CRATER GOLD MINING

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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,* Hong *Kong or Papua New Guinea. 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.

11 November 2013

Australian Securities Exchange

Rights Issue Cleansing Notice under section 708AA(2)(f) Corporations Act

This notice is given by Crater Gold Mining Limited (**CGN** or **the Company**) under paragraph 708AA(2)(f) of the Corporations Act 2001 (Cth) (the Act) as notionally modified by ASIC Class Order 08/35.

Earlier today CGN announced a non-renounceable, pro rata rights issue (**Rights Issue**) of 1 fully paid ordinary share (**New Share**) for every 4 ordinary shares held as at as at 7pm (AEDST) on Tuesday 19 November 2013 by CGN's eligible shareholders. The issue price for each New Share under the Rights Issue will be $0.08 (8 cents).

CGN advises that:

(a) the New Shares will be offered for issue without disclosure under Part 6D.2 of the Act;

(b) this notice is being given under paragraph 708AA(2)(f) of the Act;

(c) as at the date of this notice CGN has complied with:

  (i) the provisions of Chapter 2M of the Act as they apply to CGN; and

  (ii) section 674 of the Act;

(d) as at the date of this notice there is no excluded information of the type referred to in subsections 708AA(8) or (9) of the Act; and

(e) the potential effect the Rights Issue will have on the control of CGN, and the consequences of that effect, will depend on a number of factors, including shareholder demand. The potential effect and the consequences of that effect are assessed further below.

Further to paragraph (e) above, CGN has secured either commitments to subscribe under the Rights Issue, or an underwriting commitment, in respect of the full amount to be offered under the Rights Issue as follows:

- The Company's major shareholder, Freefire Technology Ltd (**Freefire** or **the Major Shareholder**), which presently holds 59.12% of CGN's issued share capital, has agreed to take up its full pro rata entitlement under the Rights Issue.
- Freefire has also agreed to underwrite half the Rights Issue shortfall up to $1,091,482.56 at the issue price of $0.08 (8 cents).
- Bloom Star Investment Limited (**Bloom Star)** has agreed to underwrite the other half of the Rights Issue shortfall up to $1,091,482.56 at the issue price of $0.08 (8 cents).

Freefire's and Bloom Star's underwriting commitments are subject to the terms and conditions of separate Underwriting Deeds dated 10 November 2013 entered into by each of them with the Company. The terms of those Underwriting Deeds are typical for such agreements including typical conditions precedent and termination events.

The Company has for some time sought additional funding to enable it to further develop the Crater Mountain, PNG gold project in particular. The difficulty in sourcing investment funds over the last several years has led the Company to adopt a strategy of developing the High Grade Zone at the Crater Mountain Project and engaging in small scale mining of gold there with a view to using 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, exploring the regional prospects, and following up on the recent targets as highlighted by the recent airborne geophysical survey.

The Company sought expert advice regarding the possibility of raising extra funding in Australia but was advised that the prospects at this time are very poor for small cap mining exploration companies in general and for the Company itself. Approaches were made to potential underwriters overseas and the Company is very fortunate to have received a commitment from Bloom Star in addition to that received from Freefire.

The Company notes that Freefire already exercises significant voting control at the Company's general meetings, however the Company considered that the potential impact on control was minimised by:

1. eligible shareholders other than Freefire being offered the right to subscribe for excess entitlements out of any shortfall before the underwriting is called upon;
2. the Rights Issue share issue price being significantly discounted to the market share price, providing more of an incentive to the Company's shareholders to invest under the Rights Issue; and
3. the Company having secured the services of Bloom Star as a co-underwriter with Freefire.

The Company has on issue 109,148,256 ordinary shares and 6,539,048 unlisted options. The Company does not anticipate that a significant number of options, if any, will be exercised to take advantage of the Rights Issue.

Therefore, assuming no rights to take up shares are exercised by the option holders, the potential effect* of the issue of New Shares on the control of CGN is illustrated below:

	POTENTIAL ACCEPTANCE	**EFFECT ON CONTROL**
1.	If all eligible shareholders take up their full entitlement under the Right Issue	No effect on control. The Major Shareholder's shareholding would remain at 59.12%
2.	If eligible shareholders, other than the Major Shareholder, take up only 50% of their full entitlement under the Rights Issue and the Major Shareholder takes up its full entitlement under the Rights Issue and the Major Shareholder and Bloom Star take up half the shortfall each in accordance with their respective Underwriting Agreements	The Major Shareholder's shareholding would increase from 59.12%% to 61.17% Bloom Star's shareholding would increase from 0% to 2.04%
3.	If the Major Shareholder is the only shareholder to take up its entitlements under the Rights Issue and it and Bloom Star take up half the shortfall each in accordance with their respective Underwriting Agreements	The Major Shareholder's shareholding would increase from 59.12% to 63.21% Bloom Star's shareholding would increase from 0% to 4.09%

*If any of the option rights to take up shares are exercised then the Major Shareholder's percentage of the shareholding would decrease.

Eligible shareholders may apply for shares in addition to their pro rata entitlements under the Rights Issue to the extent that there is any shortfall. Any such additional shares will be allocated at the discretion of the Company, provided that if any shareholder who takes up shares in addition to their pro rata entitlement would as a result hold greater than 19.9% of the Shares in the Company following completion of the Rights Issue then the number of additional shares they would be issued will be scaled back so that they do not hold greater than 19.9%. Additionally, the Company intends to scale back applications on a pro rata basis in the event of excess demand for such additional shares. Freefire has indicated that it does not intend to apply for any of the shortfall in addition to its pro rata entitlement. To the extent that the Company allocates additional shares to eligible shareholders in excess of their pro rata entitlements the increase in the Major Shareholder's (Freefire's) shareholding in items 2 and 3 in the above table will be lessened.

The consequence of the change of control referred to in items 2 and 3 in the above table would be to slightly increase the Major Shareholder's voting power at the Company's general meetings. The practical effect of this would be minimal.

Yours Faithfully,

CRATER GOLD MINING LIMITED

Greg Starr
Managing Director