



COMPASS RESOURCES NL

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**FINANCIAL REPORT  
FOR THE YEAR  
ENDING  
31 DECEMBER, 2004**

## DIRECTORS' REPORT

The Directors present their report together with the financial report of Compass Resources NL ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 December, 2004 and the auditors' report thereon.

### Directors

The Directors of the Company at any time during or since the end of the financial year are:

**Malcolm Humphreys**, BSc(Hons), PhD, MAusIMM, M.S.E.G., M.S.M.E.  
Executive Chairman  
Director since April 1987.

Dr. Humphreys has extensive experience in the mining industry including exploration, mine development and operations. He has held senior executive positions with international companies in Australia, the United States of America, Europe and South Africa.

**Rodney Elvish**, FRMIT, Dip.Min.Econ., FAusIMM, CP, MMICA FAICD  
Technical Director  
Director since October 2004

Mr. Elvish is a consultant metallurgist with over 30 years broad technical and management experience in the global minerals industry. He is a past president of the Australasian Institute of Mining and Metallurgy and Chairman of Allstate Explorations NL (under Deed of Company Arrangement).

**Philip Cohen**, BA, LL.B  
Director, Company Secretary and Manager of Corporate & Legal Services  
Director since April 1987.

Mr. Cohen commenced practice as a solicitor in NSW in 1970. Prior to joining Compass he was a Senior Legal Adviser to a major international resource company and has practiced extensively in the fields of resource and mining law.

**John Chappell**, BSc(Hons), PhD, FAusIMM, F.S.E.G.  
Non-Executive Independent Director  
Director since May 1987.

Dr. Chappell has extensive experience in the mining industry in Australia, Europe, Africa and Central America. He has been involved in a number of grass roots discoveries and mine developments.

**Gordon Toll**, BE Mining (Hons), MSc, MAusIMM  
Non-Executive Independent Director  
Director since July 2001.

Mr. Toll manages his private investment company based in the Isle of Man and has over 30 years experience in senior commercial and technical executive positions with major international resource companies. He is a non-executive Chairman of Perth based LinQ Resources Fund, and a non-executive director of Fortescue Metals Group.

### Directors Meetings

There were 12 Directors' meetings held during the financial period attended as follows:

	<i>Board Meetings</i>	
	<b>A</b>	<b>B</b>
M. Humphreys	11	12
P. Cohen	11	12
J. Chappell	12	12
G. Toll	10	12
R. Elvish	1	1

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

### Principal Activities

The principal activity of the consolidated entity during the financial year was exploration for base and precious metals.

### Consolidated Result

The net loss of the consolidated entity was \$475,199 (December 2003: \$147,873).

### Operations Review

#### **Outlook**

Strong prices and favourable mid-term metal demand forecasts provide an opportunity to realise value for shareholders from the Company's mineral projects.

Priority of the Company's human and financial resources is being allocated to the Browns Oxide Project with a development decision anticipated mid-year. A positive outcome will see the transition of the Company from explorer to mine development and operations. The Company is preparing itself for that transition and as an initial step appointed Mr. R. D. Elvish to the Board as Technical Director with primary responsibility for the Browns Oxide Project.

The Company's other resources and exploration projects hold significant potential for long term company growth. Programmes are planned to follow up on gold, base and speciality metal drill intercepts as well as to test some attractive new targets.

The Company will also commence exploration for uranium and associated gold and platinum mineralisation in the high potential Rum Jungle uranium district of the Northern Territory.

#### **Company Strategy**

In a new strategy focussing on an early start up operation for the increasingly significant Browns base and speciality metals project in the Northern Territory, the Company evaluated a number of lower cost development options, largely within its own financial capability. As a result in October 2004 the Browns Oxide Project was announced, targeting a development decision in 2005 and production of copper, cobalt and nickel in 2006.

Following successful development of the Browns oxide ores and likely extensions to it, the Company will plan for satellite developments at Mt. Fitch and Area 55 and possibly other oxide prospects yet to be fully delineated.

It is envisaged that once Compass is seen as a reliable supplier of copper, cobalt and nickel it will be in a position to expand development to its major base and speciality metal sulphide resources with or without a strategic international partner.

In recognition of the high potential of the Batchelor region for new uranium discoveries and the positive outlook for longer term uranium production, the Company has decided to commence a uranium exploration programme. The Company's tenements and applications cover the area of highest exploration potential over and surrounding the old Rum Jungle uranium field.

The Company will continue to progress a gold and base metals exploration programme in NSW to complement those in the Northern Territory but will rely principally on coventurer funding for its overseas gold exploration projects.

#### **Results and Future Plans**

**Browns Base and Speciality Metals Project, NT (Compass 90%)** Following a review of acid leach tests on oxide ores capping the large Browns sulphide deposit, the Board made a strategic decision to work towards the early production of copper, cobalt and nickel from these surficial ores. Resources at Browns were re-estimated in late 2004 by Hellman and Schofield, an independent consultancy. The re-estimation took into account drill holes not previously included in the resource calculation and encouragingly resulted in an increase in contained metals in both the oxide and sulphide deposits

Additional drill samples of oxide ore were then collected in November and December to confirm the metallurgy of oxide ores from across and along the Browns deposit. Drilling was also conducted at the Mt. Fitch and Area 55 prospects to ensure that a plant designed for Browns ore could sequentially treat ores from these other areas, which are known to contain significant additional oxide resources.

Metallurgical, engineering and environmental work is underway targeting a development decision mid 2005. This is expected to result in production of copper, cobalt and nickel in 2006. The current focus is towards an operation to produce 10,000 tonnes per annum (tpa) copper, 1,000 tpa cobalt and 700 tpa nickel, however the scale is subject to mining and engineering studies.

The re-estimation of the sulphide resource showed a significant increase in copper and lead grades through better definition of the separate copper and lead dominant lenses. The revised resource, which is now a good reflection of the geology of the deposit, will give more flexibility to mine planning for a subsequent sulphide operation. Initial planning for this sequential sulphide development will commence in 2005.

**Mt Fitch/Area 55/Browns East Exploration (Compass 90%)** As a result of the added importance of oxide resources established during the 2004 programme further drilling is being planned for the 2005 dry season to expand the oxide resources at both Mt. Fitch and Area 55 and also to follow up oxide mineralisation extending from Browns into the Browns East tenements. The Company will also follow up significant sulphide drill intercepts at Mt. Fitch South and Mt. Fitch

North, located 7 and 9 kilometres to the northwest of the Browns Project. Mt. Fitch South in particular may represent a major new discovery.

**Uranium Potential** The Rum Jungle uranium field lies largely within the Company's Northern Territory base metal tenements. The prospectivity of this region for new uranium discoveries, possibly with significant gold and platinum credits, is high although Compass has not actively pursued these minerals in the past.

With the increasingly favourable international outlook for uranium, the Company decided to commence uranium exploration within our existing tenements in 2005. Additionally Compass applied for 3 new tenements to complete the coverage of an area of high uranium exploration potential in this former uranium producing region. A number of significant uranium intercepts and partly defined resources are known to occur within Compass tenements. These will likely be added to with further compilation from our existing base metal database. Some of these intercepts are associated with gold and platinum mineralisation having characteristics analogous to the major Arnhem Land and Canadian Saskatchewan deposits.

**Phelps Dodge Drilling** A 1,214 metre core hole drilled by Phelps Dodge Australasia Inc beneath the existing Browns deposit failed to intersect significant base metal mineralisation. Compass geologists believe that the mineralisation may have been displaced by a cross fault at this location. In any event the hole which was terminated at 600 metres vertically below a substantial intercept of 68 metres in Compass' deepest drilling, has left plenty of potential for expansion of the Browns resource at depth. Phelps Dodge which only held exploration rights from 350 metres below Browns surface and excluded most of the existing resource withdrew from the project without a retained interest.

**NSW Gold And Base Metal Exploration** The Company's gold exploration emphasis is centred on our tenements in the prospective gold/copper province in the Lachlan Fold Belt in Central West NSW. The Company has identified a number of prospects within Compass' 100% owned tenements and has beneficial interests in other projects in the Parkes-Forbes region with established gold mineralisation.

**Wyoming Gold Resource (Compass royalty interest)** The Company holds a significant royalty interest over the Wyoming gold deposits where Alkane Exploration Limited (Alkane) has outlined a resource of over 600,000 ounces gold. Alkane have announced plans for continued resource development drilling in conjunction with prefeasibility studies. The scale of production for any operation and therefore Compass' royalty will be determined by feasibility studies. Compass remains optimistic that a resource of this size has good potential to support a commercial mining operation.

**Tomingley West (Compass 100%)** Compass has encountered a strong copper gold anomaly at its South Bogan Prospect, in a drill programme testing beneath transported soil (similar to Wyoming). The prospect is located 14 kilometres southwest of Alkane's Wyoming discoveries and 25 kilometres north of the North Parkes Mine. It is hosted by altered Ordovician andesites on the same north-west lineament that passes through the Peak Hill gold mine. A significant follow up drill programme will be implemented in 2005.

