

**MEETING OF CREDITORS – PROPOSED VARIATION OF DOCA  
HELD PURSUANT TO SECTION 445F OF THE CORPORATIONS ACT 2001**

Meeting of creditors of Compass Resources Ltd held at 11.00AM (EST) on Monday 5 July 2010 at the offices of Ferrier Hodgson, Level 13, 225 George Street, Sydney NSW 2000 with an alternative venue at 10.30am (CST) at the Holiday Inn, 116 The Esplanade, Darwin, NT.

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**PRESENT**

<b>In Person - Sydney</b>	
Alex Xu	HNC (Australia) Resources Ltd
Alex Xu	Hunan Nonferrous Metals Corporation Ltd
Amanda Phillips	Ferrier Hodgson – Minutes Secretary
Martin Jones	Ferrier Hodgson – Chairman
<b>In Person – Darwin</b>	
Johanne Keys	Randazzo Investments Pty Ltd
Sandra Gauci	Ferrier Hodgson
Malcolm Field	Ferrier Hodgson
<b>By Telephone</b>	
James Carr	YA Global Investments
Greg Wheatley	Jackson MacDonald – advisors for YA Global
David John	Freehills – advisors for Ferrier Hodgson

**CHAIRMAN OF THE MEETING**

Martin Jones, representative of the Deed Administrators, assumed the position as Chairman of the meeting pursuant to Corporations Regulation 5.6.17.

## **INTRODUCTION**

The meeting was opened by the Chairman at 11.00am (AEST).

The Chairman advised that this was a meeting of creditors of Compass Resources Ltd called to consider the future of the Company as a variation to the current DOCA has been proposed by YA Global, predominately to provide YA Global further time to address the conditions precedent in its earlier proposal, a situation largely necessary as a result of the fact that:

- i) The current YA Global DOCA was otherwise structured to end on 5 July 2010; and
- ii) CMR Shareholders, in a General Meeting held on 17 June 2010, failed to approve relevant resolutions, including a CP of that DOCA.

## **NOTICE OF MEETING**

The Chairman advised that the meeting has been called in accordance with the Notice of Meeting dated 25 June 2010, the Notice having been mailed to the creditors on 25 June 2010. The Chairman further advised that the Notice was published in the Sydney Morning Herald, Western Australian and NT Paper on 28 June 2010 respectively.

The following resolution was sought: **“The notice calling this meeting be taken as read.”**

Moved: Alex Xu

Seconded: Jim Carr

The motion was declared carried unanimously on the voices.

**ATTENDANCE REGISTER**

The chairman tabled the following proxies and admitted them to vote at the meeting pursuant to Regulation 5.6.23 of the Corporations Regulations.

<b>Creditor</b>	<b>Represented By</b>	<b>Amount of Debt AUD</b>
Coffee House Group Ltd	James Carr	37,798,404.43
Corporate File Pty Ltd	The Chairman	118,800.00
HNC (Australia) Resources Ltd	Alex Xu	15,101,552.00
Hunan Nonferrous Metals Corporation Ltd	Alex Xu	15,596,999.98
John Chappell	The Chairman	40,250.00
Malcolm Humphreys	The Chairman	48,335.00
Michael Sharwood	The Chairman	36,111.00
Randazzo Investments Pty Ltd	Johanne Keys	1,268,833.10
YA Global Investments	James Carr	35,538,068.58

**QUORUM**

Pursuant to Regulation 5.6.16(2) of the Corporations Regulations, the Chairman determined that a quorum was present.

**MOTIONS, RESOLUTIONS, CASTING VOTE**

The Chairman advised that all motions are to be resolved on the voices, unless a poll is demanded (Regulation 5.6.19) and that in the case of a poll, a resolution will be carried if:

- A majority of the creditors voting (whether in person, by attorney or by proxy) vote in favour; and
- The value of the debts owed by the corporation to those voting in favour is more than half the total debts owed to all creditors voting.

