

25 June 2010

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

**Proposed Variation of Deed of Company Arrangement (DOCA)**

**CIRCULAR TO CREDITORS**

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We refer to the meeting of creditors held on 6 January 2010 at which creditors approved the variation to the DOCA then proposed by YA Global Investments, LP (YA Global).

We advise that a meeting of creditors is to be held on Monday 5 July 2010 to consider the future of the company as a revised variation to the current DOCA has been proposed by YA Global. The variation proposal provides for a reconstruction of CMR. Outcomes available to the meeting will include the decision whether to:

- Accept the terms of the DOCA variation proposal;
- To adjourn the 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
- Terminate the Deed and placing the company into liquidation.

The reconvened meeting of creditors is to be held at **11.00am AEST on Monday, 5 July 2010 at the offices of Ferrier Hodgson, Level 13, 225 George Street, Sydney NSW 2000. An alternative venue is available for creditors to attend the meetings of the Company at 10.30am CST in the Litchfield Room at Holiday Inn Esplanade, 116 The Esplanade Darwin, NT 0800** in order that appropriate resolutions may be passed as required.

If a majority in number or in the case of a poll, a majority in number, and a majority in value, of those creditors voting at the meeting approve a variation proposal, the Deed variation will become binding on all creditors affected by its terms. In the event of a deadlock, the Chairperson of the meeting will have a carrying vote.

We enclose the following regarding the meeting of creditors:

**PERTH**  
Level 26 BankWest Tower  
108 St George's Terrace  
Perth WA 6000 Australia  
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ADELAIDE  
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Zolfo Cooper  
and  
Kroll Worldwide  
UNITED STATES  
UNITED KINGDOM



1. Notice of Meeting. Please note that the meeting commences at **11.00 am AEST on Monday, 5 July 2010**. We request you arrive for registration at least **25 minutes** prior to the meeting.
2. Appointment of Proxy form. The form enables you to appoint another person to act on your behalf at the meeting. Proxy Forms submitted for the earlier meetings of creditors are not valid for this meeting.

If you submitted an Informal Claim for the purposes of any of the earlier meetings of creditors or a Formal Proof of Debt form, you do not need to submit another one for this meeting. For creditors who have not submitted a Formal Proof of Debt we will be posting this form to you separately.

A person is not entitled to vote at the meeting unless they provide particulars of the debt or claim to the Deed Administrators before the meeting. **Please note this form is for voting purposes only.** All creditors must furnish details of their claims, indicating whether they rank as secured, preferential or unsecured, and whether they claim title to any goods supplied to the company or any lien over goods in their possession which are property of the company.

**The Informal Claim Form for Voting Purposes and Proxy Form should be lodged with this office before the meeting and, in any event not later than 4.00pm on the day prior to the meeting.**

Forms can be sent by facsimile to (08) 9214 1400 marked to the attention of Sandra Gauci, or scanned and emailed to [sandra.gauci@fh.com.au](mailto:sandra.gauci@fh.com.au) In this regard, please note that Corporations Regulation 5.6.36A requires lodgement of the original of the Proxy Form with the Administrators' office within 72 hours of lodging the faxed/emailed copy.

3. Deed Administrators' report to creditors which includes:
  - (a) An update on the status of various matters pertinent to the administration;
  - (b) An opinion, with supporting reasons, on each of the following matters:
    - Whether it would be in the creditors' interests for the company to execute the proposed variation to the DOCA;
    - Whether it would be in the creditors' interests for the meeting of creditors to be adjourned; and
    - Whether it would be in the creditors' interests for the DOCA to be terminated and the company to be wound up.

**While you should carefully read and consider the Deed Administrators' report to creditors in its entirety, we have formed the opinion, for the reasons outlined in the report, that creditors should consider accepting the proposed variation to the DOCA.**



For further information concerning the Voluntary Administration process and Ferrier Hodgson, you may wish to visit our website at [www.ferrierhodgson.com](http://www.ferrierhodgson.com). Should you require any further information prior to the meeting, please do not hesitate to contact Sandra Gauci of this office.

A handwritten signature in black ink, appearing to read 'Martin Jones', with a large, stylized flourish underneath.

**Martin Jones**  
Joint and Several Deed Administrator of  
Compass Resources Limited

## CORPORATIONS ACT 2001

NOTICE OF MEETING OF CREDITORS TO VARY OR  
TERMINATE DEED OF COMPANY ARRANGEMENTCOMPASS RESOURCES LIMITED  
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)  
(RECEIVER AND MANAGERS APPOINTED)  
ACN 010 536 820

NOTICE is given that a meeting of the creditors of the Company will be held at the offices of Ferrier Hodgson, Level 13, 225 George Street, Sydney NSW 2000 on Monday 5 July 2010 at 11.00am AEST. An alternative venue is available for creditors to attend the meetings of the Company at 10.30am CST in the Litchfield Room at Holiday Inn Esplanade, 116 The Esplanade Darwin, NT 0800.

1. The purpose of the meeting is to discuss:
  - a. The report of the Deed Administrator.
  - b. Questions from creditors.
  - c. For creditors to resolve:
    - i. That the Company vary the Deed of Company Arrangement; or
    - ii. To adjourn the 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
    - iii. To terminate the DOCA and to place the Company into Liquidation.
  - d. If the Company is wound up, to fix the remuneration of the Liquidators.
  - e. If the Company is wound up, to consider the destruction of the books and records at the conclusion of the winding up; and
  - f. Any other business that may be lawfully brought forward.

Proxies to be used at the meeting should be lodged at the office of the Joint and Several Deed Administrators by 4.00pm on the day prior to the meeting. A creditor can only be represented by proxy or by an attorney pursuant to Corporations Regulations 5.6.28 and 5.6.32 (inclusive) or if a body corporate by a representative appointed pursuant to Section 250D.

In accordance with Regulation 5.6.23(1) of the Corporations Regulations, creditors will not be entitled to vote at this meeting unless they have previously lodged particulars of their claim against the company in accordance with the Corporations Regulations and that claim has been admitted for voting purposes wholly or in part by the voluntary administrator.

DATED this 25<sup>th</sup> day of June 2010.



MARTIN JONES  
Joint and Several Deed Administrator of  
Compass Resources Limited

**CORPORATIONS ACT 2001  
APPOINTMENT OF PROXY CREDITORS MEETING**

**COMPASS RESOURCES LIMITED  
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)  
(RECEIVERS AND MANAGERS APPOINTED)  
ACN 010 536 820**

\*I/\*We<sup>1</sup> .....  
of .....  
a creditor of Compass Resources Limited, appoint<sup>2</sup> .....  
or in his absence as .....  
\*my/our \*(i) general OR \*(ii) special proxy<sup>3</sup> to vote at the meeting of creditors to be held on 5 July 2010, or at any adjournment of that meeting, to vote

- (i) on all matters arising at the meeting; **OR**  
(ii) on each of the following kinds of resolution in the manner specified:

		For	Against	Abstain
(a)	The DOCA be varied in a manner not materially different from that proposed in the Deed Administrators' report dated 25 June 2010.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b)	To adjourn the 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]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c)	Terminate the DOCA and to place the Company into Liquidation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**If the company is 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:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e)	A Committee of Inspection be appointed:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f)	The books and records of the company be disposed of 12 months after the dissolution of the company or earlier at the discretion of the ASIC:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

\* Strike out if inapplicable

<sup>1</sup> If a firm, strike out "I" and set out the full name of the firm.

<sup>2</sup> Insert the name, address and description of the person appointed.

<sup>3</sup> If a special proxy add the words "to vote for" or the words "to vote against" and specify the particular resolution.





**Compass Resources Limited**  
**ACN 010 536 820**  
**(Subject to Deed of Company Arrangement)**  
**(Receivers and Managers Appointed)**  
Formerly "Compass Resources N.L."

**Report by Deed Administrators Pursuant to**  
**Section 445F of**  
**The Corporations Act 2001**

**Martin Jones**

**Steve Sherman**

**Darren Weaver**

**25 June 2010**





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## GLOSSARY OF TERMS

Abbreviation	Description
ABN	Australian Business Number
ACN	Australian Company Number
Act	The Corporations Act 2001
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
BAS	Business Activity Statement
Board	Board of Directors
CHGL	Coffee House Group Limited
CMR	Compass Resources Limited ACN 010 536 820
CMPL	Compass Mining Pty Limited ACN 099 550 259
Committee	Committee of Inspection
Contradictor	NT Controls and Automation Pty Ltd ACN 120 787 617
CP	Conditions Precedent
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement
DOCA Proponent	YA Global
ERV	Estimated Realisable Value
FPOD	Formal Proof of Debt
HNC	Hunan Nonferrous Metals Corp Ltd
HAR	HNC (Australia) Resources Pty Ltd
JV	Joint Venture
JVA	Joint Venture Agreement
JV Assets	Oxide, Sulphide and Regional Exploration assets held in JVs with HAR
M	Million
MOU	Memorandum of Understanding
PILN	Payment in lieu of notice
PWC	NT Power and Water Corporation
Receiver	Includes a Receiver and Manager, specifically, Ernst & Young
ROT	Retention of Title
SGC	Superannuation Guarantee Charge

## LISTING OF ANNEXURES

<b>Annexure 1</b>	Listing of DOCA “CMR Creditors”
<b>Annexure 2</b>	Deed Administrators’ Summary of Receipts and Payments
<b>Annexure 3</b>	DOCA Variation Proposal



## 1. EXECUTIVE SUMMARY

Steve Sherman, Darren Weaver and I were appointed Administrators of CMR on 29 January 2009, pursuant to Section 436A of the Corporations Act, and were subsequently appointed Deed Administrators of a DOCA that was accepted by creditors at a meeting of creditors on 30 April 2009. It was, in turn, replaced by a DOCA variation submitted by YA Global that was approved by a meeting of CMR creditors on 6 January 2010.