**Ironbark (Compass 100%)** An initial structural drilling programme was completed on the Ironbark Exploration Licence (Styles and Croakers prospects) approximately 40 kilometres south of Forbes. Large intercepts of lower grade gold mineralisation were recorded (e.g. 43 metres @ 0.32 g/t Au) containing better grade spikes (e.g. 2 metres at 1.54 g/t Au). Whilst not intersecting ore grade mineralisation over sufficient widths, the structures intersected suggest a large gold bearing source may have introduced the mineralisation and associated alteration and could change into a commercial gold deposit at depth. Follow up geophysical work is planned to define the source of the mineralisation.

**Alectown East (Newcrest 75% increasing)** Newcrest Mining Ltd., operator of our Alectown East project has obtained encouraging gold/copper drill results following the completion of a detailed gravity survey over the prospect and adjacent ground. The last hole completed intersected narrow higher grade gold intersections, unlike the wide lower grade intersections reported in earlier holes. Compass elected to dilute equity rather than contribute to the last programme. A further contribution or dilution election is required for the 2005 programme.

**Cuttaburra/Yancannia (Compass 80%)** The Company acquired these ELs in conjunction with joint venture partner Bohuon Resources Pty. Ltd. The Project is based on the evaluation of recently released NSW Government geophysical data. This data and regional compilation suggests a repeat of Cobar basin deposits could occur beneath cover rocks in this area. The Company plans to test the new geophysical concept in this previously unexplored region of northwest NSW. A ground based geophysical survey will help define drill targets at depths of around 100 metres below surface, interpreted as potentially large base metals deposits similar to orebodies in the nearby Cobar basin.

#### **American Interests**

**Peruvian Gold** The Company concluded agreements with Newmont Peru and Perth based AKD Ltd/Terrace Resources NL, whereby Compass 70% and AKD 30% acquired Newmont's Peruvian Nangali gold project. Nangali is a very prospective high level low sulphidation epithermal gold vein system with a target potential of 500,000 to 2 million ounces gold at a high grade. Whilst drill targets had already been identified by Newmont, they fell below that Company's target size. The title to tenements covering this property will be transferred from Newmont before field exploration commences.

Compass and AKD are also investigating combining their respective Californian World Beater gold project and Peruvian Chinguela gold project (adjacent to Nangali) into a single company to be held Compass 70% AKD 30%. Consideration is being given to funding exploration of these properties through the introduction of a new coventurer.

**World Beater Gold Project, California USA** The World Beater gold project is currently farmed out to and operated by Vancouver based MBA Gold Corp (MBA) who have earned 30% equity. After an extensive drill programme in 2003/4 MBA were unable to increase the resource sufficiently to justify early development of the

200,000 ounce Worldbeater gold resource. Discussions are in progress with the US Bureau of Land Management regarding continued drill site access.

#### **Derivatives and other financial instruments**

The consolidated entity's activities expose it to changes in interest rates, foreign exchange rates and commodity prices. It is also exposed to liquidity risk. Management monitor these risks on a periodic basis, however, no derivative financial instruments are currently used to hedge these exposures.

#### **Dividends**

No dividend has been paid or declared by the Company since the end of the previous financial year, and no dividend will be paid for the current financial year.

#### **Significant Changes in the State of Affairs**

Other than as disclosed in the Operations Review, in the opinion of the Directors there were no significant changes in the state of affairs of the consolidated entity during the financial year under review.

#### **Shares/Options**

During and since the end of the financial year the Company has issued the following securities:

##### September 2004

Shares issued as non-executive directors' fees in lieu of cash pursuant to a resolution of members in the 2004 AGM:

45,000 ordinary fully paid shares at 12.5 cents per share;

83,018 ordinary fully paid shares at 29 cents per share;

87,260 ordinary fully paid shares at 20.8 cents per share.

##### December 2004

12,078,530 ordinary full paid shares at 30 cents per share to shareholders pursuant to a Share Purchase Plan (4,298,531 shares) and to investors in accordance with Listing Rule 7.1 and Corporations Act Section 708 (7,779,999 shares).

##### March 2005

1,180,000 partly paid ordinary shares at an issue price of 37.5 cents per share and paid to one cent pursuant to the Company's Staff Equity Participation Plan and a resolution of members in the 2004 AGM. Shares were issued to the Trustee on behalf of directors (1,000,000 shares) and other staff (180,000 shares).

52,156 ordinary fully paid shares at 34.8 cents per share as non-executive directors' fees in lieu of cash, pursuant to a resolution of members at the 2004 AGM.

At the date of this report there are Nil unissued ordinary shares of the Company under Option.

During the financial year the following unlisted Options expired:

1,000,000 unlisted 70¢ options expired on 30/6/2004.  
1,000,000 unlisted 90¢ options expired on 31/12/2004.

#### Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years apart from shares issued to directors subsequent to year end and disclosed under Directors' and Senior Executives' Emoluments.

#### Likely Developments

Information about likely developments has been included in the Operations Review section of the Annual Report.

#### Directors' Interests and Benefits

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

		<i>Direct</i>	<i>Indirect</i>	<i>Share Plan</i>
M. Humphreys	Shares	2,885,820	1,549,400	564,000
	Options	-	-	-
P. Cohen	Shares	1,137,571	8,000	308,000
	Options	-	-	-
J. Chappell	Shares	195,913	1,564,555	300,000
	Options	-	-	-
G. Toll	Shares	188,478	707,446	300,000
	Options	-	-	-
R. Elvish	Shares	-	351,327	-
	Options	-	-	-

"Share Plan" refers to partly paid shares issued under the Compass Staff Equity Participation Plan.

#### Directors' and Senior Executives' Emoluments

Remuneration of Company executives and of non-executive Directors is determined by the Board. Consideration is given to comparative companies within the exploration industry relative to duties and responsibilities. A relatively conservative level of remuneration has been maintained.

Details of the total remuneration received by the Company's executive and non-executive Directors are:

	<b>Salary &amp; Fees</b>	<b>Super</b>	<b>Incentives</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Executive</b>				
<b>Current</b>				
M. Humphreys	108,121	23,699	4,316	136,136
P. Cohen	47,634	27,613	6,683	81,930
<b>Non-Executive</b>				
<b>Current</b>				
J. Chappell	15,000	-	-	15,000
G. Toll	35,625	-	-	35,625

The Company's executive Directors are the only executive officers of the consolidated entity.

Details of shares issued in March 2005 at 37.5 cents and partly paid to one cent, to Compass Staff Equity Pty. Ltd., Trustee under the Compass Staff Equity Participation Plan, on behalf of Directors or their nominated associates are:

300,000 shares on behalf of G. Toll  
250,000 shares on behalf of M. Humphreys  
250,000 shares on behalf of J. Chappell  
200,000 shares on behalf of P. Cohen

These shares were issued pursuant to a Resolution of members in the 2004 AGM.

Details of directors' fees received by the Company's non-executive Directors are:

J. Chappell 14,052 ordinary fully paid shares in lieu of \$5,000 directors fees for the period 1 April, 2004 to 30 June, 2004.

39,183 ordinary fully paid shares in lieu of \$10,000 directors' fees for the period 1 July, 2004 to 31 December, 2004.

23,420 ordinary fully paid shares in lieu of \$8,150 directors' fees for the period 1 January, 2005 to 30 June, 2005 plus \$1,850 cash fees.

G. Toll 45,000 ordinary fully paid shares in lieu of \$5,625 director's fees for the period 1 April, 2003 to 30 June, 2003.

68,966 ordinary fully paid shares in lieu of \$20,000 director's fees for the period 1 July, 2003 to 30 June, 2004.

48,077 ordinary fully paid share in lieu of \$10,000 director's fees for the period 1 July, 2004 to 31 December, 2004.

28,736 ordinary fully paid shares in lieu of \$10,000 director's fees for the period 1 January, 2005 to 30 June, 2005.

R. Elvish \$3,400 paid in February 2005 for the period to 30 June 2005. Details of payments to a personally related entity of Mr. Elvish, Biernacki & Elvish Enterprises Pty. Ltd., under a contract for consultancy services are set out in Note 18 of the Financial Statements on Page 22 of this Annual Report.

The aggregate authorised fees for non-executive Directors is \$100,000 per annum.

#### Indemnification and Insurance of Officers Insurance Premiums

Since the end of the previous financial year the Company has paid insurance premiums in respect of Directors' and Officers' Liability for any past, present or future director, secretary, executive or employee of Compass Resources NL and all subsidiary companies. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums were paid in respect of the following officers of the Company and its controlled entities:

M. Humphreys  
P. Cohen  
J. Chappell  
G. Toll  
R.D. Elvish  
M. N. Slater  
R. H. Cuttriss

The premium paid has not been disclosed as it is subject to the confidentiality provisions of the insurance policy.

***Indemnification***

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person that is or has been an officer or auditor of the Company.

Dated at Sydney, this 23<sup>rd</sup> March 2005

Signed in accordance with a resolution of the Directors.



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P. Cohen – Director

## CORPORATE GOVERNANCE

This statement outlines the main corporate governance practices during the reporting period. Where these practices vary from the Corporate Governance Council Recommendations (CGC Recommendations), is identified in this statement.