It was further advised that:

- the Chairman may exercise a "casting vote" if no result is reached for or against (Regulation 5.6.21);
- the Chairman's decision to exercise this vote is subject to review by the Court upon application by a creditor (Section 600B and Section 600C);
- in the event that a casting vote arises in respect to any resolution put at the meeting, the Chairman will record the reasons for the use of his casting vote in the minutes (Regulation 5.6.21(4A)).

**CONDUCT OF MEETINGS**

The Chairman advised that the main purpose of the meeting is:

For creditors to resolve pursuant to the Act to:

- a. accept the terms of the DOCA variation proposal; or

- b. adjourn that a meeting of creditors, and for the existing DOCA for CMR be amended by deleting sub-clauses 19(a)(i) and (ii) and replacing them with the following:
  - i) 31 October 2010;
  - ii)[Not used]; or
- c. terminate the Deed and placing the company into liquidation;

**AND**

If creditors resolve that the company be placed into Liquidation,

- d. the Liquidators' remuneration be fixed in accordance with the Ferrier Hodgson hourly rates up to the sum of \$500,000 (exclusive of GST) and that the Liquidator be authorised to make periodic payments on account of such accruing remuneration;
- e. whether to appoint a Committee of Inspection; and
- f. that the books and records of the company be destroyed 12 months after the dissolution of the Company.

**DECLARATION OF RELEVANT RELATIONSHIPS & INDEMNITIES**

The Chairman advised that per the notice to creditors of the company dated 25 June 2010, there have not been any amendments to the earlier Declaration of Independence Relevant Relationships and Indemnities.

**REPORT OF DEED ADMINISTRATOR**

The Chairman provided creditors with an update as to the current status of the company under the following headings:

- Background to revised DOCA

The Chairman advised that CMR has commenced Arbitration proceedings against HAR and HNC. The issue the subject of the Arbitration is whether the payment of the amounts contemplated by the YA Global DOCA would remedy the Events of Default under the various JVAs and consequently CMR would cease to be a Defaulting Joint Venturer and the CMR Receivers would also be required to resign. The Arbitration also seeks to determine the quantum of interest and other charges necessary to remedy the Events of Default.

It was further advised that the Arbitration proceedings were commenced because YA had indicated that, even if it could not reach the agreement with HAR necessary to satisfy certain conditions precedent under the existing YA Global DOCA, it may have been prepared to waive those conditions precedent, depending on the outcome of the Arbitration.

The Arbitration was due to be heard on Thursday 24 June 2010, but as a consequence of the shareholders not approving the resolutions, and certain other matters discussed in the Report, the parties have agreed that the Arbitration will be adjourned to some time after 5 July 2010.

Run off due diligence by parties from the Deed Administrators' earlier marketing program for the sale of assets or financial reorganisation of CMR's affairs did not deliver up any more substantive offers to reconstruct CMR. Accordingly, the Deed Administrators, in consultation with the Committee, resolved in March 2010 to extend YA Global's exclusivity until 25 June 2010.

In circumstances where its existing DOCA proposal failed, by reason of the resolution of the shareholders, YA has now submitted a revised proposal for an amended DOCA for CMR for consideration by creditors and thereafter, shareholders of CMR. The legislation requires we present YA Global's amended proposal and comment upon it in this report.

➤ Changes to the original YA DOCA

The Chairman advised that the more significant changes proposed to be made to the original YA DOCA Proposal are as outlined below:

MATTER	Change to original Proposal	Impact
<b>CMR Creditors' Asset Pool</b>	CMR creditors with admitted claims of less than \$100,000 will be paid a dividend of 100 cents in the dollar on their claims, in priority to payments to other creditors.	CMR creditors with admitted claims of less than \$100,000 are now estimated to receive a return of 100 cents in the dollar on their claims shortly after Recapitalisation, rather than (under the previous proposal) receiving a top up payment on the maturity of the bond (maturing 3 years after the termination of the Varied DOCA).
<b>CMR Creditors' Asset Pool</b>	The bond to be issued by CMR has been increased from 20 cents in the dollar to sum of 25 cents in the dollar on the aggregate amount of the admitted CMR creditor claims.	CMR creditors with admitted claims of more than \$100,000 are estimated at \$8,234,625. Therefore the bond dividend is estimated at \$2 million, well below the \$6m cap, maturing 3 years after the termination of the Varied DOCA (Interest capitalised each year and payable on maturity of the Bond).

