflect this portion. The percentage of the Plant ownership is still a best estimate, although the Company is not aware of any disagreement from HNC and the proportion of the Plant has not yet been finalised. This adjustment was required following the re-instatement of the Company to the JVs on 15 November 2011.

#### Reconciliations of carrying amounts at the beginning and end of the period

	Consolidated Group			
	Plant and equipment	Fixtures & fittings	Mining & processing	Total
	\$'000's	\$'000's	\$'000's	\$'000's
Balance at 1 January 2011	1,526	-	71,904	73,430
Additions	-	-	773	773
Disposals	-	-	-	-
Depreciation charge for the year	-	-	-	-
Adjustment due to re-instatement in JVs	-	-	(25,233)	(25,233)
<b>Balance at 31 December 2011</b>	<b>1,526</b>	<b>-</b>	<b>47,444</b>	<b>48,970</b>
Balance at 1 January 2010	1,526	-	71,904	73,430
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation charge for the year	-	-	-	-
Impairment for the year	-	-	-	-
<b>Balance at 31 December 2010</b>	<b>1,526</b>	<b>-</b>	<b>71,904</b>	<b>73,430</b>

## Notes to the Financial Statements

Consolidated Group	
2011	2010
\$'000's	\$'000's

### 15. Intangible Assets - Exploration and Mining Expenditure

Mining development – mining reserves acquired	25,696	20,282
Mining development – capitalised exploration	16,671	15,572
Oxide care and maintenance cost transferred out	(2,402)	-
Provision for impairment of mining development†	(8,460)	(8,460)
	<u>31,505</u>	<u>27,394</u>

Costs carried forward in respect of areas of interest in the exploration and/or evaluation is as follows.

Opening balance, at costs	27,394	27,394
Additions incurred in current period	11,513	-
Royalty transferred to asset held for sale^	(5,000)	-
Oxide care and maintenance cost transferred out	(2,402)	-
	<u>31,505</u>	<u>27,394</u>

† On 29 January 2009, the Consolidated Entity went into Administration, as a result of which the Directors needed to consider if any of the assets were impaired. The Directors sought valuations of the assets. AMC Consultants Pty Ltd provided the fair market calculation on the tenements and Alkane royalty originally obtained during April 2010 and subsequently updated during June 2011.

^ The Alkane Royalty (Tomingley Gold Project) was subsequently sold in April 2012 at an amount in excess of its current carrying value. Please refer to Note 31 for details.

### Interest in joint venture operations

#### Jointly controlled assets

The Group, jointly with other participant, owns the exploration and production assets of the Browns Project. The Group's share is 50%, other than the Brown's Oxide plant which is at 66% (refer to Note 14).

Summarised financial statement information for the Group's share of jointly controlled assets and the operations is disclosed below:

Consolidated Group	
2011	2010
\$'000's	\$'000's
<b>Current assets</b>	
Cash and cash equivalents	1,164
Current receivables	53
Other assets	189
	<u>1,406</u>
<b>Non-current assets</b>	
Non current receivables	11
Property, plant and equipment	773
Deferred exploration, evaluation and development costs	11,513
	<u>12,297</u>
<b>Current liabilities</b>	
Trade and other payables	420
	<u>420</u>
<b>Non-current liabilities</b>	
Deferred revenue	4,248
	<u>4,248</u>

Net jointly controlled asset value as at 31 December 2011 is \$9,035,956.



## Notes to the Financial Statements

### 15. Intangible Assets - Exploration and Mining Expenditure (continued)

#### Interest in joint venture operations (continued)

The Consolidated Entity has entered into joint ventures for the purpose of mineral exploration and as follows:

##### *Browns/Browns East/Area 55/ Mt. Fitch Projects - NT*

The Company (90%) and its wholly owned subsidiary Guardian Resources Pty. Ltd. (10%) hold 100% of these projects. These projects are subject to the Company's agreements with Hunan Nonferrous Metals Corp covering the Oxide Mining Joint Venture, the Sulphide Mine Development Joint Venture, the Regional Exploration Joint Venture, under which each party will hold a 50% joint venture interest.

