



## Q&A prepared for EGM of CMR shareholders on 18 August 2011

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**1. Question: Ghana:**

There is a website based document which suggests that CMR was granted permits to begin mining iron ore in the Sheini reserve of Zabzugu/Tatale district of the Northern Region (Ghana). Is this correct?

**1. Answer:**

No. The Deed Administrators and CMR management are not aware of any applications having been made in Ghana.

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**2. Question: Share Pricing:**

Can you please explain the method behind the share price (4 cents) calculation?

**2. Answer:**

The methodology to the 4 cent issue price is detailed in Section 2.22 of the Notice. We note in Section 2.22 of the Notice in respect to the number of shares in the recapitalized CMR (reads 1,397,842,979) should be 1,401,007,911 (consistent with the shareholding post-recapitalisation disclosed in the table in section 2.10 of the Notice) however the notional value of the deemed issue price remains consistent at 4.0 cents per share.

We apologise for any inconvenience in respect to our error and note that it is a standalone matter and does not impact any of the calculations or comments contained within the Notice.

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**3(a) Question: Option Pricing:**

Please explain the methodology behind the calculation of the option exercise price of 28 cents.

**3(a) Answer:**

The options exercise price is based upon YA Global's estimated future value given to the Company of \$400M, divided by the post-recapitalisation shareholding of 1,401,007,911 shares (which calculates a share value of 28.55 cents).

The \$400M figure was provided by YA Global, as being the figure at which YA Global would be happy for the options to be exercised.

We do not believe the \$400M is supported by a cashflow model or other calculation. It is more likely set on an arbitrary basis as being the figure at which YA Global would be happy for the options to be exercised.

We expect it was chosen having regard to the overall set of risks that YA is currently taking in converting debt to equity and to lending to CMR.

**3(b) Question – Precision of Option Pricing:**

Is there an additional document setting out the basis upon which the option exercise price was determined?

**3(b) Answer:**

The determination was made by YA Global, and there is no such document available to the company.

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**4. Question: What is the basis for the changes to the JV agreement?**

What is the basis for the changes to the JV agreements, especially the change that CMR is now responsible for 50% of the JV costs in relation to the Sulphide project? Is this (50% of JV costs) at all negotiable?

**4. Answer:**

During July 2010 CMR commenced Arbitration proceedings against HAR/HNC in order to obtain certainty as to the steps that needed to be taken to remedy the Events of Default under various JVs, so that CMR ceases to be a Defaulting Joint Venturer (and would see the CMR Receivers resign from their position).

On 26 November 2010, the Arbitrator made final orders in the Arbitration which addressed the abovementioned issues (refer to ASX announcement dated 29 November 2010 for further information).

In light of the orders, negotiations between YA Global and HAR commenced as to the future operation of the JVs. These negotiations were successful in resolving the outstanding issues as between HAR and YA Global as to the future operation of the JVs (ie. in the event that YA Global were to proceed with its proposal for the reconstruction of CMR) and, as a consequence, there has been a significant advance in finding an acceptable way forward for CMR. In particular, we note that each party (HNC/HAR and CMR):

- i. is responsible for 50% of the capital expenditures and operating expenses going forward (in accordance with their participating shares). For clarity, this includes the costs of any feasibility or pre-feasibility study which both JV participants have agreed to incur; and
- ii. has a 50% interest in each JV.

Given the length of the Administration and amount of risk (Future Loan Funds) YA Global has been prepared to take in order to pursue this proposal, the abovementioned JV amendments are not negotiable as they have been documented between the parties.

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**5. Question: Options – Time to Exercise?**

Would YA Global consider extending the timeframe available for shareholders to exercise their options?

**5. Answer:**

YA Global have advised us that an extension will not be made available.

Please refer to Q&A 3 above. YA Global has indicated that it is interested to progress exploration and remedial solutions expeditiously, but subject to appropriate studies in respect to technical matters.

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**6. Question: Use of Tax losses.**

- a. If shareholders approve the DOCA, will CMR (under majority ownership of YA Global) be able to use accumulated tax losses against future profits?
- b. If shareholders vote down the DOCA and the assets are shifted to another company for sale to YA Global, will YA Global/new company be able to make use of those accumulated tax losses?
- c. What is the current value of accumulated tax losses?

**6. Answer:**

- a. Use of tax losses is always a difficult matter, the area for specialized/professional "complex taxation" advice. It simply put is not an area in which we could attempt to speak with any level of certainty. The ultimate use of such losses would depend upon a range of matters including potential future events. In section 5.1.7 of the Administrators 439A report, the Deferred Tax Asset was ascribed a value of \$3.3M by the company. More recently, in Note 6 to Section 2.12 of the shareholder Notice, we ascribe a value 50% of this to take into consideration some of the vagaries which loom when an entity (especially in current circumstances) seek to use such losses. The Australian Taxation Office (following the relevant tax losses legislation) leaves entity's with taxation losses a great many rules to work through. You may want to consider your own advice on the point, though it is unlikely to get you any further than the above synopsis here;
  - b. No the company losses will not be available.
  - c. See a and b above.
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**7(a) Question: Board of Directors.**

The bullet point below (extracted from the Notice) refers to the inclusion of a director put forward by other shareholders:

- operate with a board composed of the Nominee Directors, nominated by YA Global and Coffee House, together with a further suitably qualified person from among nominees put forward by other shareholders.

This bullet point only mentions YA Global and Coffee House - not HNC - so seems to leave it open for HNC to be considered amongst the "other shareholders" and nominate an appointee. Can you confirm whether or not HNC will be able to nominate a person to act as a director on the new board?

**7(a) Answer:**

We do not believe HNC want one of their people on the CMR board, nor has anyone suggested it at any point. We would have thought that the YA/Coffee House board will put this issue out for public nominations after the reconstruction (assuming, for present purposes, it is approved by shareholders on 18 August) and before the company relists.

In terms of process, we understand that if shareholders approve the Proposal on 18 August 2011:

- Shareholders will be invited to nominate a potential board member; and
- The new Compass board will consider the qualifications of the Nominees put forward, then progress a board appointment of the successful applicant.

**7(b) Question: Interim appointment of Independent Board Member.**

Will an interim board member for CMR be appointed for the interim period from 18 August 2011 until such time that the new CMR board is implemented?

**7(b) Answer:**

No. YA Global do not intend to appoint the independent board member (and the rest of the board) until such time that all CP's have been satisfied to the extent that CMR, HNC/HAR, the Receivers and Managers and the Deed Administrators mutually release each other from all outstanding claims. Accordingly, an interim appointment would not be appropriate.

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**8. Question: Error in the Notice dated 19 July 2011 – dilution of shareholders.**

There is an error in the Notice with specific reference to sections 2.7 and 2.9 which refers to Other Shareholders potentially being diluted to 4.48%.

**8. Answer:**

Agreed. The independent expert provides the correct dilution outcomes in his report – namely 8.67% for external Other Shareholders down from 9.67% (which combines with the HNC holding of 0.43% to get to the 10.1%).

We apologise for this error and note that the 4.48% is a “throw back” to the earlier proposal based upon the 5% base for Other Shareholders. We also note that it is a standalone error and does not impact any of the calculations or comments contained within the Notice.