<b>CMPL Creditors' Asset Pool</b>	A downward revision from \$3.5m (cash component) to \$2.5m in respect to the assets available for distribution to creditors.	The impact of this revision is expected to be minimal as creditor claims (which are now well advanced/proven) are currently less than the \$2.5M except to say that there will minimal/no "overflow" from CMPL to CMR Creditors.
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The Chairman advised the Administrators' view was that the amendments do not adversely affect the creditors. Further, in circumstances where there has been no known quantifiable increase in the value of the assets of CMR which would be available to creditors in a liquidation scenario, the Deed Administrators' maintain their earlier recommendation that creditors give consideration to accepting the proposal to vary the earlier YA DOCA.

➤ Liquidation Case

The Chairman indicated that in a liquidation scenario, the JV Assets will prove to be burdensome as a result of a combination of factors, including the:

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

Non- JV Assets in a liquidation scenario:

- It is assumed that these assets are realisable for sums consistent with the current range of offers in respect of same.

➤ Deed Administrators' Opinion

The Chairman advised that collectively, the Deed Administrators have formed the view that the return to creditors from the proposed variation to the DOCA is likely to be better than the return available from an immediate winding up of CMR because:

- a. the conversion of the YA Global and CHGL debts and designing a separate mechanism for payment of the HAR debt, has the effect of improving the return immediately available to other creditors from the non-JV Assets, potentially removing approximately 90% of the creditors'

claims (on a dollar value basis) that would otherwise be entitled to claim in a liquidation scenario;

- b. YA Global and CHGL will take an interest in the restructured equity of revitalised CMR. By these groups taking up the risk of that part of the assets, and the DOCA Proponent making a guaranteed sum available for distribution to external creditors it mitigates, at least in part, the financial risk for creditors in the ongoing investment in the JV and other assets;
- c. the proposal provides some certainty for creditors, with some cash up-front, which:
  - o for creditors with claims less than \$100,000, provides for full payment of their claims shortly after Recapitalisation; and
  - o for higher dollar value creditors (>\$100,000), provides for payment of an amount shortly after Recapitalisation which is (in terms of the cash amount alone) comparable to or higher than the anticipated liquidation return.
- d. the proposal also provides the prospect of further funds from the CMR bond for the abovementioned higher dollar value creditors (claims >\$100,000). Any further contribution from the CMR bond will depend on the financial success of the reconstructed CMR with the additional payments not due until approximately October 2013;
- e. it will provide some financial relief to HAR which has, since early in CMR's Administration, funded all of the JV Expenditure, with future remedial work and care and maintenance costs potentially in the order of \$50M being funded jointly by HAR and the DOCA Proponent;
- f. the proposal minimises the insolvency practitioner and legal costs which should, consistent with general practice, be lower than those of a liquidation; and
- g. in a liquidation, recoveries from the voidable and other transactions referred to in Section 5 of the report are uncertain or unlikely.

➤ Expected Return

The Chairman discussed the following table of expected returns to be available for creditors (and shareholders) from the variation to the DOCA and liquidation:

Stakeholder	DOCA Cash Component 31 October 2010 Cents in the Dollar		DOCA Bond Component 31 October 2013 Cents in the Dollar	DOCA Total Return	Liquidation Cents in the Dollar
	Low	High			
CMR Creditors					
> \$100k	26	28	25	51 to 53	30
< \$100k CMR Creditors	100	100	N/A	100	30
CMPL Creditors	100	100	N/A	100	30
HAR /HNC	100	100	100	100	30
CHGL	N/A	N/A	N/A	15 % Shares	30
YA Global	N/A	N/A	N/A	80% Shares	30
Existing CMR Shareholders	N/A	N/A	N/A	5% Shares, plus options	Nil