The existing YA Global DOCA proposal provides, amongst other things:

- for CMR to be released from all creditors' claims. Thereafter, such claims would simply give rise to rights as a beneficiary in a Creditors' Trust;
- for the issue new shares to YA Global (2,263,267,330) and Coffee House (422,101,919) in exchange for release of the admitted debts owed to them at 29 January 2009;
- that CMR would execute a funding agreement with YA Global, pursuant to which YA Global would advance an amount estimated to be \$19,050,000 (but conceivably more) to CMR at completion, which sum (once combined with funds from CMR) was to be used to pay \$6,750,000 to the Trustee of the Creditors' Trust and to pay HAR an amount which was estimated at that time to be approximately \$17,500,000;
- that CMR would execute a further funding agreement with YA Global, pursuant to which YA Global would advance further funds (to a maximum of approximately \$25,800,000) to CMR, which sum was to be used to meet CMR's continuing obligations under the JVs;
- for CMR to retain all its assets for the benefit of post-recapitalisation CMR Shareholders;
- that CMR would issue Bonds to the Trustees of the Creditors' Trust for the purpose of repaying certain classes of creditors, which Bonds were payable three (3) years from completion of the DOCA;
- that CMR would release its claim against CMPL;
- that CMR would operate with a board composed of the Nominee Directors, nominated by YA Global and Coffee House; and
- upon execution of the Creditors' Trust Deed, CMPL would release its security over CMR. At that time, the Loan Funds referred to above were to be advanced by YA Global to CMR in exchange for a fixed and floating charge over all of CMR's assets that would rank behind HAR in relation to the Oxide JV interest and Oxide JV Property; and first in relation to all other CMR assets.

A General Meeting of CMR shareholders was held on 17 June 2010, for the purpose of passing resolutions to approve the issue of shares for the purposes of the recapitalisation proposal referred to above. The first of those resolutions (to approve the issue of shares to YA Global) failed. Accordingly, the other resolutions were not put to the meeting, given their dependence upon the passing of the first mentioned resolution.

One of the consequences of the resolutions not being passed was that one of the conditions precedent under the YA Global DOCA has failed. Therefore, unless there is a variation to that DOCA by 5 July 2010, CMR will fall into liquidation on 6 July 2010.

I note that the following resolution was passed by shareholders present at the General Meeting:

*“A shareholder meeting be called within 60 days to enable further proposals to be considered, potentially to include, but not limited to:*

- a) A rights option;*
- b) An options proposal; and/or*
- c) A new offer for the Associated parties.”*

The alternatives sought by shareholders in this resolution are not within shareholders' power. The shareholders will only be called upon to consider resolutions of the nature contemplated above if:

- further DOCA variation is approved by the creditors; and
- an element of such a DOCA proposal requires shareholder approval.

The Deed Administrators' capacity to convene another meeting of shareholders will be dependent upon a decision as to the future of CMR, to be made by CMR's creditors at the meeting of creditors convened by the accompanying Notice.

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.

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 5 July 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.

We 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, for reasons similar to those stated in our recommendation that creditors accept the earlier YA Global proposal, and more particularly 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 a 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 means that:
  - o for creditors with claims less than \$100,000, provides for full payment of their claims shortly after Recapitalisation;
  - o for higher dollar value creditors (>\$100,000), provides for payment of an amount shortly after Recapitalisation which is (in terms of the cash call amount alone) comparable to or higher than the anticipated liquidation return; and
- 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 this report are uncertain or unlikely.

The amended proposal for the Recapitalisation of CMR remains subject to a number of CPs. Following is brief summary of the key CPs (unless waived by the DOCA Proponent) and their expected timings:

Date	CP	Event/ Commentary
5 July 2010	Approval of creditors is required.	Meeting of Creditors
15 July 2010	Agree the terms of the Bonds	Substantially agreed
31 Aug 2010	CMR shareholders approving the issue of the new shares and the second funding facility being secured by the fixed and floating charge to be granted to YA Global.	EGM - CMR Shareholders
3 Oct 2010	<p>YA Global being satisfied (in its absolute discretion) with the due diligence to be carried out by it in respect of CMR and the JVs and the HAR Amount.</p> <p>HNC relinquishing any claim as to the Convertible Note Funds and its right to convert its debt.</p> <p>HAR agreeing in writing to CMR being reinstated as a Non-Defaulting, voting member of the Operating Committees of the Oxide, Sulphide and Regional Exploration JVs and retiring its Receivers or like determination being made by the Court or by process of Arbitration.</p> <p>YA Global and HAR reaching agreement as to the future operation of the JVs.</p>	The DOCA Proponent's exclusivity ends (subject to an extension of a further 90 days in agreement with the Deed Administrator).
3 Oct 2010	All CPs to be satisfied or waived by this date unless the Deed Administrators exercise discretion to extend the date.	



1 Jan 2011	All CPs to be satisfied or waived by this date and completion to occur on or before this date, including the above, plus: <ul style="list-style-type: none"> <li>• CMPL releasing its security over CMR.</li> </ul>	Final day of the DOCA. The release of CMPL security to occur concurrently with payment.
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The funds will not be available for creditors until after all CPs have been satisfied or waived by the DOCA Proponent. In section 9 of this report, more detail is provided in relation to the CPs and the issues pertinent thereto.

The following table provides an overview of the changes between the former YA Global DOCA and the variation outlined in this report (ignoring timing differences):

MATTER	Change to original Proposal	Impact
<b>HAR Debt and Conditions Precedent</b>	Redraft description of the quantum of the amount to be paid by CMR to HAR to better reflect the terms of the JVAs (HAR Amount).	Provides legal clarity.
<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.

<b>Other Assets</b>	<b>CMR</b> All other assets (excluding shares held by CMR and CMPL) and cash must remain with CMR unless YA Global express prior written consent.	Whilst outside the traditional realisation course for an insolvency regime, the impact of this condition is that: <ul style="list-style-type: none"> <li>• it may provide a future upside to CMR shareholders post-DOCA or to CMR creditors;</li> <li>• it provides for the maximised retention of the assets at no imminent cost to CMR; and</li> <li>• CMR should be adequately funded from its other assets and that the JV rights (in respect to NSW tenements) will be saleable in the future by CMR Liquidators or a DOCA proponent in the event the YA DOCA does not complete.</li> </ul>
<b>Outstanding Warrants</b>	This term no longer forms part of the Varied DOCA Proposal given there were no warrants.	No impact.
<b>Costs during the DOCA</b>	<ul style="list-style-type: none"> <li>• The Deed Administrators must not terminate the employment of any CMR staff prior to Recapitalisation, except with the prior written consent of YA Global.</li> <li>• The Deed Administrators maintain the Peru tenements by paying sufficient moneys from funds held by CMR to do so.</li> <li>• The Deed Administrators must pay \$390,000 from funds held by CMR for an aerial survey of the CMR tenements, as required to maintain the tenements and advance the Uranium assets.</li> </ul>	The result is that the employee amounts, previously provided for, will not erode the funds available to Oxide unsecured creditors.  The operational payments are with a view to preserving and maintaining the assets.
<b>Shareholdings following Recapitalisation</b>	Shareholdings following the recapitalisation will remain consistent with the prior report issued, except where the following is applied:  Following the recapitalisation of CMR various options to acquire ordinary shares in CMR will	This should not have an effect upon creditors.  Shareholders have been advised that this offer will only be made should the revised YA DOCA

	<p>be issued to those shareholders who wish to take up the offer.</p> <p>For clarity, where the offer of the options to certain Existing Shareholders requires disclosure under the Corporations Act, the offer of the options to those Existing Shareholders will be subject to CMR first making the required disclosure, and:</p> <ol style="list-style-type: none"> <li>1. a disclosure document for the offer will be made available when the options are offered; and</li> <li>2. anyone who wants to acquire the options will need to complete the application form that will be in or will accompany the disclosure document.</li> </ol>	<p>Proposal be approved by CMR creditors in the first instance. Should creditors approve the revised YA DOCA Proposal, YA will continue to liaise with Shareholder representatives in relation to the precise terms of this variation.</p>
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In our view, the amendments do not adversely affect the creditors. 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. In fact, the estimated return to creditors from a liquidation of CMR has reduced from the previously estimated 32 cents in the dollar, to 30 cents in the dollar, reflecting predominantly, the costs of the Administration, including CMR's professional staffing, legal costs and the Deed Administrators' remuneration.

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.

Further to our comments above, in the following table we contrast the return expected 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

We note that there are no significant current offers for the CMR assets at this time. Accordingly, the Deed Administrators would need to re-enliven negotiations with parties that had expressed prior interest. Therefore, there is a risk that the estimate outlined above for the liquidation scenario will not be achieved.

At the same time, there is also a risk, having regard to the CPs, which include shareholder approval, that the CPs will again, not be satisfied or waived by YA Global.

**We have formed the opinion, for the reasons outlined in this report, that creditors should accept the proposed variation to the DOCA.**

## **2. INTRODUCTION**

### **2.1 Prior Reports**

The Administrators' Section 439A of the Act Report was mailed to creditors on 22 April 2009 and Section 445F of the Act Report was mailed to creditors on 24 December 2009. Further Reports have been provided in between those times and since to the Committee. Copies of these documents are available from [www.ferrierhodgson.com](http://www.ferrierhodgson.com) or from our office upon request. This report should be read in the context of, and as an update to, the earlier reports. In the interests of cost savings and efficiency, we have endeavoured to keep this report as short as possible.

Over the course of the administration, we have continued to consult with the Committee and expect this will be appropriate during the course of the varied DOCA in the event that it is approved by creditors.

### **2.2 Purpose of Report**

Section 445F(3) of the Act requires the Deed Administrators provide a notice of this meeting which sets out each resolution that the Deed Administrator proposes that the meeting vote upon. The resolutions for creditors' consideration are, similar to earlier creditor meetings, to determine the future of the company, though the matters more precisely now are whether to:

- execute a variation to the DOCA;
- adjourn the meeting of creditors; or
- terminate the DOCA and the company be wound up.

