



GOLDEN CROSS RESOURCES LTD

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8 January 2014

Heron Resources Limited (ASX:HRR) and HQ Mining Resources Holding Pty Ltd proposals to fund GCR

Heron Resources this morning released, to the ASX, details of its binding proposal to take a 19.9% placement in GCR, taking up part of the shortfall of the Company's October 2013 rights issue, at a share price of \$0.005 for a consideration of \$1.88 million as set out in the attached document.

HQ Mining confirmed today that its attached proposal, details of which were previously announced to the ASX, is its final proposal, to take up its entitlement in a rights issue and an offer to underwrite, at no cost to GCR, for a maximum of 680 million shares at an issue price of \$0.005 per share to raise \$3.4 million. HQ Mining has made its proposal conditional on the Company rejecting the Heron proposal.

Shareholders will be asked at an EGM to be held in the near future to consider and vote upon the matter.

Yours faithfully,

Kim Stanton-Cook
Managing Director

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ASX Release

Heron Resources Limited

8 January 2014

Binding Offer to Take 19.9% Placement in Golden Cross Resources

Heron Resources Limited (ASX:HRR) is pleased to announce that it has today submitted a modified binding offer to Golden Cross Resources (ASX:GCR) (**Golden Cross**) to take a strategic equity interest in the company

Heron Resources Limited

ASX:HRR

Issued Shares 253M

Share Price \$0.14

Market Cap \$35.4M

Cash Sep 2013 \$38.6M

Listed Invest \$ 5.0M

- Heron proposes that Golden Cross issue to Heron 375,970,579 new shares at a share price of \$0.005, for consideration of \$1.88 million (Heron Offer), giving Heron an interest of 19.9% in the enlarged share capital.
- The Heron Offer has been extended until two days after Golden Cross' proposed EGM date, and four market-based conditions have been waived.
- The Heron Offer provides certainty to Golden Cross' shareholders of additional significant funding to enable them to progress their major projects.
- In particular, the Heron Offer will see a major commitment to the drilling out and expanding of the JORC-compliant Mineral Resource of the Copper Hill copper-gold deposit.
- If the Heron Offer is accepted, Heron will seek to appoint Mr Ian Buchhorn, Heron's Managing Director, to the Golden Cross board as Heron's representative.
- The Heron Offer is subject to only limited conditions, described below, all of which are under the control or influence of Golden Cross.

Background

Heron is an exploration stage company headquartered in West Perth, Western Australia whose key assets are its cash reserves of A\$38.6 million as at 30 September 2013, and the Kalgoorlie Nickel Project ("KNP"), a world-class nickel laterite deposit. Heron has an active exploration programme for gold, copper and base metals including extensive tenement holdings in the Lachlan Fold Belt region of New South Wales, where Golden Cross is also active.

On 21 October 2013, Golden Cross announced a 1 for 1 rights issue (**Entitlement Offer**) priced at \$0.005 to raise up to \$6.81 million for exploration and development. The funds raised were to be used for further copper-gold exploration of the company's tenements at Copper Hill, near Molong (New South Wales), IOCG exploration on the company's most prospective tenements in the Gawler Craton (South Australia), copper exploration at Burra (New South Wales) and gold exploration at Cargo (New South Wales). According to the Shortfall notice issued on 20 November 2013, Golden Cross shareholders had subscribed for 135,215,037 shares, a take-up rate of 10%. HQ Mining, Golden Cross' major shareholder, did not subscribe for shares under the Entitlement Offer.

Under clause 2.8 of the Prospectus dated 21 October 2013 for the Entitlement Offer, Golden Cross is able to place the shares not taken up by shareholders, being 1,210,472,890 shares (**Shortfall Shares**).

On 29 November 2013, following an earlier approach by Golden Cross for Heron to underwrite their Entitlement Offer, Heron provided Golden Cross with a non-binding indicative proposal (**Indicative Proposal**) to take up 500,000,000 of the Shortfall Shares. The proposal would have seen Heron take up to a 24.8% interest in the company and appoint directors. The proposal was conditional upon Golden Cross shareholder approval, Golden Cross director support, the major shareholder not voting against the proposal at the required shareholder meeting, and a number of further conditions. On 3 December 2013, Heron received a written response from Golden Cross stating that the Golden Cross board had voted against the Indicative Proposal. No reasons for the rejection were provided.

On 16 December 2013, Heron submitted a binding Heron Offer to Golden Cross for a placement of 375,970,579 new shares at a share price of \$0.005, for consideration of \$1.88 million (Heron Offer), subject to various conditions.