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

##### *Batchelor Iron Ore - NT*

Under an agreement with the Company (90%) and its wholly owned subsidiary Guardian Resources Pty. Ltd. (10%), Territory Resources Ltd. will test the iron ore mining potential of and, if positive, mine iron ore in sections of ERL 125, ERL 146 and ML N1163 north of the Browns Leases. Under the agreement Territory has paid the Company/Guardian Resources \$150,000 in 2004 and annually pays \$50,000 pending a development decision or withdrawal. These payments are non-refundable advances against the purchase by Territory of ore ex-mine gate at \$1 per tonne plus or minus an adjustment for ore grades more or less than 60% iron.

##### *Cuttaburra/Yancannia - NSW*

The Company holds this project subject to an agreement with Bohuon Resources Pty. Ltd., whereby the Company will pay a success fee in the event of mine development, equivalent to a 3% Net Profits Interest or \$3 million, at the Company's election.

##### *Alectown Southeast NSW*

A majority of the joint venture area was relinquished in 2007 (Alectown East/Houston Exploration Licences). Defined sections in the Alectown Southeast tenement is subject to a joint venture with Metallic Resources Pty Ltd whereby the Company funds coventurer's 10%. The balance of the tenement area is held 100% by the Company.

##### *Nangali - Peru*

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

Included in the assets of the Company and the group are mining tenements which represent the Company and consolidated entities interest in the assets and liabilities in the Joint Ventures.

##### *Current status of joint venture operations*

For current status of operational activities relating to the JV interests mentioned above, please refer 'Principal Activities' in the Directors' Report.

	Consolidated Group	
	2011	2010
	\$'000's	\$'000's
16. Trade and other payables		
Trade creditors and accruals	410	63,273
Employee benefits	21	1
Other payables	48	-
Provision for impairment of trade and other payables	-	(6,358)
	<u>479</u>	<u>56,916</u>

	Consolidated Group	
	2011	2010
	\$'000's	\$'000's
<b>17. Loans and borrowings</b>		
<b>Current liabilities</b>		
Borrowing - Hunan Nonferrous Metals Corporation Limited*	6,240	15,597
Borrowing - Coffee House Group	-	37,798
Borrowing - Cornell Corporation	-	35,538
Borrowing - HNC (Aus) Resources Pty Limited†	9,610	-
	<u>15,850</u>	<u>88,933</u>
<b>Non-current liabilities</b>		
Borrowing - Hunan Nonferrous Metals Corporation Limited*	8,515	-
Borrowing - HNC (Aus) Resources Pty Ltd‡	10,391	-
Borrowing - Yorkville Advisors Global Investments L.P. <sup>^</sup>	17,807	-
Borrowing - Trustee Bond	2,000	-
	<u>38,713</u>	<u>-</u>
<b>Total loans and borrowings</b>	<u>54,563</u>	<u>88,933</u>

\* The loan from Hunan Nonferrous Metals Corporation Ltd is secured by a bond over the Company's JV interests in the JV between the two companies and bears interest at 10% per annum. The principle amount is repayable in 30 equal monthly instalments and the cumulative interest upon maturity at the end of the 30 month period. At any stage up to 31 December 2012, Hunan Nonferrous Metals Corporation Ltd has the right to convert the outstanding capital amount into ordinary share capital. The conversion rate will be based on an original outstanding amount of A\$15,600,000 that is convertible into 10.4% of the issued share capital of the Company (pro rata for a lesser outstanding amount).

†The loan from HNC (Aus) Resources Pty Ltd is secured by a bond over the Company's JV interests between the two companies and the Company and bears interest at 10% per annum. The principle amount is repayable in 30 equal monthly instalments and the cumulative interest upon maturity at the end of the 30 month period.

<sup>^</sup>The loan from Yorkville Advisors Global Investments L.P. is secured by a fixed and floating charge over all the assets of the Company. This charge ranks third in relation to the Company's JV interests (after Hunan Nonferrous Metals Corporation Ltd and HNC (Aus) Resources Pty Ltd) and first in relation to all other assets. The loan bears interest at 10% per annum and is repayable upon the first to occur of:

- Three years from the termination date of the Further Revised Deed of Company Arrangement (15 November 2011); and
- 6 months after the oxide JV becomes cash flow positive for a period of not less than 3 consecutive months or substantial progress is made with respect to the sulphide JV.