### Board of Directors

The Board is responsible for the overall corporate governance of the consolidated entity including its strategic direction and goals, the management framework of the consolidated entity including a system of internal control, business risk management and the maintenance of appropriate ethical standards. The Board meets regularly in formally constituted meetings with comprehensive agenda and Board papers circulated to Directors prior to the meeting. Board meetings are also held to review and determine significant matters as they arise. Meeting agendas are prepared by the Company Secretary in conjunction with the Executive Chairman.

The composition of the Board is currently determined by the following principles:

- the Board should have at least 4 directors (currently 5);
- the Board should have at least 2 non-executive independent directors (currently 2);
- the Directors have a broad range of expertise focussed on the requirements and direction of the consolidated entity.

The composition of the Board including executive and non-executive Directors, is reviewed periodically in light of the prospective requirements of the Company. The performance of Directors is continually reviewed by the Executive Chairman and that of executives annually by the Board.

In accordance with the Company's Constitution, each Director must retire every 3 years, and if eligible may stand for re-election at the general meeting of shareholders. If a vacancy exists the Board will consider the required knowledge and expertise of potential candidates relative to the skills and experience of the existing Board, and the Company objectives. The most suitable candidate is appointed who must then stand for election at the next general meeting of shareholders.

Each Director has the right to seek independent professional advice at the Company's expense with appropriate prior notification being given to the Chairman.

The Company departs from CGC Recommendations in that the Board majority does not comprise independent non-executive directors nor is its chairperson an independent director. The Company has no operational income and is an exploration company currently examining a development project. Consequently the Company has a requirement for strong cost control. The Board currently comprises 2 geologists, an engineer, a metallurgist and a lawyer. This well balanced and experienced Board is considered appropriate for this stage of the Company's

development. The Board does not believe at this time it is in the interest of shareholders to incur the additional expense of additional directors or an expanded role of an independent director as Chairman. However the Board has these matters under constant review.

Further information on the names and qualifications of Directors and the frequency and attendance of Board meetings is set out in the Directors' Report.

### Remuneration

In view of its size, the Company does not have a separate Remuneration Committee. The full Board determines remuneration of Directors and executives, and approves remuneration of employees.

- In determining executive salary benefits, consideration under consultancy contracts, and directors' fees the Board gives due consideration to comparative companies within the industry and sets levels reflecting the resources of the Company and the need to retain motivated qualified experienced personnel.
- To date executive Directors do not receive directors' fees and are solely remunerated by executive salaries and benefits.
- The Company's Constitution requires the aggregate amount of Directors' fees to be subject to shareholder approval, the current approved limit being \$100,000 per annum. Current total annual directors' fees payable to non-executive Directors are \$64,800.
- Non-executive Directors may elect to take directors fees as equivalent value shares in lieu of cash. This election requires prior Board and shareholder approval.
- Consideration for service is also given within the ambit of the Company's Staff Equity Participation Plan. Any allocation of shares to directors under the Plan requires prior shareholder approval, and allocations to individual directors to date are set out in the Directors Report. A summary of the Plan is in Note 15 to the Financial Statements.
- The Board may also consider performance based remuneration to Directors in the form of shares or options which in all cases will be subject to shareholder approval.

### Conflict of Interest

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the consolidated entity. Where the Board believes that a significant conflict exists, the Director concerned will not receive the relevant board papers and is excused from the meeting whilst the item is considered. The Board has stated policies and procedures to require Directors to disclose potential conflicts of interest.

### Ethical Standards/Code of Conduct

Directors belong to professional organisations and are bound by those organisations' code of professional conduct. In addition, all Directors, and external consultants are required to act with the utmost legal

compliance, integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. These standards are reinforced by the stated policies and procedures.

### **Dealings in Company Shares**

Directors, executives and employees may deal in Company shares or securities, however may not do so if in possession of information which is price sensitive or likely to be price sensitive to the share's market price. Changes in a Director's interest are required to be advised to the Company within 3 days for notification to the ASX

### **Internal Control**

Given the small size of the Board and the Company, matters that may otherwise be dealt with by committees under CGC Recommendations, are dealt with by the full Board.

The Board is responsible for the overall internal control of the consolidated entity whilst recognising that no cost effective internal control system will necessarily preclude all errors and irregularities. The internal control process derives from direct involvement in management and operations by the executive directors with close consultation and review between all the Directors and with the external accountants. The Board periodically adopts and reviews policies and procedures applying to consolidated entity operations with which employees and contractor/consultants are required to comply.

### **Risk Management**

The Board acknowledges the business risk of the industry in which it operates. The Board adopts a comprehensive review and due diligence approach to risk assessment, to achieve adequate safeguards and to minimise and promptly address unforeseen circumstances. Identified risks are brought to the attention of the Board by a Director for appropriate assessment and management. Policies and Procedures are periodically reviewed and amended, to ensure:

- adoption of adequately detailed Programmes and Budgets,
- expenditures are reconciled with Budgets and significant variations assessed and approved,
- adequate due diligence and feasibility assessments prior to acquisition of an interest and project/operational decisions,
- quality and integrity of personnel and contractors,
- accuracy and compliance of financial reporting,
- general legal compliance,
- all Directors are circulated with a copy of the external auditors' Engagement Letter and terms and conditions,
- the Executive Chairman and Company Secretary declare in writing to the Board their belief that the Company's financial statements are founded on a system of risk management and control and present a true and fair view in all material respects.

### **Audit Committee**

The Company does not have a formally constituted Audit Committee. The Board concluded in view of the nature and scale of the Company's operations, that the Committee's functions were being adequately fulfilled by the direct involvement of Directors in the management of the Company, by regular circulation of

internal financial position reports to all Directors, quarterly review by the Company's external accountants and the bi-annual review by the external auditors. The requirement for an Audit Committee is evaluated annually or sooner upon a change in the scale of operations.

### **Environmental Regulation**

The Company's operations are subject to various environmental regulations under both Commonwealth and State legislation.

The Company maintains a policy of strict compliance with legal and contractual regulation of environmental and related practices, and compliance with best industry practice guidelines. Once activities expand into development and mining operation phases, a comprehensive environmental management plan will be implemented to regulate and monitor compliance. The Company currently contracts the services of an environmental consultancy company in respect to the Browns Project. In respect to the Company's exploration activities, the Exploration Manager is responsible for compliance and monitoring.

The Directors are not aware of any material breaches of the legislation during the financial year.

### **Shareholders**

The Board of Directors aims to ensure that shareholders are promptly informed of all major developments affecting the consolidated entity's state of affairs, which includes any matter that may have a material effect on the price of Company securities.

The following practices operate:

- The Annual Report including the audited financial statements is distributed to all shareholders.
- The half-yearly report and quarterly reports are available to shareholders from the ASX, the Company's web site, or direct from the Company on request.
- The Company Secretary in consultation with the Executive Chairman is responsible for compliance with ASX continuous disclosure requirements.
- Announcements made to the market, press releases, and broker/media reports are subsequently placed on the Company's website, and circulated to shareholders on request.
- Notices of general meetings with explanatory statements are circulated to all shareholders at least 28 days prior to the meeting facilitating shareholder attendance and participation in person or by proxy.
- The Company's external auditor attends the AGM to be available to answer any shareholder questions regarding the Company audit.
- A copy of the Company's Constitution is available to shareholders on request.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES  
STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER, 2004**

	Note	Consolidated		The Company	
		2004 \$	2003 \$	2004 \$	2003 \$
Revenue from ordinary activities	2	<u>424,723</u>	<u>440,824</u>	<u>424,723</u>	<u>440,824</u>
Depreciation expenses		20,299	21,843	20,299	21,843
Borrowing costs		51	179	51	179
Employee expenses		218,954	61,709	218,954	61,709
Exploration expenditure written-off		221,461	29,066	221,461	29,066
General and administrative expenses		<u>439,157</u>	<u>475,900</u>	<u>606,099</u>	<u>514,231</u>
<b>Loss from ordinary activities before related income tax expense</b>	3	<b>(475,199)</b>	<b>(147,873)</b>	<b>(642,141)</b>	<b>(156,790)</b>
Income tax expense relating to ordinary activities	5	—	—	—	—
<b>Net Loss</b>		<b><u>(475,199)</u></b>	<b><u>(147,873)</u></b>	<b><u>(642,141)</u></b>	<b><u>(156,790)</u></b>
Basic and diluted loss per share (cents)	22	<u>( 0.9)</u>	<u>( 0.3)</u>		

There were no other changes in equity from non-owner related transactions attributable to the members of the parent entity.