### **2.3 Non-Disclosure of Certain Information**

We recognise the need to provide creditors with complete disclosure of all necessary information relating to the company. However, independent valuations of certain assets that were commissioned by us are commercially sensitive in light of the interests of potential purchasers of those assets. Accordingly, in some cases such information has not been disclosed. Similarly, the terms of non-binding offers for certain company assets, which remains subject to certain conditions, including further due diligence, are not disclosed owing to their commercial sensitivity.

### **2.4 Statement of Independence**

The Administrators considered the question of their independence prior to accepting appointment as Administrators and have provided updates to creditors in relation to same at appropriate junctures. We do not have any amendments to the last Declaration of Independence Relevant Relationships and Indemnities to put forward at this time.

### **3. STATEMENT OF POSITION**

In section 7.3 of this report we provide a liquidation overview of the expected ERVs for the CMR assets based upon the information to hand. We refer creditors to our comments in our report dated 24 December 2009 and report below by exception only.

#### **3.1 JV Assets**

We confirm our view that in a liquidation scenario, we consider the JV Assets will prove to be onerous, as a result of a combination of factors, including the:

- cost of remedial works required to commission the Oxide JV operation;
- uncertainties associated with the economic viability of the Oxide JV operations;
- uncertainty surrounding the viability of the possible future JV sulphide operation;
- sums 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.

In such circumstances and for the purposes of a liquidation analysis, we have assumed that the CMR share of the JV Assets at zero cash contribution value to CMR.

The above approach results in a notional value of the JV Assets (exclusive of inventories) being attributed in this report as \$26,672,354 - up on the previous estimate of \$14,399,261 not as a result of any actual perceived increase in value to be attributed to such assets, but rather in recognition of the increasing contributions required to remedy the past payment defaults and the fact that the JV Assets are attributed (for the purposes of this report) a cash contribution value of zero. As a practical point, this notional value includes any residual value (having regard to the applicable JV licence/charges) for the plant and equipment and tenements, in each case after the mine's life, but in the case of the tenements, excluding uranium rights.

#### **3.2 Secured Creditors**

##### **3.2.1 HAR**

CMR has failed to pay certain cash calls which issued under the Oxide JVA. As a consequence Contribution Notices issued by HAR (as Operator) to HAR (as joint venturer) for the amounts which CMR failed to pay and HAR has paid those contribution notices. As a consequence, CMR is liable to HAR for the amounts the subject of the Contribution Notices, which have been 'made up' by HAR. These Contribution Notices are summarised in the table following:

Date of Contribution Notice	Cash Call Number at 4(a)(2)	Period to which Contribution Notice relates	Amount \$
20 April 2009	1	17/02/09 – 30/04/09	2,240,929.00
12 August 2009	2	01/05/09 – 31/07/09	3,791,056.15
12 August 2009	3	01/08/09 – 31/08/09	655,843.55
12 August 2009	4	01/09/09 – 30/09/09	778,203.85
7 December 2009	6	01/01/10 – 31/01/10	760,436.00
9 January 2010	7	01/02/10 – 28/02/10	1,129,881.50
25 January 2009	8	01/03/10 – 31/03/10	2,147,562.09
16 April 2010	9	01/04/10 – 30/04/10	108,818.90
16 April 2010	10	01/05/10 – 31/05/10	466,810.00
			<b>\$12,079,541.94</b>

Cash calls have been issued since 16 April 2010 and more are likely to be issued before completion of the DOCA (assuming for present purposes that the variation is approved by creditors). Accordingly, having regard to our comments in our earlier report and a somewhat arbitrary estimate for future costs between now and completion, we have adopted the estimates for the purposes of this report of Contribution Notices \$10M plus [\$5M] as future cash calls, and we note that some provision for interest will also be relevant.

Having regard to the fact that the DOCA is premised upon fixed sums being made available to creditor categories, the estimates above are somewhat academic, though we attempt to quantify same for the purposes of the liquidation scenario.

### 3.2.2 CMPL

Under the JV documentation, CMPL has a claim against CMR (and HAR) in relation to sums for which it is entitled to be indemnified. This is a secured claim, empowering CMPL to appoint a Receiver in respect to the recovery of same.

The extent of the CMPL Liquidators' claim is still being quantified, though this process is nearly complete having regard to the admission of FPODs by the CMPL Liquidators and the payment of dividends to Oxide creditors. At this time, the claim is estimated at \$2,453,084, being the CMR half of the admitted Oxide creditors' claims of \$4,906,168, having regard to the recent admission of the FPOD claim of Micronised Mineral Solutions for the amount of \$500,000.

If the DOCA variation is accepted, a lump sum will be paid from CMR to CMPL in relation to the CMPL Liquidators' indemnity claim. The CMPL Liquidators will then distribute those funds (after costs) rateably to all of the Oxide creditors. Under the DOCA variation proposal, individual Oxide creditors (most of whom will, to date, have received 20 cents in the dollar on their claims from CMPL) are not entitled to claim against CMR. This reflects the law against double proof given these claims are already included in the CMPL Liquidators' Indemnity claim.

### 3.3 Unsecured Creditors' Claims

The amended DOCA proposal continues to divide the creditors of CMR into four distinct categories, listed as follows:

- CMR Creditors;
- CMPL Creditors;
- HAR/HNC; and
- YA Global/CHGL.

Different returns are expected to be available for each category which is dealt with more fully at section 7.1 of this report. In Annexure 2, we provide a summary of the creditors' claims understood to be CMR Creditors within the meaning of the DOCA proposal, with an indicative total being \$8,740,155.

In order to provide an indicative creditors' claim total, we have assumed, arbitrarily for the purposes of this report, that the claim of former Darwin landlord, Randazzo Investment Pty Ltd's claim (currently recorded at an unmitigated \$1,268,833), will be mitigated, so as to reduce its claim to a sum closer to \$468,833.

For completeness, we note that the settlement deed with PWC referred to in our last report was subsequently executed, removing that potential claim from the CMR Administration and CMPL Liquidation.

## 4. TRADING BY DEED ADMINISTRATORS

The Deed Administrators continue to control the company's business operations, with purchase order authorisation required from our office before costs are incurred. As mentioned above, HAR, as JV Operator, is in control of the JV Assets, providing updates to CMR in relation to its progress of remedial work project plans and reviews thereof. While CMR is entitled to receive such information, as a defaulting joint venture party (a result of CMR's Administration) it is unable to vote at JV meetings and is being treated by HAR (our efforts to flag concerns notwithstanding) as having no say in as to how the remedial works proceed. That said, while we are aware that alternate remedial work options are available, we remain unable to state with certainty as to whether such alternatives would in fact be better than the course of action that HAR has adopted.

We remain of the view that the most appropriate result for creditors and shareholders of CMR would be for CMR to come out of its administration and be reinstated as a JV party with full rights in order to constructively participate in the JV operations and strategic decision-making. The updated proposal for a variation to the DOCA is intended to achieve this end. We note for the sake of completeness that HAR have asserted that the JV Agreements do not provide for a defaulting joint venturer, which is in default due to having administrator's appointed, a DOCA in place and Receiver's appointed from being able to remedy its default to become a non-defaulting joint venturer. This is a position with which we strongly disagree. It has

been contested in correspondence with HAR, and is the fundamental issue the subject of adjourned Arbitration proceedings.

In addition to Richard Swann as a contract based Managing Director (technical and strategic advice), CMR continues to employ:

Continuing CMR Employees	Function
Neil Guest	CFO/Secretary - strategic JV and other assets.
Garry Johansen	Geological - technical - Asset management/realisation.
Cindy Li	Payroll, statutory compliance and accounting.

A summary of the Administrators' and Deed Administrators' receipts and payments for the period to 22 June 2010, are attached as Annexure 2. Under the terms of the amended YA Global DOCA, the entitlements of these staff will remain payable by CMR after the recapitalisation and are not payable from the Creditors' Trust in the manner previously contemplated.

## 5. STATUTORY INVESTIGATIONS

Having regard to our previous comments in relation to potential insolvent trading claims and other potentially voidable transactions, and our subsequent investigations, it is questionable as to whether any sum/s would be recoverable. This would be a matter for the consideration of a future (if) appointed Liquidator.

## 6. PROPOSAL FOR A VARIATION TO THE DOCA

YA Global has presented a further DOCA Variation Proposal, which is enclosed (in full) as Annexure 3. The variations to YA Global's previous proposal key terms of the proposal have been summarised in the second table at Part 1 above for the information of creditors generally.

The success of the proposed variation to the DOCA was previously premised heavily upon the DOCA Proponent's due diligence being satisfactory and the CPs being cleared (resulting in an immediate return to creditors which itself is better than the liquidation case – refer section 7.3 of this report) and thereafter the subsequent returns to creditors being dependent upon the success of the new CMR, that further return being attributed to the bond sums. The same continues to be true though the DOCA Proponent's due diligence is understood to be considerably further advanced.

Absent the current proposal, significant costs could be incurred to locate an alternate party prepared to reconstruct CMR. The DOCA Proponent has made it clear that the DOCA variation proposal is its best offer, while at the same time, is capable of being completed.



## 7. CREDITORS' OPTIONS, DIVIDEND ESTIMATES AND COST ESTIMATES

In forming our opinion, it is necessary to consider an estimate of the dividend creditors might expect, and the likely costs, under each option. In this section of our report, the term CMR Creditors has the meaning attributed to it in the DOCA variation proposal and as defined in further detail in section 3.3 of this report.