Borrowings of the group are payable as follows:

	Principal	Interest	Total	Principal	Interest	Total
			Loan			Loan
			payments			payments
	2011	2011	2011	2010	2010	2010
	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's
Less than 1 year	15,850	-	15,850	88,933	-	88,933
Between 1 and 5 years	38,028	685	38,713	-	-	-
	<u>53,878</u>	<u>685</u>	<u>54,563</u>	<u>88,933</u>	<u>-</u>	<u>88,933</u>

## Notes to the Financial Statements

	Consolidated Group	
	2011	2010
	\$'000's	\$'000's
<b>18. Issued capital and reserves</b>		
Share capital issued		
1,401,007,911 (2010:144,666,731) ordinary shares in issue	202,425	152,171
Total share capital in issue	202,425	152,171
	Number of Ordinary shares	
	2011	2010
In number of shares		
On issue at 1 January	144,666,731	144,666,731
Issued in terms of Deed of Company Arrangement	1,256,341,180	-
On issue at 31 December – fully paid	1,401,007,911	144,666,731

The share capital of the Company consists of only ordinary shares with no par value, the holders of which are entitled to receive dividends as declared from time to time and are entitled to vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

During the year 1,256,341,180 (2010: nil) fully paid ordinary shares with no par value were issued in terms of the Deed of Company Arrangement.

### Option Reserve

The Option Reserve represents the value of shares held by an entity compensation plan that the group is required to include in the consolidated financial statements. For further information relating to share options refer to Note 20.

### Dividends

No dividends were paid or declared in 2011.

	Consolidated Group	
	2011	2010
	\$'000's	\$'000's
30% franking credit available to shareholders of Compass Resources Limited for subsequent financial years	-	-

## 19. Earnings per share

The calculation of basic and diluted earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of \$22.1 mil (2010: loss of \$13.9 mil).

### Profit attributable to ordinary shareholders

Profit/(Loss for the period)	22,068	(13,910)
Weighted average numbers of ordinary shares ('000)	Number of shares	
Issued ordinary shares at 1 January	144,666	144,666
Effect of shares issued throughout 2011	158,333	-
2011 ('000)	302,999	144,666
Profit/(Loss) per share		
Basic earnings/(loss) per share	7.28 cents	(9.62 cents)
Weighted average number of shares ('000)	302,999	144,666
Fully diluted earnings/(loss) per share	7.28 cents	(9.62 cents)
Weighted average number of shares ('000)	302,999	144,666

## Notes to the Financial Statements

### 20. Share-based payments

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

The terms and conditions of the grants are as follows, All options are settled by physical delivery of shares:

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of options
Option grant in relation to Cornell Borrowings at 23 May 2008	1,540,000	100% on 20 June 2008	31 December 2011
Options grant to management at 20 June 2008*	2,700,000	700,000 on 1 July 2008 1,000,000 on 1 July 2009 1,000,000 on 1 July 2010	31 December 2012

\* 2.7 mil options were forfeited during the Reporting Period due to the employee leaving the Company.

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

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2011	2011	2010	2010
In number of options				
Outstanding at 1 January	\$4.48	4,240,000	\$4.15	9,200,000
Forfeited during the period	\$4.48	(4,240,000)	\$3.86	(4,960,000)
Exercised during the period	-	-	-	-
Granted during the period	-	-	-	-
Outstanding at 31 December	-	-	\$4.48	4,240,000
Exercisable at 31 December	-	-	\$4.48	4,240,000

No options on the Company's shares were issued during the year under review.