Summary of the Binding Offer

Heron believes that the acceptance of funding from Heron is in the best interests of the company and in the best interests of shareholders as a whole. Therefore, Heron is now pleased to re-submit to Golden Cross a binding offer to take a placement of 375,970,579 of the Shortfall Shares at a share price of \$0.005 (**Heron Offer**), being the same price as the recent Entitlement Offer. The previous market based conditions of the 16 December 2013 offer are now waived.

The full terms of the Heron Offer are set out in a letter to the Golden Cross board dated 8 January 2014 (**Offer Letter**), which is included with this announcement.

The pricing of the Heron Offer is a 66.7% premium to the Golden Cross closing price of \$0.003 on 13 December 2013, and a 29.5% premium to the 10 day volume weighted average price of \$0.00386 for Golden Cross shares between 2 and 13 December 2013.

Golden Cross shares have traded up to (and on one day, above) the offer price since announcement of the 16 December 2013 Heron Offer. In Heron's opinion, this trading reflects the support by shareholders for the Heron Offer, and the expectation of shareholders that, one way or the other, the funding that Golden Cross needs will now be forthcoming, enabling the Company's projects to be systematically progressed. Given the influence of the Heron and subsequent HQ Mining offers on the market, any analysis of premium using information after 16 December 2013 is flawed.

In the absence of Heron's Offer, Heron believes that it is probable that Golden Cross' share price would have remained weak until a viable funding solution was found.

Assuming no other shares are issued by Golden Cross, the Heron Offer will result in Heron acquiring a 19.9% interest in Golden Cross, thus becoming the company's second largest shareholder after HQ Mining.

Under the Heron Offer, Heron will have the right to appoint one board member to the Golden Cross board as Heron's representative. Heron notes that upon this appointment, Golden Cross' board will comprise six members, of which at least three including the Chairman have strong technical backgrounds. Heron believes this will be a significant step forward for Golden Cross' ability to fund and complete meaningful exploration and development, particularly at Copper Hill.

The Offer remains open to Golden Cross for 2 days from the date of the proposed Golden Cross EGM unless extended by Heron and is subject to a limited number of conditions largely under the control or influence of the Golden Cross board, including:

- No Material Adverse Change;
- No Material Asset Disposals;
- No issue of new Golden Cross shares without Heron's prior written consent;
- Other than as set out below, no additional appointments to; and no changes to the structure and composition (including the chairmanship) of the Golden Cross board;
- One new non-executive director nominated by Heron to be appointed to the Golden Cross board such that the Golden Cross board will comprise not more than six directors, including the incumbent Chairman and incumbent Managing Director; and
- The preparation and execution of the formal document necessary to give effect to the Heron Offer.

The full conditions are set out in the Offer Letter included with this announcement.

Advantages of the Heron Offer

The Heron Offer provides a number of significant advantages to Golden Cross:

1. **Provides Significant Additional Funding:** Under the Heron Offer Golden Cross will raise \$1,879,853 to add to the \$753,730 raised from the Entitlement Offer for a total of \$2,633,583. The funds raised from the Entitlement Offer alone are insufficient to permit significant exploration activities to be undertaken. The additional funds raised under the Heron Offer will allow Golden Cross to more actively progress the exploration and development of the company's flagship Copper Hill project, as well as their wider exploration portfolio as described in the October 2013 Entitlement Offer.

2. **Introduces an Aligned Strategic Shareholder:** Heron will become Golden Cross' second largest shareholder. Heron has a strong balance sheet and an extensive exploration portfolio of 3,500 km² within the Lachlan Fold Belt of New South Wales in proximity to four key Golden Cross projects. Heron believes that Copper Hill is highly prospective and is strongly supportive of continued exploration at the project and within the region.
3. **Balances Control:** Under the Heron Offer, Heron will acquire a 19.9% interest in Golden Cross, becoming the company's second largest shareholder after HQ Mining, whose holding will reduce from 30.3% to 24.3%. Immediately after the Heron Offer, Heron will not be in a position to control Golden Cross either through the share register or through board representation. However, it is notable that Heron will be able to provide a strong technical input on board decision making.
4. **Rebalances the Golden Cross Board:** Upon completion of the Heron Offer, Golden Cross' board will again be balanced, comprising six members including one nominee of Heron and two directors associated with HQ Mining. At least three directors including the Chairman will be independent of the largest shareholder HQ Mining.
5. **No Costs:** There are no significant costs to Golden Cross in accepting the Heron Offer.

Message to Golden Cross Shareholders

Heron notes that acceptance of the Heron Offer is the responsibility of the Golden Cross board, acting on behalf of the interests of all shareholders, and urges shareholders of Golden Cross to lobby their directors in support of the Heron Offer.