### 7.1 Variation to the DOCA

Under the proposed variation to the DOCA, we provide the following summary of the expected returns for the various creditor groups:

	Report Refer	YA DOCA Proposal High \$	YA DOCA Proposal Low \$
<b>CMPL Creditors - from the CMR Indemnity claim</b>			
Cash paid from Loan Funds	6	2,500,000	2,500,000
CMPL Creditors' Claims	3.2.2	(2,453,084)	(2,453,084)
Total Return on the CMPL Indemnity claim (est)		<b>1.00</b>	<b>1.00</b>
<b>CMR Creditors</b>			
Cash paid from Loan Funds	6	3,250,000	3,250,000
Balance (if any) from CMPL Upfront Cash	6	46,916	-
Less: Employee entitlements deductible as a priority	6	NIL	NIL
Less: Trustee Costs and Expenses (say)		(150,000)	(200,000)
Less: Trustee Remuneration	11	(300,000)	(400,000)
		2,846,916	2,650,000
CMR Creditors < \$100k	3.3	(505,530)	(505,530)
Estimated Balance available		2,341,386	2,144,470
CMR Creditors > \$100k		(8,234,625)	(8,234,625)
Dividend - CMR Creditors >\$100k Cash Component (est)		0.28	0.26
Dividend - CMR Creditors > \$100k Bond Component	6	0.25	0.25
<b>CMR CRS &gt;\$100k Dividend - Total (estimated)</b>		<b>0.53</b>	<b>0.51</b>
<b>CMR CRS &lt;\$100k Dividend</b>			<b>1.00</b>
<b>HAR</b>			<b>1.00</b>
<b>CHGL</b>		<b>15% Share</b>	<b>15 % Share</b>
<b>YA Global</b>		<b>80% Share</b>	<b>80% Share</b>

The above dividend calculation is an estimate only and will change due to the following:

- the final amount claimed by creditors and the adjudication thereon;
- changes in the estimated costs of the DOCA resulting from issues not presently known; and
- compliance with all provisions of the DOCA.

Under the variation proposal, we have estimated the dividend to:

- CMR Creditors 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, compared

to 30 cents in the dollar in the case of a winding up. We expect this estimated return is achievable, subject to the future success of CMR. Based upon the information to hand as summarised in Annexure 1 and in the table above, the full payment of the minor creditors is expected to leave sufficient funds to pay 26 cents in the dollar to other creditors (in line with the more immediate potential dividend estimated to be available in a liquidation scenario);

- For those CMR Creditors with an admitted claim of \$100,000 or less, they will benefit from an in full, upfront dividend (rather than payable from the bond funds as was previously anticipated); and
- CMPL Oxide creditors in relation to the CMR indemnity claim at 100 cents in the dollar. When combined with an expected 100 cents in the dollar from the HAR indemnity claim, these creditors are expected, subject to costs (an issue for the CMPL Liquidator to report upon) to receive very close to 100 cents in the dollar.

Notwithstanding the risk attached and the 3 year delay in relation to receipt of the second dividend (estimated 25 cents in the dollar) for the CMR Creditors with admitted claims in excess of \$100,000, it is important to note that for each group of creditors, we expect the return under the variation proposal will be more certain than that from a winding up.

For completeness, we note that:

- HNC/HAR are expected to receive 100 cents in the dollar, 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, together with 100 cents in the dollar in relation to its secured contribution notice debt; and
- The ultimate return to CHGL and YA Global depends upon the success or otherwise of CMR post-reconstruction given the parties' claims will convert to equity under the proposal.

Having regard to the above, if the terms of the DOCA variation proposal are complied with, it is expected to result in an improved return to creditors than would be available from an immediate winding up of CMR. Accordingly, we recommend the creditors approve the DOCA variation.

The costs of administering the DOCA were approved by creditors and the Committee previously and have been taken into account when compiling the analysis above. The further Deed Administrators' remuneration between now and completion is payable from the funds held by the CMR Deed Administrators.

## **7.2 Adjournment of Meeting**

The Administrators do not recommend an adjournment of the meeting on 5 July 2010 because of the incremental costs associated with same and the lack of expected benefits. That said, we consider that in the event that creditors prefer not to approve the variation to the DOCA which has been proposed by YA Global, an adjournment of the meeting would be preferable to an immediate winding up so as to

provide the Deed Administrators a final opportunity to canvas potential recapitalisation parties.

Any adjournment of the meeting would need to be accompanied by a variation to the existing DOCA, because unless there is an amendment to the DOCA to extend the period of operation of the DOCA, it will terminate in accordance with its terms on 6 July 2010.

The amendment to the DOCA which would need to accompany a resolution to adjourn the meeting, would be effected by a resolution of the creditors to the following effect:

*“To adjourn the 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]”*

The effect of the above is to “extend” the existing DOCA to 31 October 2010 and to remove the existing DOCA requirements that the DOCA end when:

- i. The Administrators, with the agreement of YA Global, determine that the terms of the Varied DOCA cannot be fulfilled; and
- ii. The CPs are not met or waived on or before the required date for satisfaction of them (previously set as 90/180 days from 6 January 2010, i.e. 5 July 2010).

### 7.3 Winding up of the Company

The rationale behind the liquidation scenario outlined below is set out in the various comments in relation to the assets in section 3 of this report.

	Report Refer	NBV as at 29 January 2009 \$	Liquidation \$
<b>Assets subject or partly subject to HAR/CMPL Claims</b>			
Inventory - Copper cathode		1,089,970	1,773,582
WIP (realised as actual copper cathode above)		344,122	-
Less: CMPL Receiver Fees and other costs (est)		-	(1,773,582)
Balance of funds from Receiver and Managers			-
Debtors		520,095	261,986
Less: Payment of CMR R&M costs			(261,986)
Inventory - Stockpiled and stores		1,884,850	2,220,730
Oxide/Regional Expl JVs NPV (theoretical value)	3.1	NVA	24,672,354



<b>Total Assets subject to HAR/CMPL Claims</b>		<b>3,839,037</b>	<b>26,893,084</b>
<b>Priority Creditors to Oxide/Regional Exploration JV assets</b>			
Contribution Notices to date	3.2.1	-	(10,000,000)
Future Contn Notices &/or Cash Calls to Completion - est	3.2.1		(5,000,000)
Estimate of Interest on Contn Notices and Pre-VA cash calls	3.2.1		NVA
Estimated further Oxide/Reg Expl costs until plant operational		-	-
CMPL Indemnity claim	3.2.2	-	(2,453,084)
Pre-VA cash calls "balancing amount"		(18,235,749)	(9,440,000)
		<b>NVA</b>	<b>(26,893,084)</b>
<b>Priority Creditors to Oxide/Reg Expl JV assets</b>			
Estimated Oxide/Reg Expl JV Equity available to CMR creditors		<b>NVA</b>	<b>0</b>
<b>Assets not subject to HAR/CMPL</b>			
<b>Other assets</b>			
Cash at Bank		9,602,147	9,401,237
Employee Entitlements (paid)		(870,586)	(1,378,296)
Ferrier Hodgson remuneration (excl GST) drawn to 22/6/10	11		(1,307,910)
Sum secured by floating charge (paid)		(10,000)	(10,000)
Other Post Administration Net Receipts/(Payments) to 22/6/10	4	-	(3,209,911)
Cash Balance (before provisions) at 22/6/10			3,495,120
Provisions:			
Other/future Employee Entitlements			(753,777)
HAR reimburse Sulphide emp entitlements			159,261
HAR reimburse its half Oxide Emp Entitlements			532,344
Balance to HAR before adj for the above			(400,000)
Cash at Bank (after provisions) at 22/6/10			3,032,948
Alkane Royalty		2,500,000	500,000
Uranium Rights		NVA	20,000,000
Land - potentially subject to Operator access rights		1,845,212	1,650,000
Investment in Subsidiaries - NSW tenements in Raptor		21,093,949	1,000,000
Peruvian Tenements		NVA	300,000
Cash on Hand		500	NIL
Intercompany Loans		11,919,401	NVA
Sydney Office Equipment (balance)		NVA	50,000
Prepayments		106,570	NIL
<b>Total Assets not subject to HAR/CMPL</b>		<b>46,187,193</b>	<b>26,532,948</b>
<b>Priority Creditors to CMR assets</b>			
Future Realisation Costs and Expenses		-	(500,000)
Estimated Liquidators' Remuneration	11	-	(500,000)
<b>Total Future Priority Creditors to CMR assets</b>			<b>(1,000,000)</b>
<b>Readily Available Assets (est)</b>			
		<b>46,187,193</b>	<b>25,532,948</b>
<b>Assets Realisable in the mid-Term</b>			
CMPL Dividend -HAR Indemnity Claim		NVA	3,215,236
CMPL Dividend - CMR Indemnity Claim		NVA	NIL
Oxide JV - surplus after Priority costs above		NVA	0
Sulphide JV		NVA	NVA
Regional Exploration JV		NVA	NVA
Tenements -base metals subject to JV tenement charge		11,636,771	-

Property, Plant and Equipment (subject to JV licence)		106,124,512	NVA
CMR Company Shell		NVA	NVA
Deposits and Bonds		3,861,341	500,000
Claim against HNC for breach of the MOU		NVA	Unascertained
NT TRO Duty Refund		NVA	300,000
Deferred Tax Assets		3,362,995	NVA
<b>Total Assets Realisable in the mid-Term</b>		<b>124,985,618</b>	<b>4,015,236</b>
<b>Unsecured Creditors</b>			
Sundry Creditors	3.3	(114,985,739)	(97,673,627)
CMPL balance of its claim			NIL
HAR balance of its JV debt			NIL
<b>Total Unsecured Creditors</b>		<b>(114,985,739)</b>	<b>(97,673,627)</b>
<b>Estimated Overall Surplus/(Shortfall)</b>		<b>56,187,072</b>	<b>(68,125,443)</b>
<b>Ordinary Unsecured Creditors of CMR</b>			
Estimated Return from Readily Avail Assets			0.26
Estimated Return from mid-Term Assets			0.04
<b>Estimated Total Return Crs of CMR</b>			<b>0.30</b>
<b>CMPL Liquidator's Indmenity Claim</b>			
Estimated Return - CMR Participating Interest			1.00
Estimated Return Ordinary unsecured component			0.30
<b>Estimated Total Return CMPL Indemnity claim</b>			<b>1.00</b>

Based upon the information summarised above, we expect, in a liquidation scenario, that ordinary unsecured creditors of CMR will receive in the vicinity of 30 cents in the dollar as compared to the CMPL Oxide indemnity claim which is expected to receive 100 cents in the dollar.