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

	Directors	Directors	Key management personnel	Key management personnel
	2011	2010	2011	2010
Fair value of share options and assumptions				
Fair value at grant date	-	1.07	-	1.15
Share price range	-	2.46	-	2.25
Exercise price range	-	5.04	-	2.32
Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes model)	-	70%	-	70%
Option life (expressed as weighted average life used in the modelling under the Black Scholes model)	-	24-55 Months	-	24-47 Months
Expected dividends	-	-	-	-
Risk-free interest rate (based on national government bonds)	-	4.6%	-	4.6%

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

## Notes to the Financial Statements

### 20. Share-based payments (continued)

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

### 21. Financial instruments and capital management strategies

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. The Board of Directors has overall responsibility for the Group's risk management. The Board of Directors oversees how management monitors compliance with Group's risk management policies and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

#### Credit risk

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Statement of Financial Position.

#### Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

#### Market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

#### Interest rate risk

The group does not have significant exposure to interest rates at the reporting date as the interest bearing liabilities are fixed rate loans.

#### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

#### Effective interest rates and repricing analysis

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

2011 Consolidated Group	Note	interest rate	6 months or less		6 - 12 months	1 - 5 years
			Total \$'000's	\$'000's	\$'000's	\$'000's
Cash and cash equivalents	11	1.00%	3,029	3,029	-	-
Security deposits	12	4.88%	94	-	-	94
Borrowing - HNC (Aus) Resources Pty Ltd	17	10.00%	20,001	4,302	5,308	10,391
Borrowing - Hunan Nonferrous Metals Corporation Ltd (HNC)	17	10.00%	14,755	3,120	3,120	8,515
Borrowing - Yorkville Advisors Global Investments LP	17	10.00%	17,807	-	-	17,807
Borrowing - Trustee Bond	17	10.00%	2,000	-	-	-
2010 Consolidated Group						
Cash and cash equivalents	11	2.65%	1,524	1,524	-	-
Security deposits	12	0.00%	783	783	-	-
Borrowings - Cornell*	17	0.00%	35,538	-	35,538	-
Borrowing - Coffee House*	17	0.00%	37,798	-	37,798	-
Borrowings - HNC*	17	0.00%	15,597	-	15,597	-

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

## Notes to the Financial Statements

### 21. Financial instruments and capital management strategies (continued)

#### Fair values of financial asset and liabilities

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

Consolidated Group	Note	Carrying amount 2011 \$'000's	Fair value 2011 \$'000's	Carrying amount 2010 \$'000's	Fair value 2010 \$'000's
Trade and other receivables	12	202	202	783	783
Cash and cash equivalents	11	3,029	3,029	1,524	1,524
Trade and other payables	16	479	479	56,856	56,856
Borrowing	17	54,563	54,563	88,933	88,933

#### Consolidated Group

2011 \$'000's	2010 \$'000's
------------------	------------------

### 22. Operating leases

#### Leases as Lessee

Less than one year	12	72
Between one and five years	-	146
	<u>12</u>	<u>218</u>

The Group leases commercial office space for its head office situated at Level 5, 384 Eastern Valley Way, Roseville, NSW, Australia. Since the appointment of the Administrators on 29 January 2009, the Company was paying the lease on a month to month basis. On 1 June 2011, the Company entered into a 12 month commercial lease for the premises at \$2,337.50 a month.

### 23. Other commitments

#### Exploration expenditure commitments

#### Contracted but not provided for and payable:

Within one year	160	267
One year or later and no later than five years	1,178	960
Later than five years	919	809
	<u>2,257</u>	<u>2,036</u>

### 24. Contingencies

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

The company has bank guarantees and security deposits in respect of the Company's performance under Australian exploration and mining titles

Environmental bond*	83	783
	<u>1,324</u>	<u>-</u>
	<u>1,407</u>	<u>783</u>

\* The environmental bond is held by the bank which is under administration of the NT state government as a result of re-entering the JVs.

