

24 March 2017

Ms Stephanie Yong  
Senior Adviser, Listings Compliance  
Australian Securities Exchange  
20 Bridge Street  
SYDNEY NSW 2000

### FINANCIAL CONDITION QUERY

Crater Gold Mining Limited (the **Company** or the **Entity**) refers to your letter dated 20 March 2017.

Using the numbering in your letter, the Company responds to your questions as follows.

1. *Is the Entity able to confirm that in the Director's opinion the Financial Report:*
  - *complies with the relevant Accounting Standards; and*
  - *gives a true and fair view of the financial performance and financial position of the Entity.*

The Directors are of the opinion that the Financial Report complies with the relevant Accounting Standards and gives a true and fair view of the financial performance and financial position of the Entity. The Financial Report was subject to an audit (review) process carried out by the Company's Auditors in the ordinary course. During that process, an optimal course of validating carried assets values was identified, being to seek independent valuations. The Company's commitment to carrying out independent valuations is referenced on page 12 of the Financial Report. The independent valuations have now been commissioned. It is anticipated that these valuations will be utilised to support the 30 June 2017 Annual Financial Statements and the Board has reserved the option of re-issuing the Financial Report, depending on the timing and outcome of the valuations.

2. *Given the Disclaimer relates to the Auditor's inability to obtain sufficient information to support the carrying values of the Entity's Exploration and Evaluation assets and Plant and Equipment, what steps does the entity intend to take to obtain unqualified audit/review report for future financial periods?*

*In your response, please explain why the auditor has been unable to obtain sufficient evidence to verify the carrying values of the Entity's Exploration and Evaluation assets and Plant and Equipment.*

The Entity proposes the steps outlined in question 1 (above) to obtain unqualified audit/review reports for future periods. An independent valuation process is underway. This will underpin the Directors assessment of value moving forward.

The Auditor has been unable to obtain sufficient evidence to verify value of Exploration and Evaluation assets and Plant and Equipment as a result primarily of the performance of the HGZ mine. Although technically successful on some measures, the HGZ Mine 1960 level has failed to deliver acceptable financial outcomes to date. The under-performance of the HGZ mine has eroded the Auditors' confidence in the value of the Company's projects in PNG and for this reason, the Board has committed to seeking independent valuations of all (material) Exploration and Evaluation assets and Plant and Equipment. This valuation process is underway, however was not completed in time to inform valuation decisions for the purposes of the Financial Report. There has been no suggestion that the Company's financial processes and record keeping is not adequate.

The Board is confident that the Company's activities to open the 1930 level adit at the HGZ Mine may improve the financial performance of the HGZ operation and that the underlying values of the Entity's Exploration and Evaluation Assets and Plant and Equipment are supported, particularly by the Mixing Zone project ( the Company's flagship project) at Crater Mountain, PNG.

3. *Given the Disclaimer relates to the Auditor's inability to obtain sufficient audit evidence in relation to the carrying values of the Entity's Exploration and Evaluation assets and Plant and Equipment, please explain how the Directors satisfied themselves that the carrying values are appropriate and adheres to the current Accounting Standards.*

*In answering this question, reference should be made to the underlying assumptions used by the Directors for coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.*

The carrying values of the Entity's Exploration and Evaluation assets and Plant and Equipment adopted for the purposes of the Financial Statements are in effect the capitalised value of historical expenditure in relation to each of the asset classes. This process has been undertaken in an ongoing fashion and subject of audit (review) and full audit in the ordinary six monthly cycle. At each six monthly audit (review) or audit, the Directors have taken a view on carrying values consistent with the Accounting Standards. The Company's Auditors have then taken a view (supportive) of that position in the past. It is only as a result of the ongoing underperformance of the HGZ Mine that the Board has now elected to undertake independent valuations of the relevant assets.

4. *Does the Entity consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX in accordance with the requirements of listing rule 12.1? In answering this question please explain the basis for the conclusion?*

Yes. Although the Company's HGZ Mine has failed to deliver acceptable financial outcomes to date, the Company is actively advancing this project other projects that it owns in PNG and Queensland, Australia. The Company has demonstrated an ability to continue to raise funding for its activities, either from external sources or via Freefire (refer question 5, below). The latter arrangements are committed until February 2018.