Accordingly, the JV Assets aside, the liquidation analysis assumes that the remaining assets are realised for sums (which are competitive by multiple bidders for each asset category) consistent with the range of offers received in respect of same. With all creditors claiming, the effect is a dividend dilution to 30 cents in the dollar, with some risk that the current offers for the assets will not be concluded and potentially resulting in a lower return.

We note that the cost of the Receivers (as against the JV Assets) and those of Liquidators (as against the non-JV Assets) would be paid out in priority to creditors from any realisations of the respective assets.

Having regard to the work already undertaken, the costs of winding up the company's affairs are estimated at \$500,000, though these costs could be considerably higher.

It will only be possible to provide a more definitive estimate of the likely return to creditors, and the timing of same, to creditors after the company's assets have been realised.

## 8. DEED ADMINISTRATORS' OPINION

Further to our comments set out in Sections 7.1, 7.2 and 7.3 of this report, we believe there is the prospect of an improved return to creditors under the variation to the DOCA, as against the estimated return under a winding up of the company.

We consider the proposed variation to the DOCA meets the objectives of the voluntary administration regime as set out in s435A of the Corporations Act by maximising the chances of the company, or as much of its business, continuing in existence. Further, we expect it will result in a better return for creditors and members than would result from an immediate winding up.

We 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 this report are uncertain or unlikely.

**Based on the above, it is our opinion that creditors should consider approving the DOCA variation proposal because the initial payment provides for a more certain return in excess of what we consider is available from a liquidation scenario.** Further, major creditors benefit from an additional payment, which relies in turn upon the future success of CMR, whereas minor creditors (with admitted debts of under \$100,000) will be paid in full from funds expected to be distributed within 6 weeks of completion.

For completeness, we note that HAR and CHGL are major creditors with complex loan arrangements and legal advisers advising them directly upon the terms of the proposed variation to the DOCA and what it means in the context of their alternative outcomes under the DOCA variation proposal and the liquidation case having regard to their particular circumstances. Accordingly, our recommendation may or may not be suitable to those creditors.

YA Global has:

- incurred significant due diligence costs, in the hundreds of thousands of dollars;
- gained a heightened understanding of the risks and opportunities associated with the CMR assets, including the commencement of the Arbitration against HAR, with a view to clearing a pathway toward CMR being relisted on the ASX; and
- committed the human and other resources to completing upon the variation (outlined in this report) to its earlier DOCA, having regard to the extent of the pre-Administration unsecured debt owing to it and its interest to structure an arrangement with shareholders that will result in the amended DOCA obtaining shareholder approval.

It is our view that YA Global has the capacity to complete upon the terms set out in the DOCA, and with that process is expected to result in an improved opportunity for a higher return to creditors.

## 9. ASIC'S GUIDE TO DOCAS INVOLVING CREDITORS' TRUSTS

The ASIC has issued a guide for Registered Liquidators recommending the provision of certain information to creditors when they are considering approving a DOCA which includes a Creditors' Trust also being implemented.



The DOCA variation proposal will require that CMR enter into a Creditors' Trust. In this regard, we outline for creditors some important information to consider when considering whether to approve a Creditors' Trust:

### ***What is a Creditors' Trust?***

A Creditors' Trust in a DOCA is a mechanism used to accelerate a company's exit from external administration. Typically under the terms of the DOCA and one or more interconnected deeds, a trust entity is created and the company's obligations to some or all of its creditors bound by the DOCA are compromised and transferred to the trust. Those creditors become beneficiaries of the trust.

In this case, a third party has made a promise to make one or more payments (and/or transfer of other property) to CMR, and CMR will pay certain of these funds to the Trustee concurrent with the execution of the Creditors' Trust's execution in satisfaction of the creditors' claims against the company. In return, the creditors' rights against the company will be extinguished, with only a claim by the Trustee continuing against CMR in relation to the Bond sum/s.

Usually, the DOCA is 'effectuated' (and terminates) after the creditors' claims against the company have been removed in this way. In most cases, the DOCA terminates immediately upon creation of the trust, which usually occurs when or shortly after the DOCA is executed, but in CMR's case, it will not occur until the Recapitalisation occurs, which for CMR Creditors and CMPL Creditors is simultaneous with:

- (a) receipt of the upfront cash provided by the DOCA Proponent (via CMR);
- (b) conversion/exclusion of major creditor's claims; and
- (c) discontinuation of the Quistclose proceedings.

When the DOCA terminates, the company ceases to be externally administered, the directors regain full control of the company and the company is no longer required to use the notification 'subject to deed of company arrangement' on its public documents as otherwise would be required by s450E(2) of the Act.

### ***Reasons for a Creditors' Trust***

One key reason for the inclusion of a Creditors' Trust with DOCA proposals is to allow an ASX listed company to recommence trading on the ASX. A company cannot requote on the ASX if it is subject to a DOCA. In this case, we expect CMR will relist on the ASX in due course, under the direction of its new Board.

The Creditors' Trust provides a structure whereby creditors' claims can be dealt with by the Trustee of the Creditors' Trust and the DOCA can end sooner. We note that absent a Creditors' Trust, the CMR DOCA would not be expected to end until approximately October 2013, an inordinate period of time for a company to remain in suspension from the ASX.

The DOCA Proponent has advised that without the DOCA proposal incorporating a Creditors' Trust, its current DOCA proposal would not be forthcoming, which would mean that the company would be liquidated, which (as set out above) will likely result in a significantly lower return to creditors.

### **Key Events**

If the DOCA variation proposal is approved by creditors, a number of key events will occur, including the following:

Date	Event	Comments
<b>25-June-2010</b>	<b>Report to Creditors</b>	Approval of creditors is required.
<b>5-July-2010</b>	<b>Meeting of Creditors</b>	
31-July-2010	A further Deed would be drafted and executed to reflect the terms of the Variation to the DOCA	There is no statutory timeframe in regard to this issue other than as soon as practicable.
15 July-2010	Agree the terms of the Bonds	Such agreement is to occur prior to Recapitalisation. We expect this would, in practice, occur before the report is sent to shareholders in order to demonstrate clarity of the arrangements.
26-July-2010	Notice to CMR Shareholders (issue say)	
26-August-2010	EGM - CMR Shareholders approve the issue of the new shares and charge in favour of YA	
27-August-2010	Appointment of new CMR directors	Most of the former Board has now resigned.
<b>03-October-2010</b>	<b>Final day to clear Conditions Precedent</b>	If any CPs are not cleared or waived in writing by the DOCA proponent a meeting of creditors may be convened to consider alternate proposals or the Deed Administrators may, at the DOCA Proponent's request, extend the date for satisfying/waiving the CPs.
3-Oct-2010	Recapitalisation	Simultaneously: CMPL releases its security over CMR; the Receivers resign; the new CMR shares are issued to the DOCA Proponent in conversion of its debt (and potentially of CHGL); the loan funds are advanced to CMR; the DOCA is terminated; and the Creditors' Trust is initiated.



31-Oct-2010 to 20-Nov-2010	Dividend to Creditors	Could be delayed by 3 months if CMR's Recapitalisation is delayed or does not proceed.
<b>1-Jan-2011</b>	<b>Final day to Complete</b>	
2-Oct-2013	CMR Pays the Bond sums to the Trustee	
31-Oct-2013	Trustee pays a final dividend to the beneficiaries (formerly creditors)	

The items in bold are set or final dates in accordance with the proposal. The other key events referred to above are provided as a guide based upon expected outcomes but could be delayed.

Creditors should note that some of the consideration currently anticipated (namely the Bond realisations and the benefit of the subordinated/excluded YA/CHGL/HNC/HAR position) under the DOCA Variation Proposal will not be available to creditors if either:

- creditors do not approve the proposed restructure, in which case Liquidation of the company is one likely course, with any dividend from ultimate asset realisations (for better or for worse) being spread across all creditors, including YA/CHGL/HNC/HAR; or
- creditors approve the proposed restructure but the DOCA Proponent is unable to clear the CPs outlined in its proposal (such as was the case with the general meeting of shareholders held on 17 June 2010). In such circumstances, an alternate purchaser/investor would need to be sought and new arrangements as to the subordination/exclusion of major creditors' claims put into place unless the assets should realise sums in excess of creditors' claims. It is difficult for us to predict and comment upon what the likely return to unsecured creditors would be in such circumstances, but for the purposes of this report, we have estimated it would be in the vicinity of 30 cents in the dollar.

***Anticipated Return***

As stated above, we estimate the anticipated return to creditors / beneficiaries at 51 to 53 cents in the dollar, increasing to 100 cents in the dollar for minor creditors and for HAR/HNC.

If the DOCA proposal did not involve a Creditors' Trust, we consider the return to creditors would be significantly lower given the diluting effect of the YA/CHGL/HNC/HAR claims, which would, we believe, result in a significantly lower return to creditors than would be available if the Creditors' Trust is approved.

***Trustee Particulars***

It is proposed that the current Deed Administrators, being Darren Weaver, Steve Sherman and I, will assume the role of Trustees of the Creditors' Trust should it be approved. By appointing the current Deed Administrators as Trustees of the Trust,

there is a cost saving compared with appointing a different Trustee. The Deed Administrators have detailed knowledge of the background to the restructure which a different trustee would have to acquire at a substantial cost to the Trust.

Under a DOCA, creditors may apply to the Court for orders in relation to the Deed Administrators' performance of its duties under the Act. A beneficiary under a Creditors' Trust could also apply to the Court under the *Trustees Act 1962 (WA)* in relation to the Trustees' performance of their duties.

### ***Remuneration and Indemnities***

It is proposed that the Trustees would be remunerated on a time incurred basis calculated at rates set down by Ferrier Hodgson from time to time. Please refer to our earlier report for details of our current rates.

As part of the proposed DOCA Variation and Creditors' Trust, the Deed Administrators and Trustees would have an indemnity or lien over the assets of the company or over the trust fund.