## Notes to the Financial Statements

### 25. Reconciliation of cash flows from operating activities

#### Cash flows from operating activities

Profit/(Loss) for the period	22,068	(13,910)
Add-back:		
Impairment	27,113	-
Income on forgiveness of debt and cash calls	(40,551)	-
Other	-	(74)
Operating profit/(loss) before changes in working capital and provisions	8,630	(13,984)
Decrease in receivables	8,207	-
Increase in other assets	(14,780)	-
Increase in trade and other payables	-	10,163
Net balance sheet movement	(6,573)	10,163
Net cash from operating activities	2,057	(3,821)

### 26. Related parties

The following were key management personnel of the group at any time during the Reporting Period:

#### Non-executive directors:

Mr. J. Carr  
Mr. D. Gonzalez  
Mr. G. Eicke  
Mr. M. Angelo

#### Executive directors:

Mr R. Swann (Managing Director, appointed 9 October 2006, resigned 30 June 2012).  
James Carr (Director, appointed 15 November 2011, Managing Director, appointed July 2012)

#### Executives:

Mr Neil Guest (Chief Financial Officer, appointed 1 December 2007, Company Secretary appointed 1 February 2008, resigned 13 January 2012).  
Mr Garry Johansen (General Manager – Exploration, appointed 1 July 2008).

## Notes to the Financial Statements

### 26. Related parties (continued)

#### Employment contracts

Mr Swann was employed on 21 August 2006 and appointed Managing Director of the Company on 9 October 2006. Mr Swann's contract has an initial term of three years and was extended by mutual agreement on the 21 August 2009 and 3 February 2011.

The Company entered into a service agreement with Mr Guest as Chief Financial Officer on 1 December 2007. Mr Guest's service agreement was extended 2 February 2011. After this date, Mr Guest was engaged as a consultant to the company and resigned from this role on 13 January 2012.

The Company entered into a service agreement with Mr Johansen as General Manager of Exploration on 17 June 2008. With those contract terms expiring on 2 February 2011, on the 3 February 2011 the Company engaged Mr Johansen as a consultant to advise the Company were appropriate.

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

#### Key management personnel disclosures

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

		Short term employee benefits			Post-employment benefit		long term benefits	Equity-settled share based payments		Total
		Salary & Fees	Profit share and bonuses	Non-monetary/ others	Pension and Superannuation	others		Shares/ Units	Options /Rights	
<b>Non-Executive Directors</b>										
Mr J. Carr	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-
Mr D. Gonzalez	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-
Mr G. Eicke	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-
Mr M. Angelo	2011	-	-	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-	-	-
These Non-executive Directors have not received any remuneration during the Reporting Period.										
<b>Executive Directors</b>										
Mr R Swann*†	2011	131,109	-	-	-	-	-	-	-	131,109
	2010	-	-	-	-	-	-	-	-	-
<b>Key Management</b>										
Mr N Guest*†	2011	135,948	-	-	2,476	-	-	-	-	138,424
	2010	300,000	-	-	-	-	-	-	-	300,000
Mr G Johansen*	2011	106,763	-	-	1,968	-	-	-	-	108,731
	2010	214,532	-	-	-	-	-	-	-	214,532
<b>TOTAL 2010</b>		<b>514,532</b>	-	-	-	-	-	-	-	<b>514,532</b>
<b>TOTAL 2011</b>		<b>373,820</b>	-	-	<b>4,444</b>	-	-	-	-	<b>378,264</b>

\* Effective from 3 February 2011, CMR entered into service agreements with Mr Swann, Mr Guest and Mr Johansen. In 2011, Mr Swann, Mr Guest and Mr Johansen received service fees of \$131,109, \$93,305 and \$74,250 respectively.

† Mr R Swann resigned 29 June 2012; Mr N Guest resigned 13 January 2012.

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



## Notes to the Financial Statements

### 26. Related parties (continued)

#### Key management personnel disclosures (continued)

##### Equity Instruments

##### Movement in shares

The movement during the Reporting Period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each key management personnel, including their personally-related entities is as follows:

	Held at 1 January 2011	Purchases	Shares received upon exercise of options	Sales/ Divestments	Held at 31 December 2011
<b>Directors</b>					
<b>Mr R Swann</b>					
- Fully Paid Ordinary Shares	100,000	-	-	-	100,000

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

##### Options and rights over equity instruments

No options are held by any member of key management personnel as at 31 December 2010 or 2011.

No options were held by key management person related parties.

##### Other key management personnel transactions

On 3 February 2011 the Company entered into service contracts with Mr Richard Swann for the role of Managing Director, Mr Neil Guest for the role of CFO and Company Secretary and Mr Garry Johansen for the role of General Manager of Exploration. These agreements replaced the contract terms and conditions of employment for Mr Swann, Mr Guest and Mr Johansen contained in the letters dated 21 August 2009, 12 December 2007 and 17 June 2008 respectively.