The Statements of Financial Performance are to be read in conjunction with the notes to the financial statements, as set out on pages 11 to 28.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER, 2004**

	Note	Consolidated		The Company	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>Current Assets</b>					
Cash Assets	6	4,887,250	2,235,493	4,886,776	2,235,038
Receivables	7	196,643	216,366	196,643	216,366
Other Financial Assets	8	-	7,000	-	7,000
Other Assets	9	<u>16,910</u>	<u>14,662</u>	<u>16,910</u>	<u>14,662</u>
Total Current Assets		<u>5,100,803</u>	<u>2,473,521</u>	<u>5,100,329</u>	<u>2,473,066</u>
<b>Non-Current Assets</b>					
Receivables	7	-	-	387,220	538,522
Other Financial Assets	8	-	-	-	14,038
Plant and Equipment	10	52,570	81,422	52,570	81,422
Mining Tenements	11	<u>17,917,189</u>	<u>17,180,266</u>	<u>17,464,678</u>	<u>16,727,755</u>
Total Non-Current Assets		<u>17,969,759</u>	<u>17,261,688</u>	<u>17,904,468</u>	<u>17,361,737</u>
<b>Total Assets</b>		<u>23,070,562</u>	<u>19,735,209</u>	<u>23,004,797</u>	<u>19,834,803</u>
<b>Current Liabilities</b>					
Payables	12	136,225	78,359	134,277	77,492
Interest Bearing Liabilities	13	8,842	8,293	8,842	8,293
Provisions	14	<u>367,903</u>	<u>275,647</u>	<u>367,903</u>	<u>275,647</u>
Total Current Liabilities		<u>512,970</u>	<u>362,299</u>	<u>511,022</u>	<u>361,432</u>
<b>Non-current Liabilities</b>					
Interest Bearing Liabilities	13	24,425	33,268	24,425	33,268
Provisions	14	<u>63,817</u>	<u>66,481</u>	<u>-</u>	<u>-</u>
Total Non-current Liabilities		<u>88,242</u>	<u>99,749</u>	<u>24,425</u>	<u>33,268</u>
<b>Total Liabilities</b>		<u>601,212</u>	<u>462,048</u>	<u>535,447</u>	<u>394,700</u>
<b>Net Assets</b>		<u>22,469,350</u>	<u>19,273,161</u>	<u>22,469,350</u>	<u>19,440,103</u>
<b>Equity</b>					
Contributed Equity	15	27,671,312	23,999,924	27,671,312	23,999,924
Accumulated losses	16	<u>(5,201,962)</u>	<u>(4,726,763)</u>	<u>(5,201,962)</u>	<u>(4,559,821)</u>
Total Equity		<u>22,469,350</u>	<u>19,273,161</u>	<u>22,469,350</u>	<u>19,440,103</u>

The Statements of Financial Position are to be read in conjunction with the notes to the financial statements, as set out on pages 11 to 28.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER, 2004**

	Note	Consolidated		The Company	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>Cash flows from operating activities</b>					
Interest received		105,615	50,261	105,615	50,261
Government grant received		261,934	379,889	261,934	379,889
Payments to suppliers and employees		<u>(438,766)</u>	<u>(631,439)</u>	<u>(427,496)</u>	<u>(619,982)</u>
Net cash used in operating activities	23(ii)	<u>(71,217)</u>	<u>(201,289)</u>	<u>(59,947)</u>	<u>(189,832)</u>
<b>Cash flows from investing activities</b>					
Payments for exploration and evaluation expenditure		(973,578)	(538,035)	(973,578)	(537,460)
Payments for plant and equipment		(1,060)	(1,751)	(1,060)	(1,751)
Refund of security deposits		-	1,465	-	1,465
Payment for security deposits		(59,465)	(42,250)	(59,465)	(42,250)
Loans to controlled entities		-	-	(11,460)	(6,764)
Proceeds from sale of mining interest		135,000	-	135,000	-
Proceeds from sale of investments		<u>7,000</u>	<u>9,755</u>	<u>7,000</u>	<u>9,755</u>
Net cash used in investing activities		<u>(892,103)</u>	<u>(570,816)</u>	<u>(903,563)</u>	<u>(577,005)</u>
<b>Cash flows from financing activities</b>					
Finance lease payments		(8,294)	(7,777)	(8,294)	(7,777)
Proceeds from issue of shares and options		<u>3,623,538</u>	<u>1,954,679</u>	<u>3,623,538</u>	<u>1,954,679</u>
Net cash provided by financing activities		<u>3,615,244</u>	<u>1,946,902</u>	<u>3,615,244</u>	<u>1,946,902</u>
Net increase in cash held		2,651,924	1,174,797	2,651,734	1,180,065
Cash at beginning of financial year		2,235,493	1,062,208	2,235,038	1,055,031
Effects of exchange rate fluctuations on cash held in foreign currencies		<u>(167)</u>	<u>(1,512)</u>	<u>4</u>	<u>(58)</u>
<b>Cash at end of financial year</b>	23(i)	<u><b>4,887,250</b></u>	<u>2,235,493</u>	<u><b>4,886,776</b></u>	<u>2,235,038</u>

The Statements of Cash Flows are to be read in conjunction with the notes of the financial statements, as set out on pages 11 to 28.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The significant policies which have been adopted in the preparation of this financial report are:

**(a) Basis of Preparation**

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

**(b) Principles of Consolidation**

The consolidated financial statements of the consolidated entity include the financial statements of the Company, being the parent entity; and its controlled entities ("the consolidated entity").

The financial statements of controlled entities are included in the consolidated financial statements from the date control commenced until the date control ceases.

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

**(c) Foreign Currency**

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions.

Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

The financial statements of the overseas controlled entity which is an integrated foreign operation are translated using the temporal method.

Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

**(d) Taxation**

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

**(e) Investments**

***Controlled Entities***

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

***Other Entities***

Investments in listed entities are carried at the lower of cost and recoverable amount, being the current quoted market prices. Investments in unlisted entities are carried at the lower of cost and recoverable amount.

***Debentures***

Investments in debentures are carried at the lower of cost and recoverable amount.

**(f) Plant and Equipment**

Plant and equipment is recorded at cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Plant and equipment is depreciated from the date of acquisition using the straight line method or reducing balance method of depreciation.

The depreciation rates used for each class of asset for the current and prior year are as follows:

Plant and Equipment - 13% to 40%  
Leased Assets - 20%.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**(g) Leased Assets**

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

**Finance leases**

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

**Operating leases**

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

**(h) Borrowing Costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings.

**(i) Mining Tenements**

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. These costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

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

The Company's loan to a controlled entity, whose principal activity is the exploration and evaluation of

mining and tenement interests, has been utilised by that entity for exploration and evaluation expenditure and has therefore been accounted for in accordance with the above accounting policy as this represents the substance of this loan.

Restoration costs are provided for at the time of the activities which give rise to the need for restoration. If this occurs prior to commencement of production, the costs are included in deferred exploration and development expenditure. If it occurs after commencement of production, restoration costs are provided for and charged to the statement of financial performance.

Restoration provisions, which are determined on an undiscounted basis, include costs of reclamation bonds for drilling on mineral project sites. These costs have been determined on the basis of current costs, current legal requirements and current technology. Changes in estimates are dealt with on a prospective basis.

**(j) Joint Ventures**

Interests in unincorporated joint ventures are brought to account by including in the respective statement of financial position or statement of financial performance classes:

- (1) The amount of the consolidated entity's interest in each of the individual assets employed in the joint venture.
- (2) The liabilities incurred by the consolidated entity in relation to the joint venture.
- (3) The consolidated entity's interest in the expenses incurred in relation to the joint venture

**(k) Employee Benefits**

Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date and is calculated using expected future increases in wage and salary rates including related on-costs.

Long service leave entitlements for executive directors and employees is 6 months leave after 10 years continuous service and 3 months for each additional 5 years continuous service. In all other respects, entitlements are calculated and pro-rated in accordance with the NSW Long Service Leave Act.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**(l) Revenue Recognition**

All income is recognised as it accrues, net of the amount of goods and services tax (GST) payable to the taxation authority.

The gross proceeds of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

**(m) Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 60 days.

**(n) Recoverable Amount of Non-current Assets Valued on Cost Basis**

The carrying amounts of non-current assets, valued on the cost basis, other than Mining Tenements (refer Note 1 (i)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount.

The write-down is recognised as an expense in the reporting period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

**(o) Research and Development Grant**

Grant income is advanced to the Company based on anticipated expenditure and is only recognised as revenue when conditions to the grant are satisfied. All expenditure is capitalised in accordance with Note 1(i).

**(p) Goods and Services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to the ATO is included as a current asset or liability in the statement of financial position.