### ***Powers***

The Trustees of the new trust become solely responsible to the former creditors (now trust beneficiaries) for:

- (a) ensuring that the company and/or other third parties perform their payment and other obligations to the Trustee;
- (b) determining how much each of the former creditors is entitled to receive from the trust; and
- (c) in due course, making any distribution to those former creditors.

In addition to the above, the Trustees are likely to have the following powers:

- (a) to administer the Trust Fund;
- (b) to ensure that the Company fulfils its obligations under the DOCA and to take such legal proceedings or other steps as the Trustees think fit to enforce those obligations;
- (c) to fulfil the Trustees' obligations in terms of the DOCA;
- (d) to admit claims to proof in accordance with the provisions of the DOCA and the Trust Deed;
- (e) to make interim or other dividends to creditors or distributions of the Trust Fund;

- (f) to appoint agents to do any business or attend to any matter or affairs of the Trust that the Trustee is unable to do or that it is unreasonable to expect the Trustee to do in person;
- (g) to appoint a solicitor, accountant or other professionally qualified person to assist the Trustees;
- (h) to compromise any claim on such terms as the Trustees consider fit; and
- (i) to do anything else that is necessary or convenient for administering the Trust.

These powers are provided for the benefit of creditors in determining whether to accept the proposed DOCA Variation. However these powers may be varied prior to finalisation of the Trust Deed.

### ***Claims***

For the purpose of determining the admissibility and ranking of creditors' claims in the Trust, regulations 5.6.39 to 5.6.72 and Sub-divisions A to E of Division 6 of Part 5.6 of the Act and Regulations shall apply to the Trust and the Trustees as if the references to a Liquidator were references to the Trustees, references to winding up were references to the Trust and with such other modifications as are necessary to give effect to the Trust.

Creditors, including secured creditors to the extent of the unsecured portion of their debts (if any), will not be permitted to take recovery action against the company for pre-administration debts during the period of the DOCA.

### ***Compliance Opinion***

In our opinion, and based upon our discussions with the DOCA Proponent, we believe they are capable of complying with their respective obligations under the DOCA Variation proposal, at least as to the upfront cash. Thereafter, the ability of the Company to comply with the terms of the DOCA is less certain. We do not have adequate information to comment any more fully on this issue having regard to the incomplete state of the plant remedial works. That said, we do not think the interests of creditors would be better served to wait for more complete information (such as post-remedial works) given such information may not be available for more than six (6) months.

### ***Solvency Statement***

At the time the varied DOCA will be wholly effectuated, we expect that CMR will be solvent because:

- the YA/CHGL/HNC/HAR claims will have been converted, excluded or deferred; and
- remaining creditors' claims will have been transferred to the Creditors' Trust.

### ***Tax (company/trust)***

Creditors should note that there may be income tax and stamp duty implications for the Company and the Trust associated with the abovementioned proposal.

The Trust may be required to register for GST purposes and apply for a new Tax File Number. In addition, the Trustees may also be responsible for lodging income tax returns for the Trust with the ATO.

It should be noted that any carry forward income or capital losses in CMR will not be available for offset against any assessable income made by the Trust.

### ***Tax (creditor/beneficiary)***

Our preliminary view is that by assigning creditors' claims to the Trust any dividend paid to creditors would be treated the same as if creditors had received the dividend from the company under Administration. That is, we do not foresee any tax disadvantages to creditors with the proposed DOCA variation and Creditors' Trust.

The proposed DOCA variation and Creditors' Trust also enables (if considered necessary) the Trustee to make distributions to the beneficiaries of the Trust (as opposed to the repayment of creditors claims outlined above). Under this scenario however, the Trustee may be required to withhold tax from distributions to non-resident beneficiaries at the applicable tax rates.

Creditors are encouraged to seek their own independent legal advice in relation to the possible taxation consequences of receiving a distribution from the proposed Creditors' Trust.

### ***Other***

A copy of the varied DOCA will be lodged with ASIC in due course and will be available for inspection upon request.

## **10. COMMITTEE OF INSPECTION**

The Committee is currently comprised of the following members:

<b>Creditor</b>	<b>Representative</b>
YA Global Investments LP	Jim Carr
Orica Australia Pty Ltd	Carole McTavish
Hunan Nonferrous Metals Corp Ltd	Alex Xu
Coffee House Group Limited	Gordon Toll

We note that creditors interested to review the Deed Administrators' reports to the Committee and the minutes of Committee meetings can obtain same from [www.ferrierhodgson.com](http://www.ferrierhodgson.com). In like manner, future reports and minutes will also be published in that forum. Creditors are also invited to contact our office and request to be included on an email mailing list to receive such future electronic updates.

The role of the Committee is to receive reports from the Deed Administrators, and consult on matters pertinent to the DOCA. There are various constraints upon Committee members, including an obligation to maintain confidentiality attaching to particular information and the need to avoid conflicts of interest (which can be managed by the exclusion of conflicted members from the receipt of sensitive information or voting on resolutions pertinent to areas of conflict).

Accordingly, and subject to creditors' view of the DOCA variation proposal, we consider that additional members on the Committee would now be appropriate. Accordingly, the Chairman will call for nominations at the forthcoming meeting of creditors.

## 11. REMUNERATION AND DISBURSEMENTS

At the meeting of creditors, we do not expect to seek approval of remuneration, unless creditors resolve to wind up CMR. In that case, Liquidators' remuneration is estimated at \$500,000 and the Liquidators would seek approval of remuneration at the Ferrier Hodgson standard hourly rates capped at that amount. The summaries previously provided to creditors of the anticipated tasks remains valid today. These are available from our website or from our office upon request.

At the last meeting of creditors, resolutions were passed in relation to the Deed Administrators' remuneration (with further resolutions also passed since then by the Committee) and for the Trustees' Remuneration.

## 12. FURTHER QUERIES

We will advise creditors in writing, if practicable, of any additional matter that comes to our attention after the dispatch of this report that, in our view, is material to creditors' deliberations.

In the meantime, should creditors have any queries, please do not hesitate to contact Sandra Gauci of this office.

DATED this 25th day of June 2010.



**Martin Jones**  
Joint and Several Deed Administrator of  
Compass Resources Limited

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# **Annexure 1**

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**Listing of DOCA “CMR Creditors”**



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

**Listing of CMR Creditors – excludes YA, CHGL, HAR, HNC**

UNSECURED CREDITORS	RATA	Admitted	Under Consideration	Estimated
<b>Creditors under \$100,000</b>				
CEA Ltd	0	0	341	341
CGU Insurance	0	0	579	579
Daymond Lawyers	1,540	0	1,540	1,540
Department of Treasury and Finance	0	0	29,568	29,568
Energy Australia	0	0	612	612
Fuji Xerox Australia Pty Ltd	1,436	0	2,026	2,026
Henkel Chemical Management	3,730	0	0	3,730
Hetherington E&M Title Service	2,727	0	0	2,727
Hyder Consulting Pty Ltd (crescent)	6,105	0	6,105	6,105
James Cumming & Sons Pty Ltd	18,407	0	0	18,407
John Chappell	0	0	40,250	40,250
KPMG	0	0	42,158	42,158
Litchfield Springs Water	192	0	570	570
Luxtica Retail Australia Pty Ltd	0	0	5,540	5,540
Macquarie Equipment Rentals Pty Ltd	0	0	61,083	61,083
Malcolm Humphreys	0	0	48,335	48,335
Maxwell Keith Boots	0	0	35,416	35,416
McColl Exploration & Mining Title Services Pty Ltd	0	0	715	715
Michael Sharwood	0	0	36,111	36,111
Northern Territory Freight Services Pty Ltd	0	0	3,753	3,753
Philip Cohen	0	0	1,656	1,656
Power & Water Corporation	1,016	0	0	1,016
Rangott Mineral Exploration Pty Ltd	2,835	0	2,834	2,834
Rapid Power	28,377	0	0	28,377
Registries Limited	136,609	0	73,655	73,655
Rosetta Max Pty Ltd	7,132	0	7,132	7,132
Rural and Remote Services	1,870	0	0	1,870
Sally Beaumont	450	0	450	450
SFG Corporate Pty Ltd	0	0	33,688	33,688
Shredlock	73	0	0	73
Toll Resources Limited	15,214	0	0	15,214
<b>Sub-Total Creditors &lt; \$100,000</b>	<b>227,713</b>	<b>0</b>	<b>434,116</b>	<b>505,530</b>
<b>Creditors over \$100,000</b>				
Orica Australia Pty Ltd - Future Tank Charges	0	0	1,919,923	1,919,923
Orica Australia Pty Ltd - Past and Interim charges	0	4,387,415	0	4,387,415
Orica Australia Pty Ltd - Product Charges	0	837,630	0	837,630
Clayton Utz	208,295	0	219,269	219,269
Corporate File Pty Ltd	39,600	0	118,800	118,800
Randazzo Investments Pty Ltd	0	0	468,833	468,833
SNF (Australia) Pty Ltd	0	0	282,755	282,755
<b>Sub-Total Creditors &gt; \$100,000</b>	<b>247,895</b>	<b>5,225,045</b>	<b>3,009,580</b>	<b>8,234,625</b>
<b>Overall Total</b>	<b>\$475,608</b>	<b>\$5,225,045</b>	<b>\$3,443,696</b>	<b>\$8,740,155</b>

The listing of creditors' claims above is intended for guidance purposes. Adjudication upon many of these claims is not complete.



