

22 July 2014

Australian Securities Exchange

**Rights Issue – Letter to Shareholders**

Please find attached a copy of the letter which has been sent to the Company's shareholders today advising details of the Company's rights issue.



John Lemon  
Company Secretary

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**WARNING/IMPORTANT**

*The contents of this document and the terms of the Rights Issue have not been reviewed by any regulatory authority in Australia, New Zealand or Hong Kong. You are advised to exercise caution in relation to the Rights Issue. If you are in any doubt about any of the contents of this document and other Rights Issue documents you should seek independent professional advice.*

22 July 2014

Dear Shareholder

**Underwritten Non-Renounceable 1 Convertible Note for 1,000 Shares Rights Issue**

On 21 July 2014 Crater Gold Mining Limited (**the Company**) notified the Australian Securities Exchange (**ASX**) that it will undertake a one (1) convertible note for every one thousand (1,000) shares non-renounceable pro rata rights issue at A\$25.00 per convertible note to raise up to \$3,454,750 before costs through the issue of up to 138,190 convertible notes (**Rights Issue**). Eligible shareholders will be offered the opportunity to purchase one (1) convertible note for every one thousand (1,000) shares held by them as at 7.00pm AEST on the record date of 25 July 2014. All fractional entitlements to convertible notes will be rounded up to the nearest whole number.

Funds raised from the Rights Issue will be used:

1. to progress the development of the Company's Crater Mountain, PNG Project's High Grade Zone (**HGZ**) with the objective of commencing production by the 4<sup>th</sup> quarter of 2014\*;
2. to repay approximately \$1,537,500 of debt;
3. to cover the costs of the Rights Issue; and
4. for working capital generally.

\*A more detailed description of the Company's strategy in relation to the HGZ and the Crater Mountain Project generally is contained in Schedule 1 of this letter.

Only those shareholders with registered addresses in Australia, New Zealand and Hong Kong ("**Eligible Shareholders**") will be eligible to participate in the Rights Issue. The Company's directors have determined that it would be unreasonable to make offers to shareholders in other countries given the number and value of convertible notes that would be offered and the cost of complying with legal and regulatory requirements in other countries. If you are not eligible to participate in the Rights Issue you have been sent this letter for information purposes only.

Eligible Shareholders may apply for convertible notes in addition to their pro rata entitlement under the Rights Issue to the extent that there is any shortfall. Any such additional convertible notes will be allocated at the discretion of the Company. Additionally, the Company intends to scale back applications on a pro rata basis in the event of excess demand for such additional convertible notes.

The Rights Issue offer is being made to Shareholders pursuant to the terms of a prospectus which was lodged with the Australian Securities & Investments Commission (“ASIC”) on Monday 21 July. The prospectus and a personalised Entitlement and Acceptance Form will be mailed to each Eligible Shareholder. Each Eligible Shareholder’s convertible note entitlement will be shown on their Entitlement and Acceptance Form.

The Company currently has on issue:

1. 136,435,320 shares, all of which are quoted on ASX; and
2. 6,473,179 options, none of which are quoted on ASX.

If all 138,190 convertible notes are issued under the Rights Issue the Company will have on issue those convertible notes in addition to the abovementioned securities. Application has been made to the ASX for quotation of the convertible notes to be issued under the Rights Issue. If some or all of the options are exercised prior to the record date for the Rights Issue it will impact the maximum number of convertible notes that may be issued under the Rights Issue. However, the Company does not anticipate that any options will be exercised as the exercise prices of the options, other than some held under the Company’s Employee Share Option Plan, are above the conversion price of the convertible notes offered under the Rights Issue.

The Rights Issue is fully underwritten as to half each by Freefire Technology Limited (**Freefire**) and Bloom Star Investment Limited (**Bloom Star**) on the terms of the Underwriting Deeds between the Company and each of Freefire and Bloom Star dated 18 July 2014. The underwriting fee payable by the Company to each of Freefire and Bloom Star is 5% of the amount underwritten. As the underwritten amount is \$3,454,750 the total underwriting fee is \$172,737.50. To clarify, any shortfall will be allocated to Freefire and Bloom Star as the underwriters only after applications by shareholders for convertible notes in addition to their entitlements (refer above) have been dealt with.