The return under the DOCA variation proposal is expected to be more certain than that available in a winding up, with a dividend:

- for **CMR Creditors** with claims of greater than \$100,000, estimated at 26 to 28 cents (cash), plus a further 25 cents from the CMR Bond, providing a total return of between 51 and 53 cents in the dollar for **CMR Creditors**, compared to 30 cents in the dollar in the case of a winding up. The expected return for the higher value creditors has dropped from its former estimate of 66 cents in the dollar as a result of there being minimal/no “overflow” of funds now expected from CMPL (given the reduction from \$3.5m to \$2.5m provided for in the DOCA in relation to those claims);
- for **CMR Creditors** with claims less than \$100,000 of a total of 100 cents in the dollar, also compared with 30 cents in the dollar in the case of a winding up;
- estimated at 100 cents in the dollar payable in relation to the **CMPL Oxide** indemnity claim, on a par with that expected to be available in the case of a winding up;
- of 100 cents in the dollar expected for **HNC/HAR**, a clear premium on the 30 cents in the dollar expected in relation to its unsecured convertible note debt in the case of a winding up, though HNC’s entire payment is deferred until the end of the three year bond term under the proposal, thereby exposing HNC to the risk that the deferred return will not eventuate if CMR’s post-recapitalisation ventures are unsuccessful; and
- not available to **CHGL or YA Global** as the parties’ claims will convert to equity.

## QUESTIONS AND DISCUSSIONS

The Chairman asked whether there were any questions that the creditors wish to raise. There were no questions raised.

## FUTURE OF THE COMPANY

The Chairman advised that the resolution would be determined by way of poll.

The following resolution was put to the meeting:

***“THAT the DOCA be varied in a manner not materially different from that proposed in the Deed Administrators’ report dated 25 June 2010.”***

Moved: James Carr

The motion was declared carried on the basis of the Poll, the detailed results of which were as follows:

<b>Creditor</b>	<b>Represented By</b>	<b>For \$</b>	<b>Against \$</b>
Coffee House Group Ltd	James Carr	37,798,404.43	
HNC (Australia) Resources Ltd	Alex Xu		15,101,552.00
Hunan Nonferrous Metals Corporation Ltd	Alex Xu		15,596,999.98
Randazzo Investments Pty Ltd	Johanne Keys	1,268,833.10	
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Corporate File Pty Ltd	The Chairman	118,000.00	
John Chappell	The Chairman	40,250.00	
Malcolm Humphreys	The Chairman	48,335.00	
Michael Sharwood	The Chairman	36,111.00	
<b>Value</b>		<b>\$74,848,002.11</b>	<b>\$30,698,551.98</b>
<b>Value %</b>		71%	29%
<b>Number</b>		7	2
<b>Number %</b>		78%	22%

## **COMMITTEE OF INSPECTION**

The Chairman asked whether there were any creditors not already on the Committee that wish to nominate to form part of the Committee of Inspection. Johanne Keys, representative from Randazzo Investments Ltd was nominated to be appointed to the Committee.

The following resolution was put to the meeting:

***“THAT the existing Committee of Inspection be retained, comprising the following creditors/representatives:***

- ***James Carr, YA Global Investments***
- ***Alex Xu, HAR/HNC***
- ***Carole McTavish, Orica Australia***
- ***Gordon Toll, Coffee House Group Ltd***

***together with an additional creditor/representative being:***

- ***Johanne Keys, Randazzo Investments Pty Ltd***

Moved: Jim Carr, YA Global.

The motion was declared carried unanimously on the voices.

## **OTHER BUSINESS**

The Chairman opened the meeting to any other business.

There was no other business.

## **CLOSE OF THE MEETING**

There being no other business the meeting was declared closed at 11.35 am.



**MARTIN JONES**

**CHAIRMAN**