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# Annexure 2

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## Deed Administrators' Summary of Receipts and Payments



**Compass Resources Limited**  
**(Subject to Deed of Company Arrangement) (Receivers and Managers Appointed)**  
**29 January 2009 to 22 June 2010**

Receipts & Payments For the Period	Total (\$)
<b>Receipts</b>	
Bank Interest	113,032
Other Income	61,215
Pre-Appointment Bank Balance	9,444,076
Pre-Appointment Sales	19,703
Refunds and Reimbursements	904,596
Sale of Equipment	8,701
<b>Total Receipts</b>	<b>10,551,322</b>
<b>Payments</b>	
Advertising	(53,345)
Appointee Costs	(181,390)
Appointee Fees	(1,443,474)
Auctioneer's Fees and Charges	(98,360)
Bank Charges	(11,564)
Consultancy fees	(584,859)
Dividend for Preferred (Employee) Creditors	(968,524)
Preappointment Superannuation	(229,689)
Employee Expenses	(162,994)
Equipment/Venue Hire	(2,385)
Freight Outwards	(46)
Government Charges	(2,796)
Hire & Leasing	(26,034)
Insurance	(160,873)
Joint venture fee	(25,000)
Legal Fees	(972,933)
PAYG Control	(122,899)
PAYG Withheld	130,900
Payroll Tax	(45,763)
Petty Cash	(500)
Preferred Creditors: Leave of Absence	(3,512)
Printing & Stationary	(17,833)
Rent & Rates	(188,791)
Repairs & Maintenance	(5,249)
Share Registry Charges	(119,954)
Statutory Charges	(7,514)
Subcontractors	(70,088)
Sundry Expenses	(65,835)
Superannuation	(176,151)
Telephone, Fax & IT	(83,333)
Tenement Administration Expenses	(82,977)
Tenement Rent	(6,386)
Utilities	(4,759)
Wages & Salaries	(1,310,373)
<b>Total Payments</b>	<b>(7,105,281)</b>
<b>Closing Cash at Bank</b>	<b>\$ 3,446,041</b>



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# Annexure 3

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## DOCA Variation Proposal



**PROPOSAL TO VARY HOLDING DOCA  
COMPASS RESOURCES LIMITED ACN 010 536 820 (“CMR”)  
(Subject to Deed of Company Arrangement) (Receivers and Managers  
Appointed)  
(Formerly Compass Resources NL)**

[All references to “\$” amounts are to Australian dollars, unless otherwise stated]

MATTER	PROPOSAL
<b>YA Global Debt</b>	YA Global will convert 100% of its debt for the issue of new shares in CMR, so that following the issue of all shares in CMR to be issued under this proposal ( <b>Recapitalisation</b> ) YA Global holds a minimum of 80% of CMR shares as a result of the conversion.
<b>Coffee House Debt</b>	Coffee House will convert 100% of its debt (approximately \$37,798.404.43) into equity for the issue of new shares in CMR, so that following the Recapitalisation, Coffee House holds a minimum of 15% of CMR shares as a result of the conversion.
<b>HAR Debt</b>	<p>On the day of completion of the Recapitalisation, CMR will pay HAR (in its capacity as joint venturer or as operator of the relevant joint venture, as the case may be) the sum of:</p> <ul style="list-style-type: none"><li>• such amount as is required to balance the quantum of the Oxide JV Expenditure (as that term is used in the Oxide JV agreement) paid by HAR prior to 29 January 2009 with the quantum paid by CMR prior to that date (being half of the difference between the quantum of their respective payments)</li><li>• HAR’s contribution notices in respect of the cash calls paid by HAR on behalf of CMR under the Oxide JV;</li><li>• HAR’s contribution notices in respect of the cash calls paid by HAR on behalf of CMR under the Regional Exploration JV;</li><li>• any cash calls issued under the Oxide JV to CMR which have not been paid by CMR and have not been made up by HAR pursuant to a contribution notice;</li><li>• any cash calls issued to CMR under the Regional Exploration JV which have not been paid by CMR and have not been made up pursuant to a contribution notice issued to HAR;</li><li>• interest at the rate contemplated by the Oxide JV or Regional Exploration JV (as the case may be) on amounts referred to in the bullet points above; and</li><li>• any enforcement costs incurred by HAR under the Oxide</li></ul>

	<p>JV or the Regional Exploration JV, less any such amounts previously received by HAR or recovered by the receivers and managers appointed by HAR to CMR.</p> <p><b>(HAR Amount)</b></p>
<b>Other Debt</b>	All other debt will be dealt with by way of a creditors' trust.
<b>Establishment of Creditors' Trust</b>	<ul style="list-style-type: none"> <li>• A creditor's trust will be established and named the "Compass Resources Creditors' Trust" (<b>Creditors' Trust</b>).</li> <li>• The deed administrators will be appointed as the trustees of the Creditors' Trust.</li> <li>• The purpose of the Creditors' Trust will be to enable certain tasks ordinarily undertaken by the deed administrators (including, but not limited to, the calling for and the adjudication of creditors' proofs of debt) to be performed by the trustees of the Creditors' Trust in order to facilitate the termination of the DOCA.</li> <li>• There will be three classes of creditors under the Compass Resources Creditors' Trust. These will be the CMPL Creditors, the CMR Creditors and HNC.</li> <li>• Those classes will be:             <ul style="list-style-type: none"> <li>○ <b>CMPL Creditors:</b> means the admitted indemnity claim of Compass Mining Pty Ltd (in liquidation) whose claim is a Liability (as that term is defined in the Oxide Joint Venture Agreement dated 26 April 2007) properly and reasonably incurred or sustained by Compass Mining Pty Ltd (in liquidation) in its capacity as Oxide Operator (as that term is defined in the Oxide Joint Venture Agreement dated 26 April 2007).</li> <li>○ <b>CMR Creditors:</b> means the admitted unsecured creditors (including any remaining priority claims currently unpaid in respect of staff whose employment is terminated before the date of the Recapitalisation) of Compass Resources Ltd (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), including PWC and Orica (if admitted) but excluding YA Global, HAR, HNC, Compass Mining Pty Ltd (in liquidation) and Coffee House. The CMR Creditors include any admitted claims of shareholders of</li> </ul> </li> </ul>



	<p>Compass Resources. To avoid the risk of double proof, creditors of the Oxide operation whose claims are taken into account in calculating the CMPL Creditors shall be excluded from the CMR Creditors.</p> <ul style="list-style-type: none"><li>○ <b>HNC:</b> means HNC for its admitted claim of approximately \$15,596,999.98.</li><li>● The deed administrators will transfer to the trustees of the Creditors' Trust such of the Compass Mining Creditors' Asset Pool, the Compass Resources Creditors' Asset Pool and the HNC Asset Pool that are available to be transferred upon the Recapitalisation.</li></ul>
<b>CMPL Creditors' Asset Pool</b>	<ul style="list-style-type: none"><li>● The assets available for distribution to the CMPL Creditors will be:<ul style="list-style-type: none"><li>○ \$2,500,000 cash (paid from the Loan Funds) or such lesser amount as is required to pay CMPL's admitted claim in full;</li></ul></li></ul> <p style="text-align: center;"><b>(CMPL Creditors' Asset Pool)</b></p> <ul style="list-style-type: none"><li>● The creditors' claims within the class will rank equally and, if the available CMPL Creditors' Asset Pool is insufficient in any given year to meet the claims of the CMPL Creditors in full, amounts will be paid proportionately and by way of interim dividend.</li></ul>
<b>CMR Creditors' Asset Pool</b>	<ul style="list-style-type: none"><li>● The assets available for distribution to the CMR Creditors will be:<ul style="list-style-type: none"><li>○ \$3,250,000 cash (paid from the Loan Funds);</li><li>○ any part of the \$2,500,000 otherwise forming part of the CMPL Creditors' Asset Pool that exceeds the amount of CMPL's admitted claim; and</li><li>○ a bond issued by CMR for an amount equivalent to 25% of the aggregate amount of the admitted claims of CMR Creditors with admitted claims of more than \$100,000 subject to a maximum cap on the bond of \$6,000,000, maturing 3 years after the termination of the Varied DOCA and paying 10% interest per annum, with interest being capitalised in each year and payable upon maturity of the bond.</li></ul></li></ul>

	<p>(together <b>CMR Creditors' Asset Pool</b>).</p> <ul style="list-style-type: none"> <li>• The Fund will be applied by the Trustees in the manner and order of priority as follows: <ul style="list-style-type: none"> <li>○ to pay any liabilities properly incurred by the Deed Administrators and Trustees during the course of the DOCA/Trust (and tail off Administration/DOCA trading liabilities, if any);</li> <li>○ to pay the Deed Administrators'/Trustees' remuneration and out of pocket expenses in the course of them carrying out their duties;</li> <li>○ to pay dividends to the priority beneficiaries (if any);</li> <li>○ to pay to the CMR Creditors with admitted claims of \$100,000 or less whose debts and claims against CMR arose on or before 29 January 2009 and are admitted to proof, dividends of 100 cents in the dollar on their admitted claim;</li> <li>○ to pay dividends to the CMR Creditors with admitted claims of more than \$100,000 whose debts and claims against CMR arose on or before 29 January 2009 and are admitted to proof.</li> </ul> </li> <li>• Section 444DB of the Act applies to the DOCA and the Trust.</li> <li>• If the CMR Creditor's Asset Pool is insufficient to meet the claims of the CMR Creditors in full, amounts will be paid proportionately and by way of interim dividend.</li> </ul>
<p><b>HNC Asset Pool</b></p>	<p>The assets available for distribution to HNC will be a bond issued by CMR for \$15,596,999.98 (the full admitted amount of the claim), maturing 3 years after the date of termination of the Varied DOCA and paying 10% interest per annum, with interest being capitalised in each year and payable upon maturity of the bond.  <b>(HNC Asset Pool)</b></p>
<p><b>New CMR Directors</b></p>	<ul style="list-style-type: none"> <li>• Existing CMR directors resign or are removed by the deed administrators, upon execution of the Varied DOCA.</li> <li>• After execution of the Varied DOCA but prior to the date of termination of the Varied DOCA, the deed administrator will appoint the new CMR directors (<b>New CMR Directors</b>). These New CMR Directors will be nominated by, and in the number of nominees (or equivalent proportion), stated</li> </ul>