Heron looks forward to becoming a strategic shareholder in Golden Cross and assisting in progressing the exploration and development of Copper Hill.

Heron strongly believes that our experience in porphyry copper systems and resource drill-outs has the potential to expand the JORC-compliant Mineral Resource at Copper Hill beyond its current 155 million tonne at 0.33% copper and 0.27g/t gold (hosting 493,000 tonnes of copper and 1.33 million ounces of gold)*.

We urge the Golden Cross board and its shareholders to support the Heron Offer as a means to deliver future value to Golden Cross shareholders.

If shareholders require further information on Heron's suggested strategy, particularly for Copper Hill, they may telephone Ian Buchhorn at Heron on 08 9215 4444.



Ian Buchhorn
Managing Director
HERON RESOURCES LIMITED

Attachment Offer Letter dated 8 January 2014 to the Directors of Golden Cross Resources Limited

* refer Golden Cross announcement 21 November 2013, "Kim Stanton-Cook Presentation for the AGM"



Heron Resources Limited

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8 January 2014

The Directors
Golden Cross Resources Limited
22 Edgeworth David Ave
Hornsby NSW 2077

Dear Sirs

BINDING PLACEMENT PROPOSAL – GOLDEN CROSS RESOURCES LIMITED

Heron Resources Limited (**Heron**) is pleased to provide this binding proposal to subscribe for shortfall shares pursuant to clause 2.8 of the Prospectus dated 21 October 2013 for the Golden Cross Resources Limited (**Golden Cross**) Entitlement Offer (**Shortfall Shares**).

The Proposal

1. Heron will, subject to the satisfaction of certain limited conditions (set out below and in Annexure A) subscribe for 375,970,579 Golden Cross Shortfall Shares at \$0.005 to raise \$1,879,853 representing 19.9% of the then issued capital of Golden Cross.
2. Of the funds subscribed by Heron, it is proposed that \$1,800,000 will be committed to the following Programs and Budget:
 - a. Copper Hill to Buckley Hill, \$1,450,000 in a 5,800 metre Diamond Drilling program, with drill collars to be nominated by Heron for approval by the Golden Cross board;
 - b. Gawler Craton IOCG South Australia, \$150,000 Diamond Drilling program;
 - c. Burra Copper Mine Project, \$100,000 Diamond Drilling program; and
 - d. Cargo, \$100,000 Diamond Drilling program.

("the **Proposal**").

Conditions

Aside from the board of Golden Cross resolving to accept the Proposal, the Proposal is subject to Conditions including the following:

1. No Material Adverse Change;
2. No Material Asset Disposals;
3. No other issue of new Golden Cross Shares;
4. Other than as set out at 5:
 - a. no additional appointments to; and
 - b. no changes to the structure and composition (including the chairmanship),of the Golden Cross board;
5. One new non-executive director nominated by Heron to be appointed to the Golden Cross board such that the Golden Cross board will comprise not more than six directors, including the incumbent Chairman and incumbent Managing Director; and
6. The preparation and execution of formal document necessary to give effect to the Proposal.

The complete conditions to the Proposal are set out in full in Annexure A to this letter. Heron may agree to waive one or more of the conditions in its discretion and conditionally or otherwise.

Expiry Date

Unless extended by Heron, this binding Proposal will automatically lapse at the close of business in Western Australia on the day which is 2 days from the date of the proposed Golden Cross EGM (refer Golden Cross announcement dated 18 December 2013) at which time Heron will be under no obligation to proceed with the Proposal.

We look forward to your acceptance of the Proposal. Once you confirm in writing Golden Cross' agreement to these terms and conditions, we will prepare the formal Share Subscription Agreement, which will be on standard terms for an agreement of this nature. Cleared funds will be available from Heron immediately upon receipt of an executed Share Subscription Agreement.

As you well know, Heron is very keen to progress the Copper Hill project, and we see this Proposal as a means to do so.

The terms of this letter and the Proposal shall be governed by the laws applicable in Western Australia.