The details of the transactions with the abovementioned management personnel are as follows:

AUD	Transaction	2011	2010
<b>Key management person</b>			
Mr R Swann	Consultancy Fees	155,780	328,196
	And expenses	-	-
	Reimbursement		
Mr N Guest	Consultancy Fees	117,914	-
	And expenses	-	-
	Reimbursement		
Mr G Johansen	Consultancy Fees	82,500	-
	And expenses	-	-
	Reimbursement		

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

##### Non Key management personnel disclosures

##### Identity of related parties

The group has a related party relationship with its subsidiaries (see note 27), joint venture (see note 15) and with its directors and executive officers.

**27. Controlled entities**

	<i>Country of Incorporation</i>	<i>Ownership interest</i>	
		<i>2011</i>	<i>2010</i>
<b>Parent entity</b>			
<i>Compass Resources Limited</i>	<i>Australia</i>		
<b>Significant subsidiaries</b>			
<i>Compass Staff Equity Pty. Ltd</i>	<i>Australia</i>	<i>100%</i>	<i>100%</i>
<i>Raptor Minerals Ltd (formerly Four Points Exploration Ltd)</i>	<i>Australia</i>	<i>100%</i>	<i>100%</i>
<i>Compass Mining Pty Ltd (formerly Compass Exploration Pty Ltd)</i>	<i>Australia</i>	<i>100%</i>	<i>100%</i>
<i>Guardian Resources Pty Ltd</i>	<i>Australia</i>	<i>100%</i>	<i>100%</i>
<i>Rum Jungle Mining Ltd</i>	<i>Australia</i>	<i>100%</i>	<i>100%</i>

**28. Auditor's remuneration**

*Pursuant to the EGM held on 8 August 2011, Grant Thornton Australia Audit Pty Ltd were appointed as auditors for Compass Resources Limited to audit the periods:*

- 31 December 2008*
- 30 June 2009 (half year)*
- 31 December 2009*
- 30 June 2010 (half year)*
- 31 December 2010*
- 31 December 2011*

*Fees charged to complete the 31 December 2011 audit are \$60,000 (2008 to 2010: \$250,000).*

# Notes to the Financial Statements

## 29. Parent entity information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.

### STATEMENT OF FINANCIAL POSITION

#### Parent Company

	2011 \$'000's	2010 \$'000's
<b>ASSETS</b>		
Current assets	596	1,524
Non - current assets	73,271	98,713
<b>TOTAL ASSETS</b>	<b>73,867</b>	<b>100,237</b>
<b>LIABILITIES</b>		
Current liabilities	15,909	143,349
Non-current liabilities	40,078	1,364
<b>TOTAL LIABILITIES</b>	<b>55,987</b>	<b>144,713</b>
<b>NET ASSETS</b>	<b>17,880</b>	<b>(44,476)</b>
<b>EQUITY</b>		
Issued capital	202,425	152,171
Reserves	15,354	15,354
Retained earnings	(199,899)	(212,001)
<b>TOTAL EQUITY</b>	<b>17,880</b>	<b>(44,476)</b>

### STATEMENT OF COMPREHENSIVE INCOME

Total profit/(loss)	10,906	(13,910)
Total comprehensive income/(loss)	10,906	(13,910)

#### Guarantees

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

#### Contractual commitments

At 31 December 2011, Compass Resources Limited as a Listed Public Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2010: Nil).

#### Contingencies

#### Consolidated Group

	2011 \$'000's	2010 \$'000's
The company has bank guarantees and security deposits in respect of the Company's performance under Australian exploration and mining titles	83	783
	83	783

## 30. Segment reporting

As the Deed of Company Administration did not finalise until 15 November 2011, the Group's Internal Reporting for the year ended 31 December 2011 has been continued on a receipts and payment basis. The Group has only one material segment being mineral exploration in Australia.