No brokers have been appointed for the Rights Issue therefore no handling or other fees will be payable to brokers.

The principal terms of the convertible notes offered under the Rights Issue are as follows:

1. Conversion price - \$25.00 per convertible note
2. Conversion rate – 100 shares per convertible note
3. Maturity – 3 years after date of issue
4. Interest rate - 10% per annum paid 6 monthly in arrears until and including the maturity date; with the first interest payment to be made on 31 December 2014 and at 6 monthly intervals thereafter
5. Dates for conversion - the last day of each quarter and at maturity, and otherwise in accordance with the terms of issue of the convertible notes

Shares issued upon conversion of the convertible notes will rank equally with the Company’s then existing quoted fully paid ordinary shares except that they will not be entitled to any dividend that has been declared or determined but not paid as at the conversion date.

The proposed timetable for the Rights Issue is as follows\*:

<ol style="list-style-type: none"> <li>1. Announcement of Rights Issue to ASX</li> <li>2. Lodge Prospectus with ASIC &amp; ASX</li> <li>3. Lodge Appendix 3B with ASX</li> <li>4. Advise option holders and lodge letter to option holders with ASX</li> </ol>	<p style="text-align: center;">Monday, 21 July 2014</p>
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Notice to Shareholders containing information in Appendix 3B	Tuesday, 22 July 2014
<b>Shares trade "Ex" the entitlements issue on the ASX</b>	Wednesday, 23 July 2014
Record Date to identify Eligible Shareholders and to determine Entitlements under the offer	Friday, 25 July 2014
<ol style="list-style-type: none"> <li>1. Despatch of Prospectus and Entitlement and Acceptance Form ("Opening Date")</li> <li>2. Advise ASX that despatch completed</li> </ol>	Wednesday, 30 July 2014
<b>Closing Date</b>	Monday, 11 August 2014
Securities quoted on a deferred settlement basis	Tuesday, 12 August 2014
ASX notified of under-subscriptions	Thursday, 14 August 2014
<ol style="list-style-type: none"> <li>1. Issue date</li> <li>2. Deferred settlement trading ends</li> <li>3. Last day to confirm to ASX all info required by Appendix 3B</li> </ol>	Monday, 18 August 2014
Expected commencement of trading of convertible notes on ASX	Tuesday, 19 August 2014

\*The timetable is indicative only and subject to change. Subject to the *Corporations Act 2001* (Cth) and the ASX Listing Rules, the Company, in conjunction with the underwriters, reserves the right to vary the dates in connection with the Rights Issue, including the closing date, without prior notice. The Company, in conjunction with the underwriters, also reserves the right not to proceed with all or part of the Rights Issue at any time prior to the date of issue of the convertible notes to be issued under the Rights Issue (in which event application monies will be refunded without interest).

If you have any questions regarding the rights issue or the prospectus and Entitlement and Acceptance Form which will be sent to you (if you are an Eligible Shareholder) please contact the Company Secretary, John Lemon (Tel: (07) 3367 1666).

Yours faithfully

**CRATER GOLD MINING LIMITED**



Sam Chan  
Chairman

## **SCHEDULE**

### **CRATER MOUNTAIN, PNG STRATEGY**

The Company's current strategy in relation to the Crater Mountain Project is to develop the Project's High Grade Zone (**HGZ**) as an area where mining of gold can be undertaken, and to use the cash flow generated to undertake ongoing exploration of the larger Crater Mountain potential which lies in developing the existing initial inferred JORC resource at the Mixing Zone, drilling the Porphyry copper-gold potential, and following up on targets highlighted by the airborne geophysical survey undertaken by the Company. (Note that the Company's initial inferred JORC resource estimate for the Crater Mountain Mixing Zone was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.)

The Company's management believes that the Crater Mountain project is a major project with world class potential, although the potential for the Crater Mountain Project is significantly greater than the Company's current financial resources allow. The Company is developing the HGZ project with the view of commencing gold production in the 4<sup>th</sup> quarter of this year. The cash flow generated from production at the HGZ is planned to finance development at Crater Mountain.

Details of the Company's development of the HGZ and high grade gold drilling results have recently been provided to the ASX. Through the Rights Issue the Company is seeking the funding to continue with development of the Crater Mountain Project through to production at the HGZ.

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