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

**(q) Earnings per Share**

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and convertible preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

**(r) Use and Revision of Accounting Estimates**

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amount of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(s) Provisions**

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>				
<b>Other revenues from operating activities</b>				
Gross proceeds from sale of mining interest	135,000	-	135,000	-
Government grant revenue	179,372	371,613	179,372	371,613
Interest revenue	103,347	59,456	103,347	59,456
Gross Proceeds from sale of investments	7,000	9,755	7,000	9,755
Sundry revenues	<u>4</u>	<u>-</u>	<u>4</u>	<u>-</u>
<b>Total revenue from ordinary activities</b>	<b><u>424,723</u></b>	<b><u>440,824</u></b>	<b><u>424,723</u></b>	<b><u>440,824</u></b>
<b>3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>				
<b>a) Individually significant items included in loss from ordinary activities before income tax expense</b>				
Profit on sale of mining interest	135,000	-	135,000	-
Bad debt written-off	-	145,945	-	145,945
Debt forgiven	-	(290,300)	-	(290,300)
Provision for doubtful debt	-	250,000	162,761	250,000
<b>b) Operating loss from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:</b>				
Depreciation of plant and equipment	20,299	21,843	20,299	21,843
Borrowing cost – bank overdraft	51	179	51	179
Amounts set aside (written back) for:				
- Annual leave	(6,269)	(32,107)	(6,269)	(32,107)
- Long service leave	98,525	(59,015)	98,525	(59,015)
- Write down in shares in controlled entities	-	-	14,038	-
Foreign exchange (gain)/loss	(2,598)	(20,316)	(4)	58
Net loss on sale of investments	-	2,549	-	2,549
Operating lease rental expense	54,661	55,438	54,661	55,438
Exploration expenditure written off	221,461	29,066	221,461	29,066
<b>4. AUDITORS' REMUNERATION</b>				
<b>Audit Services:</b>				
- Auditors of the Company – KPMG	24,640	23,300	24,640	23,300
- Other auditors	<u>1,526</u>	<u>1,536</u>	<u>-</u>	<u>-</u>
	<b><u>26,166</u></b>	<b><u>24,836</u></b>	<b><u>24,640</u></b>	<b><u>23,300</u></b>

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

	Consolidated		The Company	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>5. INCOME TAX</b>				
Prima facie income tax benefit calculated @30% (2003: 30%) on the loss from ordinary activities	(142,560)	(44,362)	(192,642)	(47,037)
Tax effect of permanent differences:				
Unrealised exchange (gains)/losses on translation	(779)	(6,095)	(1)	17
Non-deductible expenditure	55	43,815	4,266	43,815
Sundry items	-	765	-	765
Future income tax benefits not taken into account	<u>143,284</u>	<u>5,877</u>	<u>188,377</u>	<u>2,440</u>
<b>Total Income Tax Expense</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Dividend Franking Account**

30% franking credits available to shareholders of  
 Compass Resources N.L. for subsequent financial  
 Years

179,655      179,655

The above available amounts are based on the balance of dividend franking account at year end.

The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends.

**Future Income Tax Benefit Not Taken to Account**

During the year, pursuant to changes in the taxation legislation, certain exploration expenditure that had otherwise not been deducted for tax purposes was deemed to become part of the Company's tax losses.

As at 31 December, 2004 the consolidated entity has Australian sourced tax losses of approximately \$18,285,638 (2003: \$17,178,077). The potential net future income tax benefits of Australian sourced tax losses and timing differences not recognised as an asset as recovery is not virtually certain comprise the following:

	Consolidated		The Company	
	2004 \$	2003 \$	2004 \$	2003 \$
Tax losses	5,485,693	5,153,425	5,485,693	5,153,425
Capital losses	765	765	765	765
Timing differences	<u>(4,998,394)</u>	<u>(4,854,503)</u>	<u>(4,998,394)</u>	<u>(4,854,503)</u>
	<u>488,064</u>	<u>299,687</u>	<u>488,064</u>	<u>299,687</u>

During the year, future income tax benefits that would otherwise be unrecognised as an asset have been taken to account as a reduction in the provision for deferred income tax which represents the unamortised balance of mining tenements deducted for tax purposes.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**5. INCOME TAX (continued)**

The potential future income tax benefit arising from tax losses incurred by Compass Minerals Ltd. a resident company of the USA for taxation purposes, has also not been recognised as an asset because recovery is not virtually certain. Federal tax losses which expire over the period from 2004 to 2020 if not utilised, amount to \$US2,269,240 (2003: \$US2,261,081), which translated at the 2004 year end spot rate converts to \$2,896,286 (2003: \$A3,006,357). State of California tax losses, which expire from 2011 to 2020 if not utilised, amount to \$US474,308 (2003: \$US466,149), which translates to \$A605,371 (2003: \$A619,796) .

The potential future income tax benefits will only be obtained if:

- (i) the Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the Australian sourced benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997 in respect of Australian losses or similar provisions in foreign jurisdictions for overseas subsidiaries;
- (ii) the Company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the Company and/or the consolidated entity in realising the benefit.

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>6. CASH ASSETS</b>				
Cash	307,797	151,972	307,323	151,517
Bank short term deposits	<u>4,579,453</u>	<u>2,083,521</u>	<u>4,579,453</u>	<u>2,083,521</u>
	<u>4,887,250</u>	<u>2,235,493</u>	<u>4,886,776</u>	<u>2,235,038</u>

The bank short term deposits mature within 60 days and pay interest at a weighted average Interest rate of 4.93% (2003: 4.86%) at 31 December 2004.

**7. RECEIVABLES**

**Current**

Other debtors	271,393	350,581	271,393	350,581
Less: Provision for doubtful other debtor	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>
	21,393	100,581	21,393	100,581
Security deposits	<u>175,250</u>	<u>115,785</u>	<u>175,250</u>	<u>115,785</u>
	<u>196,643</u>	<u>216,366</u>	<u>196,643</u>	<u>216,366</u>

**Non-current**

Loan to controlled entities	-	-	4,544,997	4,533,538
Less provision for non recovery	<u>-</u>	<u>-</u>	<u>(4,157,777)</u>	<u>(3,995,016)</u>
	<u>-</u>	<u>-</u>	<u>387,220</u>	<u>538,522</u>

**8. OTHER FINANCIAL ASSETS**

**Current**

*Investments in other entities*

Debentures at cost - unlisted companies	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>7,000</u>
	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>7,000</u>

**Non-Current**

*Investment in controlled entities (Note 19)*

Shares at cost - unlisted companies	-	-	14,038	14,038
Less: Provision for diminution	<u>-</u>	<u>-</u>	<u>(14,038)</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,038</u>

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>9. OTHER CURRENT ASSETS</b>				
Prepayments	<u>16,910</u>	<u>14,662</u>	<u>16,910</u>	<u>14,662</u>
<b>10. PLANT AND EQUIPMENT</b>				
Plant and Equipment				
At cost	146,561	145,501	146,561	145,501
Accumulated depreciation	<u>(125,718)</u>	<u>(103,936)</u>	<u>(125,718)</u>	<u>(103,936)</u>
	<u>20,843</u>	<u>41,565</u>	<u>20,843</u>	<u>41,565</u>
Leased plant and equipment				
At capitalised cost	58,149	58,149	58,149	58,149
Accumulated amortisation	<u>(26,422)</u>	<u>(18,292)</u>	<u>(26,422)</u>	<u>(18,292)</u>
	<u>31,727</u>	<u>39,857</u>	<u>31,727</u>	<u>39,857</u>
Total plant and equipment net book value	<u>52,570</u>	<u>81,422</u>	<u>52,570</u>	<u>81,422</u>

**Reconciliations**

Reconciliations of the carrying amounts for each class of plant and equipment are set out below:

*Plant and equipment*

Carrying amount at beginning of year	41,565	63,480	41,565	63,480
Additions	1,060	1,751	1,060	1,751
Depreciation	<u>(21,782)</u>	<u>(23,666)</u>	<u>(21,782)</u>	<u>(23,666)</u>
Carrying amount at end of year	<u>20,843</u>	<u>41,565</u>	<u>20,843</u>	<u>41,565</u>

*Leased plant and equipment*

Carrying amount at beginning of year	39,857	47,987	39,857	47,987
Amortisation	<u>(8,130)</u>	<u>(8,130)</u>	<u>(8,130)</u>	<u>(8,130)</u>
Carrying amount at end of year	<u>31,727</u>	<u>39,857</u>	<u>31,727</u>	<u>39,857</u>

**11. MINING TENEMENTS**

Costs carried forward in respect of areas of interest in the exploration and/or evaluation phase

Opening balance, at cost	17,180,266	16,326,496	16,727,755	15,874,560
Expenditure incurred in current period	958,384	882,836	958,384	882,261
Expenditure written off	<u>(221,461)</u>	<u>(29,066)</u>	<u>(221,461)</u>	<u>(29,066)</u>
	<u>17,917,189</u>	<u>17,180,266</u>	<u>17,464,678</u>	<u>16,727,755</u>

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>12. PAYABLES</b>				
Creditors and accruals	<u>136,225</u>	<u>78,359</u>	<u>134,277</u>	<u>77,492</u>
<b>13. INTEREST BEARING LIABILITIES</b>				
<b>Current</b>				
Lease liabilities	<u>8,842</u>	<u>8,293</u>	<u>8,842</u>	<u>8,293</u>
<b>Non-current</b>				
Lease liabilities	<u>24,425</u>	<u>33,268</u>	<u>24,425</u>	<u>33,268</u>
<b>14. PROVISIONS</b>				
<b>Current</b>				
Employee benefits	<u>367,903</u>	<u>275,647</u>	<u>367,903</u>	<u>275,647</u>
Aggregate liability for employee benefits, Including on-costs				
Number of employees at year end	4	4	4	4
<b>Non-current</b>				
Restoration	<u>63,817</u>	<u>66,481</u>	<u>-</u>	<u>-</u>
<b>15. CONTRIBUTED EQUITY</b>				
<b>Share capital</b>				
65,587,164 (2003: 53,293,356) ordinary shares, Fully paid	<u>27,663,052</u>	23,991,664	<u>27,663,052</u>	23,991,664
826,000 (2003: 826,000) ordinary shares paid to \$0.01 each under the Staff Equity Participation Plan	<u>8,260</u>	<u>8,260</u>	<u>8,260</u>	<u>8,260</u>
	<u>27,671,312</u>	<u>23,999,924</u>	<u>27,671,312</u>	<u>23,999,924</u>