5. *Does the Entity consider that the financial condition of the Entity is sufficient to warrant continued listing on the ASX in accordance with the requirement of listing rule 12.2, commenting specifically on the Entity's working capital deficiency of \$7,995,506? In answering this question, please explain the basis for this conclusion?*

Yes, the Entity considers that the financial condition of the Entity is sufficient to warrant continued listing on the ASX. The Company has been able to raise capital in the past as required to support its activities. The Company has received consistent financial support from its Chairman, Sam Chan (via Freefire Technology Limited or 'Freefire'). This support remains ongoing and is evidenced by Freefire's letter of support for the Company to March 2018 (refer page 11 of the Financial Statement) and Freefire's commitment to convert approximately \$2.5 million of its convertible notes into longer term, unsecured debt or shares. The terms of this agreement have been drafted and are being negotiated at present. An announcement will be made once the transaction is finalised. This conversion will reduce the working capital efficiency to approximately \$5.5 million. The Company has a number of initiatives underway to address the resultant working capital deficiency (which is not all due at the present stage) and will advise the market once it is in a position to do so.

6. This question is not applicable.
7. *Please confirm that the Entity is in compliance with the Listing Rules and, in particular, listing rule 3.1 and 12.2.*

The Company is in compliance with the ASX Listing Rules, in particular listing rules 3.1 and 12.2.

The Company confirms that its responses to the questions above have been authorised and approved by the Board of the Company.

Yours Sincerely  
**Crater Gold Mining Limited**

**Sam Chan**  
Chairman



20 March 2017

Heath Roberts  
Company Secretary  
Crater Gold Mining Limited  
Level 4, 15-17 Young Street  
Sydney NSW 2001

By email

Dear Mr Roberts

**Crater Gold Mining Limited (the “Entity”) – Financial Condition Query**

ASX Limited (“ASX”) refers to the following:

1. The Entity’s half-year financial report for the half-year ended 31 December 2016, lodged with ASX on 16 March 2017 (the “Financial Report”).
2. The Independent Auditor’s Review Report on pages 25 to 26 of the Financial Report (“Auditor’s Review Report”) which includes the following Disclaimer of Opinion (the “Disclaimer”):

**Basis for Disclaimer of Conclusion**

Included in the half year financial report of Crater Gold Mining Limited are \$24,323,657 of capitalised Exploration and Evaluation expenses and \$824,626 of Plant and Equipment. The Directors did not provide sufficient information to support the carrying value of the Consolidated Entity’s Exploration and Evaluation assets and Plant and Equipment in accordance with the accounting standards.

As a result of the matters outlined above we were unable to determine whether any adjustments might have been found necessary in respect of the carrying values of Exploration and Evaluation assets or Plant and Equipment.

**Disclaimer of conclusion**

Due to the significance of the matters described in the basis for disclaimer of conclusion paragraph, we were unable to obtain sufficient appropriate evidence to form a conclusion on the accompanying half-year financial report. Accordingly, we do not express a conclusion on this financial report.

**Relevant Listing Rules and Guidance**

- Listing Rule 12.1 – *The level of an entity’s operations must, in ASX’s opinion, be sufficient to warrant the continued quotation of the entity’s securities and its continued listing.*



- Listing Rule 12.2 – *An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*
- Listing Rule 19.11A – *If a listing rule requires an entity to give ASX accounts, the following rules apply:*  
...  
*(b) The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*

### Questions for Response

In light of the Auditor's Review Report, the information contained in the Financial Report, and the application of the listing rules stated above, please respond to each of the following questions:

1. Is the Entity able to confirm that in the Directors' opinion the Financial Report:
  - (a) complies with the relevant Accounting Standards; and
  - (b) gives a true and fair view of the financial performance and financial position of the Entity?
2. Given the Disclaimer relates to the Auditor's inability to obtain sufficient information to support the carrying values of the Entity's Exploration and Evaluation assets and Plant and Equipment, what steps does the Entity intend to take to obtain unqualified audit/review report for future financial periods?

In your response, please explain why the Auditor has been unable to obtain sufficient information to verify the carrying values of the Entity's Exploration and Evaluation assets and Plant and Equipment.

3. Given the Disclaimer relates to the Auditor's inability to obtain sufficient audit evidence in relation to the carrying values of the Entity's Exploration and Evaluation assets and Plant and Equipment, please explain how the directors satisfied themselves that the carrying values are appropriate and adheres to the current Australian Accounting Standards?

In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.

4. Does the Entity consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please explain the basis for this conclusion.
5. Does the Entity consider that the financial condition of the Entity is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2, commenting specifically on the Entity's working capital deficiency of \$7,995,506? In answering this question, please explain the basis for this conclusion.



6. If the answer to questions 4 or 5 is “No”, please explain what steps the Entity has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.
7. Please confirm that the Entity is in compliance with the listing rules and, in particular, listing rule 3.1 and 12.2.

Please note the ASX reserves its right under listing rule 18.7A to release this letter and the Entity’s response to the market. Accordingly, the Entity’s response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event by **9:30am AEDT, Friday 24 March 2017**.

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

If you have any queries regarding any of the above, please let me know.

Yours sincerely

*(sent electronically without signature)*

Stephanie Yong  
**Senior Adviser, Listings Compliance (Sydney)**