	<p>below:</p> <ul style="list-style-type: none"> <li>○ YA Global: 4 nominee directors.</li> <li>○ Coffee House: 2 nominee directors.</li> <li>● CMR shall be returned to the New CMR Directors upon termination of the Varied DOCA.</li> </ul>
<p><b>Other CMR Assets</b></p>	<ul style="list-style-type: none"> <li>● All other CMR assets (excluding the shares held by CMR in CMPL) and cash remain with CMR, except with the prior written consent of YA Global.</li> <li>● For clarity, the only assets available for distribution to admitted creditors are the CMPL Asset Pool, the CMR Asset Pool and the HNC Asset Pool.</li> </ul>
<p><b>Funding by YA Global</b></p>	<p>YA Global will enter into funding agreements with CMR following execution of the Varied DOCA (<b>Loan Funds</b>), conditional upon completion of the Recapitalisation, to fund required payments to the Creditors' Trust and CMR's immediate future working capital requirements, under which:</p> <ul style="list-style-type: none"> <li>● On the day of completion of the Recapitalisation, YA Global will loan CMR sufficient funds for the purpose of enabling CMR to meet its payment obligations under this proposal and its immediate working capital requirements, subject to terms including but not limited to: <ul style="list-style-type: none"> <li>○ interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan;</li> <li>○ funds advanced by YA Global will be repaid by CMR upon the first to occur of: <ul style="list-style-type: none"> <li>▪ the date 3 years after the date of termination of the Varied DOCA; and</li> <li>▪ 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months; and</li> </ul> </li> <li>○ YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default.</li> </ul> </li> <li>● YA Global will loan further funds (to a maximum of approximately \$25,800,000) to the Recapitalised CMR, subject to conditions acceptable to YA Global including,</li> </ul>

	<p>but not limited to:</p> <ul style="list-style-type: none"> <li>○ funds will be provided on a monthly basis to meet future cash calls by the JV Operator based on funding requests by the Recapitalised CMR (such request to be made on or before the 20<sup>th</sup> of the preceding month);</li> <li>○ interest will be payable on the funds advanced by YA Global at the rate of 10% per annum. Interest will be capitalised in each year and paid upon the expiration of the term of the loan;</li> <li>○ funds advanced by YA Global will be repaid by CMR upon the first to occur of: <ul style="list-style-type: none"> <li>▪ the date 3 years after the date of termination of the Varied DOCA; and</li> <li>▪ 6 months after the Oxide JV becomes cash-flow positive for a period of not less than 3 consecutive months; and</li> </ul> </li> <li>○ YA Global retains the right at all times to be able to call for immediate repayment of any outstanding loan funds (with interest) following an event of default.</li> <li>● CMR will grant YA Global a fixed and floating charge over all of its assets to secure the repayment of the advances by it, which will rank: <ul style="list-style-type: none"> <li>○ Second in relation to the Oxide JV interest and Oxide JV Property (behind the HAR security); and</li> <li>○ First in relation to all other assets of CMR.</li> </ul> </li> </ul>
<b>Notification of Termination of DOCA</b>	The Deed Administrators will give written notice to the creditors that the DOCA has terminated.
<b>Enforcement against the company</b>	Consistent with the execution of the earlier DOCA, the company, any officer or member of the company or any creditor bound by the provisions of the DOCA must not make any application to wind up the company, continue any such application or commence or continue any enforcement process in relation to the property of the company.
<b>Costs during the DOCA</b>	<ul style="list-style-type: none"> <li>● During the course of the DOCA and prior to the Recapitalisation, the Deed Administrators' remuneration and costs shall be paid from funds held by CMR. This</li> </ul>

	<p>does not include cash calls received from HAR in relation to JV Expenditure.</p> <ul style="list-style-type: none"> <li>• The Deed Administrators must maintain the Peru tenements by paying sufficient moneys from funds held by CMR to do so.</li> <li>• The Deed Administrators must pay up to \$390,000 from funds held by CMR for an aerial survey of the CMR tenements, as required to maintain the tenements and advance the Uranium assets.</li> <li>• The Deed Administrators will pay from funds held by CMR for the costs of the creditors' meeting, the administrators' legal costs of the varied DOCA and associated documents and all necessary expenses to hold an additional shareholder's meeting to vote on the necessary resolutions, and only those resolutions, if the creditors approve the YA Global DOCA.</li> <li>• The Deed Administrators will, in the period up until Completion, pay from funds held by CMR, the costs incurred by CMR in the arbitration, but will not be bound to pursue the arbitration at any time after a condition precedent to the proposal becomes incapable of being satisfied, and is not waived by YA Global if, in their absolute discretion, they consider that it is no longer in the best interests of the creditors for CMR to continue to do so.</li> <li>• The Deed Administrators must not terminate the employment of CMR staff prior to Recapitalisation, except with the prior written consent of YA Global.</li> </ul>
<b>Committee of Inspection</b>	<ul style="list-style-type: none"> <li>• At the meeting of creditors held to consider this proposal, creditors may appoint a new Committee of Inspection, to replace the existing Committee.</li> <li>• The newly formed Committee (or continuing existing Committee) shall be comprised, as a variation to clause 11 of Schedule 8A of the Corporations Regulation, of a number of members determined by the creditors at the meeting and may include one shareholder representative as a full member of the Committee.</li> </ul>
<b>Other terms</b>	<ul style="list-style-type: none"> <li>• That any other terms and conditions as contained in Schedule 8A of the Corporations Regulations be retained</li> </ul>

	<p>so as to give effect to the DOCA.</p> <ul style="list-style-type: none"> <li>• Sections 440C and 440D will apply while the DOCA is on foot.</li> </ul>
<p><b>Termination of DOCA and Creditors' Trust</b></p>	<ul style="list-style-type: none"> <li>• The DOCA and the appointment of the deed administrators will terminate on the earlier of the following events: <ul style="list-style-type: none"> <li>○ the conditions precedent to this proposal not being met or waived on or before the required date for satisfaction of them;</li> <li>○ a resolution to that effect is passed by the creditors at a meeting convened by the deed administrators;</li> <li>○ upon the execution by the trustees of the Creditors' Trust and simultaneously with the receipt of all relevant assets comprising the Compass Mining Creditors' Asset Pool, the Compass Resources Creditors' Asset Pool and the HNC Asset Pool;</li> <li>○ otherwise in accordance with the Act; or</li> <li>○ by an order of the Court.</li> </ul> </li> <li>• The Creditors' Trust will terminate on the earlier of the following events: <ul style="list-style-type: none"> <li>○ the date that is 80 years after the date that the Creditors' Trust becomes operative;</li> <li>○ the conditions precedent to this proposal not being met or waived on or before the required date for satisfaction of them;</li> <li>○ the satisfaction of the admitted claims of creditors in all classes of beneficiaries in full or, if the assets available for distribution to a relevant class of creditors is insufficient to meet the claims of that class of creditors in full, the payment of such amounts (paid proportionately) permitted by the class's available assets;</li> <li>○ otherwise in accordance with the Trustees Act or the Trust Deed; or</li> <li>○ by an order of the Court.</li> </ul> </li> </ul>

<b>Conditions Precedent</b>	<ul style="list-style-type: none"> <li>• The proposal is subject to and conditional upon:           <ul style="list-style-type: none"> <li>○ YA Global being satisfied (in its absolute discretion) with the due diligence to be carried out by it in respect of CMR and the JVs.</li> <li>○ YA Global being satisfied (in its absolute discretion) with the quantum of the HAR Amount.</li> <li>○ CMR not claiming against CMPL in respect of debts incurred by CMR by way of JV expenditure.</li> <li>○ All required regulatory approvals being obtained on conditions satisfactory to YA Global.</li> <li>○ CMR shareholders approving the issue of the new shares and to the second funding facility provided by YA Global being secured by the fixed and floating charge to be granted to YA Global.</li> <li>○ HAR agreeing in writing to:               <ul style="list-style-type: none"> <li>▪ CMR being reinstated as a Non-Defaulting, voting member of the Operating Committees of the Oxide, Sulphide and Regional Exploration JVs; and</li> <li>▪ retire its receivers and managers upon the Recapitalisation.</li> </ul> <p>or it being determined by a binding Court order or arbitral award that upon completion occurring under the amended Varied DOCA, and the payment to HAR of the HAR Amount, there will no longer be Events of Default under the relevant Joint Ventures, CMR will no longer be a Defaulting Joint Venturer and HAR must cause the receivers and managers to retire.</p> </li> <li>○ YA Global and HAR reaching agreement as to the future operation of the JVs.</li> <li>○ CMPL releasing its security over CMR which will occur concurrently with the advance of the loan funds and execution of the Creditors' Trust.</li> </ul> </li> <li>• Any condition precedent may be waived in writing solely at the election of YA Global.</li> </ul>
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	<ul style="list-style-type: none"> <li>• The intended terms of any bonds to be issued by the recapitalised CMR must be approved by the administrator and YA Global prior to the termination of the Varied DOCA.</li> <li>• Subject to the two immediately following dot points, all conditions precedent must be satisfied or waived within 90 days of the date of the meeting of creditors to vote upon this proposal.</li> <li>• At the request of YA Global, the deed administrators may at their discretion extend the final date for satisfying or waiving the conditions precedent, up to a final extended date of 180 days of the date of the meeting of creditors to vote upon this proposal.</li> <li>• If any condition precedent is not satisfied or waived by the required date for satisfaction or waiver of that condition, then the deed administrators may convene a meeting of creditors to put an alternate proposal for the reconstruction of CMR or otherwise terminate the Varied DOCA.</li> </ul>
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## Schedule

### Shareholdings following Recapitalisation

80% YA Global  
 15% Coffee House  
 5% Existing Shareholders of CMR

Note: YA proposes that following recapitalisation, the recapitalised CMR will issue to the Existing Shareholders of CMR various options to acquire ordinary shares in CMR. If those options are exercised, the shareholding percentages above will change.

For clarity, where the offer of the options to certain Existing Shareholders requires disclosure under the Corporations Act, the offer of the options to those Existing Shareholders will be subject to CMR first making the required disclosure, and:

1. a disclosure document for the offer will be made available when the options are offered; and
2. anyone who wants to acquire the options will need to complete the application form that will be in or will accompany the disclosure document.