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>15. CONTRIBUTED EQUITY (continued)</b>				
<b>(a) Ordinary shares</b>				
<i>Movements during the year</i>				
Balance at beginning of year				
53,293,356 (2003: 40,629,180) shares	<b>23,991,664</b>	22,020,110	<b>23,991,664</b>	22,020,110
Shares issued				
- 4,298,531 (2003: 9,286,101) for cash pursuant to a Share Purchase Plan at 30 cents	<b>1,289,538</b>	947,179	<b>1,289,538</b>	947,179
- 215,278 (2003: 128,075) as payment for directors fees per AGM approval	<b>47,850</b>	16,875	<b>47,850</b>	16,875
- 7,779,999 (2003: 3,250,000) for cash at 30 cents in accordance with Listing Rule 7.1 and Corporations Act section 708	<b><u>2,334,000</u></b>	<u>1,007,500</u>	<b><u>2,334,000</u></b>	<u>1,007,500</u>
<b>Balance at end of year</b>	<b><u>27,663,052</u></b>	<u>23,991,664</u>	<b><u>27,663,052</u></b>	<u>23,991,664</u>

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>(b) Staff Equity Participation Plan Shares</b>				
826,000 (2003: 826,000) Uncalled partly paid Staff Equity Participation Plan Shares	<b><u>259,460</u></b>	<u>259,460</u>	<b><u>259,460</u></b>	<u>259,460</u>

**Shares Under the Staff Equity Participation Plan**

Principal terms and legal requirements controlling shares under the Plan are summarised:

- The Board invites directors/employees to participate in the plan for a determined number of shares up to which number the director/employee may accept.
- Shares are issued to the Trustee of the Plan in trust for the employee at a price being the average closing market price of fully paid ordinary shares for the 30 days immediately preceding allotment, partly paid by the employee to \$0.01.
- Voting and dividend rights attaching to the shares are limited in accordance with ASX Listing Rules 6.9 and 6.11
- Application for quotation of the shares is only effected once shares are fully paid by the employee.
- On or after each anniversary of an allotment the director/employee may take up to 25% of the allotment by paying the balance of the issue price for those shares. The Board has the discretion to accelerate the take up rate.
- A director/employee who resigns or is dismissed is not entitled to any shares not fully paid.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>16. ACCUMULATED LOSSES</b>				
Accumulated losses at beginning of year	(4,726,763)	(4,578,890)	(4,559,821)	(4,403,031)
Net loss	<u>(475,199)</u>	<u>(147,873)</u>	<u>(642,141)</u>	<u>(156,790)</u>
Accumulated losses at end of year	<u>(5,201,962)</u>	<u>(4,726,763)</u>	<u>(5,201,962)</u>	<u>(4,559,821)</u>

**17. COMMITMENTS AND CONTINGENT LIABILITIES**

**Exploration Expenditure Commitments**

In order to maintain current rights of tenure to exploration tenements, both as sole explorer or under a joint venture agreement, the Company and the consolidated entity are required to meet the minimum exploration expenditure requirements as specified by various State governments or as specified by the commercial terms of a joint venture agreement.

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
These obligations are not provided for in the financial report and are payable:				
- within one year	351,772	339,290	351,772	339,290
- one year or later and no later than five years	639,786	705,500	639,786	705,500
- later than five years	<u>47,790</u>	<u>23,790</u>	<u>47,790</u>	<u>23,790</u>
	<u>1,039,348</u>	<u>1,068,580</u>	<u>1,039,348</u>	<u>1,068,580</u>

**Finance lease commitments**

Motor vehicle leased for use in Northern Territory under finance lease expiring in October, 2006 with lease payments payable:

- within one year	10,724	10,724	10,724	10,724
- one year or later and no later than five years	<u>25,543</u>	<u>36,267</u>	<u>25,543</u>	<u>36,267</u>
	<u>36,267</u>	<u>46,991</u>	<u>36,267</u>	<u>46,991</u>
Less: Future lease finance charges	<u>(3,000)</u>	<u>(5,430)</u>	<u>(3,000)</u>	<u>(5,430)</u>
	<u>33,267</u>	<u>41,561</u>	<u>33,267</u>	<u>41,561</u>

**Operating lease commitments**

Commercial office space rentals not provided for in the financial statements and payable:

- within one year	<u>11,016</u>	<u>15,532</u>	<u>11,016</u>	<u>15,532</u>
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The Company leases commercial office space for its head office situated at Suite 4B, 384 Eastern Valley Way, Roseville NSW Australia. The lease expired on 14 February, 2004 and has since been rolled over on a month by month basis as the building is undergoing renovations. New lease terms will be negotiated once the renovations are completed. The Company also leases office and storage space at Batchelor, Northern Territory. The lease of these premises is rolled over on a quarterly basis.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**17. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

**Contingent Liabilities**

Bank guarantees and security deposits in respect of the Company's performance under Australian exploration and mining titles amount to \$102,250 (2003: \$112,250).

Bank environmental reclamation plan bond in respect of exploration mining titles held by US subsidiary company, Compass Minerals Ltd., amounts to \$US38,000 (2003: \$US 38,000) and is secured by a term deposit of A\$72,988 (2003: A\$73,534).

A bank guarantee in respect of the Company's obligations under a commercial office lease for premises situated at Suite 4B, 384 Eastern Valley Way, Roseville NSW amounts to \$12,535 (2003: \$12,535).

At balance date there is no contingent liability for termination benefits under service agreements with Directors or persons in the management of the Company.

**18. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES**

**Remuneration of Specified Directors and Specified Executives by the Consolidated Entity**

Remuneration of Directors and Executives are approved by the full Board. In determining executive remuneration levels, the Board gives due consideration to comparative companies within the industry and sets levels reflecting the resources of the Company and the need to retain motivated, qualified and experienced personnel.

Executive Directors are solely remunerated by fixed remuneration packages, including fringe benefits, and do not receive directors' fees. Non-cash benefits are not approved as part of the remuneration.

Non-executive directors receive directors' fees which are subject to shareholder approval. The current approved limit for directors' fees is \$100,000 per annum.

The Board may also consider performance based remuneration to Directors in the form of shares or options which in all cases will be subject to shareholder approval.

The following table provides the details of all Directors of the Company ("specified directors") and the nature and amounts of the elements of their remuneration for the year ended 31<sup>st</sup> December 2004.

		<b>Salary &amp; Fees \$</b>	<b>Superannuation Benefits \$</b>	<b>Equity Compensation \$</b>	<b>Total \$</b>
<b>Specified Directors</b>					
<b>Non-Executive</b>					
Mr J Chappell	2004	1,850	-	13,150	15,000
	2003	15,000	-	11,250	26,250
Mr G Toll	2004	-	-	35,625	35,625
	2003	-	-	5,625	5,625
<b>Executive</b>					
Mr M Humphreys	2004	112,437	23,699	-	136,136
	2003	114,854	18,595	-	133,449
Mr P Cohen	2004	54,317	27,613	-	81,930
	2003	52,367	26,445	-	78,812
<b>Total, all Specified Directors</b>					
	<b>2004</b>	<b>168,604</b>	<b>51,312</b>	<b>48,775</b>	<b>268,691</b>
	<b>2003</b>	<b>182,221</b>	<b>45,040</b>	<b>16,875</b>	<b>244,136</b>

Mr R Elvish, a new director who was appointed on 18 October 2004 is not included in the above table as no remuneration was paid to him in the reporting period.

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

There are no specified executives other than the Directors of the Company.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**18. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (continued)**

**Equity Holdings and Transactions**

The movement during the reporting period in the number of ordinary shares of Compass Resources N.L. held, directly, indirectly or beneficially, by each specified director, including their personally-related entities is as follows:

	Held at 1 January 2004	Held at Time of Appointment	Purchases	Held at 31 December 2004
<b>Specified Directors</b>				
<b>Mr M Humphreys</b>				
- Fully Paid Ordinary Shares	4,405,220	-	30,000	4,435,220
- Partly Paid Ordinary Shares	314,000	-	-	314,000
<b>Mr P Cohen</b>				
- Fully Paid Ordinary Shares	1,128,904	-	16,667	1,145,571
- Partly Paid Ordinary Shares	108,000	-	-	108,000
<b>Mr J Chappell</b>				
- Fully Paid Ordinary Shares	1,418,811	-	153,237	1,572,048
- Partly Paid Ordinary Shares	50,000	-	-	50,000
<b>Mr G Toll</b>				
- Fully Paid Ordinary Shares	171,811	-	195,377	367,188
- Partly Paid Ordinary Shares	-	-	-	-
<b>Mr R Elvish (appointed 18.10.2004)</b>				
- Fully Paid Ordinary Shares	-	334,660	16,667	351,327
- Partly Paid Ordinary Shares	-	-	-	-

215,278 shares were issued in lieu of cash for non-executive directors' fees per AGM approval.

150,003 shares were acquired by directors and director-related entities under the Share Purchase Plan.

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

No options have been granted to directors since the beginning of the financial year and no options were held by the current directors at 1 January 2004. The options held by a former director Mr G McDonald at 1 January 2004 (2,000,000) expired on 30 June 2004 (1,000,000 at 70c each) and 31 December 2004 (1,000,000 at 90c each).