## Notes to the Financial Statements

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### 31. Subsequent events

#### Events Subsequent to Balance Date

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

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

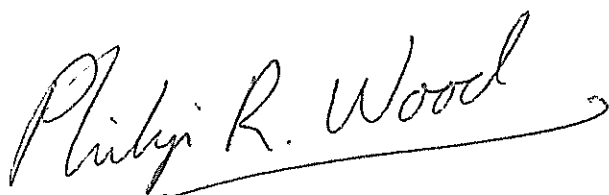
#### In April 2012:

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

Mr Richard Swann resigned as Managing Director with effect from 29 June 2012. Mr James Carr was appointed by the Board as Managing Director on 9 July 2012. The Board appointed Mr Philip Wood and Mr John Allen as Non-executive Directors of the Company effective 28 June 2012. Mr Philip Wood was appointed Chief Executive Officer and Executive Officer of the Company on 22 August 2012.

- 1 In the opinion of the directors of Compass Resources Limited ("the Company"):
- (a) The consolidated financial statements and notes of Compass Resources Ltd, set out on pages 12 to 41, are in accordance with the Corporations Act 2001, including:
    - (i) Giving a true and fair view of the financial position as at 31 December 2011 and of their performance, for the year ended on that date; and
    - (ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) The financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
  - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The Directors have been given the declarations from the Chief Executive Officer for the financial year ended 31 December 2011 required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:



Philip R. Wood  
Chief Executive Officer  
& Executive Director

Sydney  
8<sup>th</sup> November 2012

Grant Thornton Audit Pty Ltd  
ACN 130 913 594

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

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**Report on the financial report**

We have audited the accompanying financial report of Compass Resources Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

**Auditor's responsibility**

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

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

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

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

**Independence**

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

**Basis for qualified auditor's opinion**

The following scope limitation occurred during the course of our audit:

The Company's operations include interests in the Browns Project Joint Ventures, which comprises the Sulphide, Oxide and Regional Exploration Joint Ventures (Refer to Note 15 in the financial statements). On the completion of the Deed of Company Administration on 15 November 2011, the Company ceased to be a defaulting participant to the joint ventures. Under the terms of the Joint Venture, ownership of the Browns Oxide Plant is shared between the Joint Venture parties. Initial discussions between the joint venture parties have indicated that the ownership of the plant should be in proportion to their respective cash contributions, resulting in the Company and the other joint venture party respectively owning 66% and 34%. This adjustment has resulted in a decrease to the Company's carrying value of Mining & Processing Equipment (Equipment) by \$25,233,000. (Refer to Note 14 in the financial statements).

At the date of this audit report, the Joint Venture parties are yet to enter into a formal agreement as to the specific proportion of Equipment ownership applicable to each participant. Should the final agreement not be based on the proportions of cash contributions made but some other basis, then the amount of the adjustment required to the carrying value of the Equipment may either decrease or increase to represent the new proportion of ownership. We therefore do not have sufficient audit evidence to determine whether the current adjustment to the carrying value of Equipment of \$25,233,000 is appropriate and that the adjusted carrying value of Equipment of \$47,444,000 is fairly stated.

**Auditor's opinion**

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, if any, to the financial report of Compass Resources Limited:

- a is in accordance with the Corporations Act 2001, including:

- i giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Report on the remuneration report**


We have audited the remuneration report included in pages 7 to 10 of the directors' report for the year ended 31 December 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

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

We have not been able to obtain sufficient audit evidence, to enable us to form an opinion as to whether or not, the remuneration report of Compass Resources Limited for the year ended 31 December 2011, complies with Accounting Standard AASB 124.

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

Without qualifying our opinion, attention is drawn to the following matter. As described in Note 2(b) in the financial report, the consolidated entity's current liabilities exceed current assets by \$7,637,447. The ability of Compass Resources Limited to pay its debts as when they fall due is dependent upon the continued support of its lender and upon its successful re-capitalisation. Because of these matters, there exists a material uncertainty which may cast significant doubt about the Group's ability to realise its assets and extinguish its liabilities in the normal course of business, and at the amounts stated in the financial report.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



M J Hillgrove  
Partner - Audit & Assurance

Perth, 8 November 2012