**Other Transactions with the Company or its Controlled Entities**

Compass Resources N.L. entered into a 14 months contract with Biernacki & Elvish Enterprises Pty Ltd, a company of which Mr R Elvish is a director, for the provision of consultancy services in relation to the Browns project. The contract expires on 31 December 2005 with an option for 12 month extensions. Contract terms are based on market rates for these type of services, and amounts are payable on a monthly basis for the duration of the contract. The terms and conditions of the contract are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The details of the transactions with Biernacki & Elvish Pty. Ltd. Are as follows:

	Transaction	2004 \$
<b>Specified Directors</b>		
Mr R Elvish	Consultancy Fees	<u>45,218</u>
<b>Assets and Liabilities arising from the above transaction</b>		
Current Liabilities		
Trade Creditors		<u>19,698</u>

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

**Wholly owned group**

Details of interests in wholly owned controlled entities are set out in Note 19. Loans between entities in the wholly owned group are unsecured and repayable at call. No interest is recognised on the loans.

The carrying amount of loans receivable from wholly owned entities, net of provision for non-recovery, was \$387,220 (2003: \$538,522).

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**19. CONTROLLED ENTITIES**

Entity	Interest Held	
	2004	2003
Compass Minerals Ltd	100	100
Compass Staff Equity Pty. Ltd	100	100
Four Points Exploration Ltd	100	100
Compass Exploration Pty. Ltd	100	100

Note: Compass Minerals Ltd. is incorporated in and carries on business in the U.S.A. All other controlled entities are incorporated in Australia.

**20. JOINT VENTURES**

The consolidated entity has entered into joint ventures for the purpose of mineral exploration and mining with interests in joint venture areas as follows:

**Browns Project - NT**

The Company holds a 90% interest and Guardian Resources Pty. Ltd. a 10% interest in the Browns/Browns East resources. The Company is responsible for 100% of the project costs until such time that a decision is taken to proceed with the development of a mining operation or expenditure of \$20,000,000, whichever is sooner.

**Batchelor/Mt. Fitch/Area 55 - NT**

The Company holds a 90% interest and Guardian Resources Pty. Ltd. the remaining 10% interest. The respective interests are subject to Cameco (Australia) Pty. Ltd's 3% Net Profits Interest on certain tenements, and Acacia Resources Ltd's Net Smelter Return entitlement of 1% or 3% on certain tenements.

**Batchelor Iron Ore - NT**

Under an agreement with the Company (90%) and Guardian Resources Pty. Ltd. (10%), Territory Iron Pty. Ltd. will test the iron ore mining potential of and, if positive, mine iron ore in sections of ERL125, ERL 146 and MLA N1163 north of the Browns Leases. Under the agreement Territory Iron has paid the Company/Guardian \$150,000 and will annually pay \$50,000 pending a development decision or withdrawal. These payments are non-refundable advances against the purchase by Territory Iron of ore ex-mine gate at \$1 per tonne plus or minus an adjustment for ore grades more or less than 60% iron.

**Trewilga - NSW**

Alkane Exploration Ltd. acquired the Company's interest in EL 5675. The Company retains a substantial royalty interest in EL 5675 comprising:

- a) \$0.75 per dry tonne of ore treated for the first 500,000 tonnes.
- b) 3% royalty of gold and other minerals recovered in respect of subsequent ore treated until the production of 150,000 ounces rising thereafter to 5%.

**NSW Prospecting Agreement (Cuttaburra/Yancannia)**

Under an agreement with Bohuon Resources Pty. Ltd.,

the Company funds, subject to right of withdrawal, the exploration expenditure required to keep titles introduced by Bohuon in good standing for the initial 3 years whereby the Company owns 80% of the title and Bohuon 20%.

**Alectown East/Houston - NSW**

The Company holds a diluting 15% interest in the Alectown East licence and 25% interest in the Houston licence of which Newcrest Mining Ltd. has acquired a 75% interest with expenditure of \$1 million on Alectown East/Houston. The Company has the option to convert its residual 15% and 25% contributing interests to an NPI.

**Worldbeater - California, USA**

Canadian based MBA Gold Corp. has acquired 30% and subject to agreement including the issue of 100,000 MBA shares to CML may acquire up to 60% of Compass Minerals Ltd's option to purchase 100% of the project titles. MBA completed its initial expenditure obligation of US\$500,000 on exploration in 2003. CML may elect to contribute or convert to a 20% Net Profits Interest. A further 100,000 shares will be issued on commencement of production. MBA will also meet the underlying option Agreement commitments.

**Nangali/Chinguela - Peru**

The Company acquired 70% interest, and AKD Ltd. a 30% interest in the Nangali gold project from Newmont's Peruvian subsidiary. Compass and AKD proportionally contribute to the Nangali acquisition (costing US\$30,000 to date with a balance of \$200,000 to be paid on title registration by government decree, plus a 2% royalty on commercial production). The acquisition is subject to a joint venture with AKD under which the Company also acquires a 70% interest in AKD's adjacent Chinguela gold project, and AKD acquires 30% of Compass' Worldbeater Californian gold project interest. Under the agreement Compass funds the initial stages of project evaluation and capital market strategy assessment which has now been completed.

**Joint Venture Interests - Capital Commitments**

Joint venture capital commitments are integral to and form part of the total Capital Commitment of the Company and consolidated entity, disclosed in Note 17 to the financial statements.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**20. JOINT VENTURES (continued)**

**Assets employed in Joint Ventures**

Included in the assets of the Company and the consolidated entity are mining tenements which represent the Company and the consolidated entity's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 1(j).

	<b>Consolidated</b>		<b>The Company</b>	
	<b>2004</b> \$	<b>2003</b> \$	<b>2004</b> \$	<b>2003</b> \$
Non-current assets, mining tenements	17,091,829	16,560,139	17,091,829	16,560,139

**21. STATEMENT OF OPERATIONS OF SEGMENTS**

The consolidated entity operates predominantly in one business segment, being the mining industry.

The consolidated entity operates in two geographical segments, Australia and the U.S.A.

**PRIMARY REPORTING**

**Geographical Segments 2004**

	<b>Australia</b> \$	<b>United States</b> \$	<b>Intersegment Eliminations</b> \$	<b>Consolidated</b> \$
<b>Revenue</b>				
External Segment Revenue	321,376	-	-	321,376
Unallocated corporate revenue				<u>103,347</u>
				<u>424,723</u>
<b>Result</b>				
Segment Result	(746,900)	80,645	87,709	(578,546)
Unallocated corporate result				<u>103,347</u>
				<u>(475,199)</u>
Depreciation	20,299	-	-	20,299
Non-cash expense other than depreciation	538,366	-	-	538,366
<b>Individually significant items</b>				
Profit on sale of mining interest	135,000	-	-	135,000
Provision for doubtful debt	162,761	-	(162,761)	-
<b>Segment Assets</b>	23,007,347	450,435	(387,220)	23,070,562
<b>Segment Liabilities</b>	546,131	2,191,949	(2,136,868)	601,212
<b>Acquisition of non-current assets</b>	959,444	-	-	959,444

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**21. STATEMENT OF OPERATIONS OF SEGMENTS (continued)**

**Geographical Segments 2003**

	Australia \$	United States \$	Intersegment Eliminations \$	Consolidated \$
<b>Revenue</b>				
External Segment Revenue	381,368	-	-	381,368
Unallocated corporate revenue				<u>59,456</u> <u>440,824</u>
<b>Result</b>				
Segment Result	(217,746)	24,978	(714,561)	(207,329)
Unallocated corporate result				<u>59,456</u> <u>(147,873)</u>
Depreciation	21,843	-	-	21,843
Non-cash expense other than depreciation	60,464	-	-	60,464
<b>Individually significant items</b>				
Bad debt written-off	145,945	-	-	145,945
Provision for doubtful debt	250,000	-	-	250,000
Debt forgiven	(290,300)	-	-	(290,300)
<b>Segment Assets</b>	19,837,353	450,416	(552,560)	19,735,209
<b>Segment Liabilities</b>	403,972	2,272,575	(2,214,499)	462,048
<b>Acquisition of non-current assets</b>	884,587	-	-	884,587

**22. LOSS PER SHARE**

**Classification of securities as ordinary shares**

Ordinary shares have been included in basic earnings per share.

**Classification of securities as potential ordinary shares**

The following have been classified as potential ordinary shares:

- 826,000 partly paid staff equity participation plan shares

	Consolidated 2004 \$	Consolidated 2003 \$
<b>Earnings reconciliation</b>		
Net loss, basic and diluted earnings	<u>(475,199)</u>	<u>(147,873)</u>
<b>Weighted average number of shares used as the denominator</b>		
Number for basic and diluted earnings per share.	<u>54,890,191</u>	<u>46,815,768</u>
<b>Basic and Diluted ordinary EPS (cents)</b>	<u>(0.9)</u>	<u>(0.3)</u>

The following have not been included in the calculation of diluted EPS as they are not dilutive:

- 826,000 partly paid staff equity participation plan shares

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**23. NOTES TO THE STATEMENTS OF CASH FLOWS**

**(i) Reconciliation of cash**

For the purpose of the Statements of Cash Flows, cash includes cash on hand and at bank and short term deposits at call net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated		The Company	
	2004 \$	2003 \$	2004 \$	2003 \$
Cash assets	<u>4,887,250</u>	<u>2,235,493</u>	<u>4,886,776</u>	<u>2,235,038</u>

**(ii) Reconciliation of Loss from ordinary activities after Income Tax to net cash used in Operating Activities**

	Consolidated		The Company	
	2004 \$	2003 \$	2004 \$	2003 \$
Loss from ordinary activities after income tax	<b>(475,199)</b>	(147,873)	<b>(642,141)</b>	(156,790)
<b>Add/(less) items classified as investing activities</b>				
Profit on sale of mining interest	<b>(135,000)</b>	-	<b>(135,000)</b>	-
Loss on sale of investments	-	2,549	-	2,549
<b>Add/(less) non-cash items</b>				
Depreciation	<b>20,299</b>	21,843	<b>20,299</b>	21,843
Exchange loss/(gain) on translation	<b>(2,598)</b>	(20,316)	<b>(4)</b>	58
Write-down of shares in controlled entities	-	-	<b>14,038</b>	-
Write-off of bad debt	-	145,945	-	145,945
Debt forgiven	-	(290,300)	-	(290,300)
Doubtful Debt	-	-	<b>162,761</b>	-
Exploration expenditure written off	<b>221,461</b>	29,066	<b>221,461</b>	29,066
Non-cash directors fees & share placement fees	<b><u>52,850</u></b>	<u>16,875</u>	<b><u>52,850</u></b>	<u>16,875</u>
Net cash provided by operating activities before change in assets and liabilities	<b>(318,187)</b>	(242,211)	<b>(305,736)</b>	(230,754)
<b>Change in assets and liabilities:</b>				
Decrease in receivables	<b>79,188</b>	253,094	<b>79,188</b>	253,094
(Increase)/decrease in prepayments	<b>(2,248)</b>	6,278	<b>(2,248)</b>	6,278
Increase/(decrease) in provisions	<b>92,256</b>	(91,123)	<b>92,256</b>	(91,123)
Decrease in income in advance	-	(66,009)	-	(66,009)
Increase/(decrease) in payables	<b><u>77,774</u></b>	<u>(61,318)</u>	<b><u>76,593</u></b>	<u>(61,318)</u>
Net cash used in operating activities	<b><u>(71,217)</u></b>	<u>(201,289)</u>	<b><u>(59,947)</u></b>	<u>(189,832)</u>

**(iii) Non-cash financing and investment activities.**

During the financial year the Company issued 215,278 (2003:128,075) ordinary shares to non-executive directors as per shareholders' resolution in consideration for directors' fees in the amount of \$47,850 (2003: \$16,875). 16,667 (2003: NIL) ordinary shares were also issued to Martin Place Securities Pty. Ltd. in consideration for share placement fees in the amount of \$5,000 (2003: NIL).

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**24. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**

**(a) Interest rate risk**

	Note	Weighted average interest rate	Floating interest rate \$	Fixed interest maturing in:		Non- interest bearing \$	Consolidated total \$
				1 year or less \$	1 to 5 years \$		
<b>2004</b>							
<i>Financial assets</i>							
Cash assets	6	4.87%	307,308	4,579,453	-	489	4,887,250
Receivables	7	5.30%	-	175,250	-	21,393	196,643
			<u>307,308</u>	<u>4,754,703</u>	<u>-</u>	<u>21,882</u>	<u>5,083,893</u>
<i>Financial liabilities</i>							
Payables	12	-	-	-	-	136,225	136,225
Lease liabilities	13	6.43%	-	8,842	24,425	-	33,267
Employee benefits	14	-	-	-	-	367,903	367,903
			<u>-</u>	<u>8,842</u>	<u>24,425</u>	<u>504,128</u>	<u>537,395</u>
<b>2003</b>							
<i>Financial assets</i>							
Cash assets	6	4.62%	151,650	2,083,521	-	322	2,235,493
Receivables	7	4.74%	-	115,785	-	100,581	216,366
Other financial assets	8	4.40%	-	7,000	-	-	7,000
			<u>151,650</u>	<u>2,206,306</u>	<u>-</u>	<u>100,903</u>	<u>2,458,859</u>
<i>Financial liabilities</i>							
Payables	12	-	-	-	-	78,359	78,359
Lease liabilities	13	6.43%	-	8,293	33,268	-	41,561
Employee benefits	14	-	-	-	-	275,647	275,647
			<u>-</u>	<u>8,293</u>	<u>33,268</u>	<u>354,006</u>	<u>395,567</u>

**(b) Foreign exchange risk**

Given the minimal exposure to foreign currencies, it is the current policy of the Board not to hedge foreign exchange risk.

**(c) Credit risk exposure**

Credit risk on financial assets is minimised by dealing with recognised financial institutions with acceptable credit ratings.

**(d) Net fair value of financial instruments**

Except as disclosed elsewhere in the financial statements for investments, the carrying amounts of the consolidated entity's financial assets and liabilities approximate net fair value.

The estimated net fair value amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgement is necessarily required to develop these estimates and therefore these estimates are not necessarily indicative of the amounts that the consolidated entity could realise in a current market exchange.

**COMPASS RESOURCES NL AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2004**

**25. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ending on 31 December 2004.

The Board is in the process of establishing a formal project to achieve transition to IFRS reporting, beginning with the year ending 31 December 2005.

The differences between Australian Generally Accepted Accounting Principles (Australian GAAP) and Australian equivalents to International Financial Reporting Standards (AIFRS) identified to date as potentially having a significant impact on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all differences between current Australian GAAP and AIFRS.

No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not completed its project to assess the impact of adoption of AIFRS and has not quantified the effects of all the differences discussed below.

The key potential implications on the company of conversion to AIFRS, identified to date, are summarised below:

- AASB 6 Exploration for and Evaluation of Mineral resources permits the area of interest method of accounting to continue for exploration and evaluation expenditure and thus AASB 6 should provide outcomes consistent with those under the existing standard AASB 1022 Accounting for the Extractive Industries in accounting for the initial recognition of exploration and evaluation assets. AASB 6 also requires the inclusion of the cost of restoration and rehabilitation obligations in capitalised exploration and evaluation expenditure at initial recognition, while the current accounting policy recognises restoration and rehabilitation obligations as expenses progressively on the basis of physical depletion of each area of interest. The provisions are required to be measured as the present value of estimated future obligations under AASB 137 Provisions, Contingent Liabilities and Contingent Assets, which may potentially differ to the value recognised under the current accounting policy. These differences may lead to a higher cost for exploration and evaluation assets recognised under AASB 6, a potentially different value

recognised for restoration and rehabilitation provision if required by Compass Resources NL, and potential differences in the timing of recognition of expenses from these obligations. In addition, AASB 6 requires an annual assessment of impairment for exploration and evaluation assets using four indicators of impairment. These indicators are consistent with the initial recognition criteria of the existing standard and thus it is not expected that there will be a significant impact on results arising from the impairment testing requirements.

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value;
- Impairment of assets will be determined on a discounted basis, with strict tests for determining whether cash generating operations have been impaired. The impact of a more rigorous impairment test may result in additional write downs either on transition or ongoing. Any write downs will also impact the ongoing depreciation charge (where applicable); and
- Income tax will be calculated based on the 'balance sheet' approach, which will result in more deferred tax assets and liabilities and as the tax effect follows the underlying transaction, some tax effects will be recognised in equity.

**26. EVENTS SUBSEQUENT TO BALANCE DATE**

Since 31<sup>st</sup> December 2004, the Company has issued the following shares:

1,180,000 partly paid ordinary shares for an issue price of 37.5 cents per share and paid to one cent pursuant to the Company's Staff Equity Participation Plan and a resolution of members in the 2004 AGM. Shares were issued to the Trustee on behalf of directors (1,000,000 shares) and other staff (180,000 shares).

Details of shares issued in March 2005 at 37.5 cents and partly paid to one cent, to Compass Staff Equity Pty. Ltd., Trustee under the Compass Staff Equity Participation Plan, on behalf of Directors or their nominated associates are:

300,000 shares on behalf of G. Toll  
250,000 shares on behalf of M. Humphreys  
250,000 shares on behalf of J. Chappell  
200,000 shares on behalf of P. Cohen

52,156 ordinary fully paid shares at 34.8 cents per share as non-executive directors' fees in lieu of cash, pursuant to a resolution of members in the 2004 AGM.

## DIRECTORS' DECLARATION

In the opinion of the Directors of Compass Resources NL (the "Company"):

- (a) the financial statements and notes, set out on pages 8 to 28 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December, 2004 and of their performance, as represented by the results of their operations and their cash flows for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



P. Cohen  
Director

Sydney, 23 March 2004

## Independent audit report to the members of Compass Resources NL

### *Scope*

We have audited the financial report of Compass Resources NL (“the Company”) for the financial year ended 31 December 2004, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 26, and the directors’ declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company’s directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company’s and the consolidated entity’s financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### *Audit opinion*

In our opinion, the financial report of Compass Resources NL is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company’s and the consolidated entity’s financial position as at 31 December 2004 and of their performance for the financial year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

  
KPMG



Trent van Veen  
Partner