Yours faithfully



Ian Buchhorn

Managing Director
HERON RESOURCES LIMITED

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ANNEXURE A

CONDITIONS TO THE PROPOSAL

1. **Capital structure** – No Capital Structure Changes in respect of Golden Cross or any of its material subsidiaries other than as required to give effect to the Proposal or if otherwise approved by Heron.
2. **Material Adverse Change** – No Material Adverse Change occurs between the date of this letter and the Placement Expiry Date.
3. **Material Asset Disposals** – No Material Asset Disposals occur between the date of this letter and the Placement Expiry Date.
4. **Suspension from trading:** Shares of Golden Cross not being suspended from trading on ASX for a period exceeding 5 “trading days” (being days on which trading is scheduled to occur on ASX).
5. **Board and senior management composition** – No:
 - a. additional appointments to the board of Golden Cross; and
 - b. changes the composition of the board (including the current chairmanship) of Golden Cross, other than as set out at 6.
6. **Board nominee appointed** – one new non-executive director nominated by Heron is to be appointed to the Golden Cross board such that the Golden Cross board will comprise not more than six directors, including the incumbent non-executive Chairman and incumbent Managing Director (in their respective current positions), prior to the Proposal being implemented.
7. **Change in shareholdings** – there is no issue of new Golden Cross Shares other than as contemplated under the Proposal, no material change in the major or controlling shareholders of Golden Cross, and no takeover offer or scheme of arrangement is publically announced by Golden Cross.
8. **Regulatory Actions** – Between the date of this letter and the Placement Expiry Date:
 - a. there is no preliminary or final decision, order or decree issued by a Governmental Agency;
 - b. no action or investigation is announced or commenced or threatened by any Governmental Agency; and
 - c. no application is made to any Governmental Agency, in consequence of or in connection with the Proposal which restrains, prohibits or impedes, or threatens to restrain, prohibit or impede, the implementation of the Proposal.
9. **Court order** – No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition being in effect at any time prior to the Placement Expiry Date which prevents the implementation of the Proposal.
10. **Event of Insolvency** – no Event of Insolvency occurs in respect of Golden Cross or any of its subsidiaries or their respective directors.

Definitions

Business Day means a day on which banks are open for business in Perth, Western Australia.

Capital Structure Changes means any of the following: (a) any conversion of securities into a larger or smaller number; (b) a capital reorganisation; (c) a buy-back; (d) a capital reduction; (e) a declaration of any dividend; (f) the making of a capital distribution; (g) issuing or granting further shares or options (including options to acquire unissued securities); or (h) any other analogous change.

Event of Insolvency means means:

- (a) a receiver, manager, receiver and manager, trustee, administrator or similar officer is appointed in respect of a corporation or any asset of a corporation;
- (b) a liquidator or provisional liquidator is appointed in respect of a corporation;
- (c) any application (not being an application withdrawn or dismissed within 7 days) is made to a court for an order, or an order is made, or a meeting is convened, or a resolution is passed, for the purpose of:
 - (i) appointing a person referred to in paragraphs (a) or (b);
 - (ii) winding up a corporation; or
 - (iii) proposing or implementing a scheme of arrangement;

- (f) a person becomes, or admits in writing that it is, is declared to be, or is deemed under any applicable act to be, insolvent or unable to pay its debts; or
- (g) any writ of execution, garnishee order, mareva injunction or similar order, attachment, distress or other process is made, levied or issued against or in relation to any asset of a person.

Governmental Agency means any government or representative of a government or any governmental, semi governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority and includes any minister, the Australian Securities and Investments Commission, the Australian Taxation Office; the Australian Securities Exchange, the Foreign Investment Review Board and the Australian Takeovers Panel.

Material Adverse Change means a material adverse change on the assets, condition, trading or financial position, performance, profits and losses, results, prospects, business or operations of Golden Cross and its subsidiaries either individually or taken as a whole.

Material Asset Disposal means the disposal of, or grant of any interest to a third party in respect of any of the following assets:

- (a) Copper Hill; and
- (b) Cargo.

(including substantial proportion of any of those assets) by Golden Cross or its subsidiaries (as applicable).

Placement Expiry Date means the date that Heron is issued the Shares the subject of the Proposal.

Proposal means the Proposal as set out in this letter.

Shares means full paid ordinary shares in Golden Cross Resources Limited.

VWAP means volume weighted average price.

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HQ Mining Resources Holding Pty Ltd

23 December 2013

The Chairman
Golden Cross Resources Limited
22 Edgeworth David Ave
Hornsby NSW 2077

Dear Chairman

Binding underwriting proposal – Golden Cross Resources Limited

As requested, HQ Mining Resources Holding Pty Ltd (**HQ**) is pleased to present this revised binding underwriting proposal, which replaces the proposal provided to Golden Cross Resources Limited (**GCR**) on 18 December 2013.

1. What is HQ's proposal?

HQ proposes that GCR undertake a pro-rata rights offer of up to 680,000,000 ordinary shares (but not less than 375,970,579 shares) at an issue price of A\$0.005 per share, to raise up to A\$3,400,000. Subject to the limited conditions below, HQ and its associated entities will take up all of their rights under that offer and, for no charge, HQ will underwrite the rights offer (**Revised HQ Proposal**).

As part of the Revised HQ Proposal, HQ proposes that all GCR shareholders have the option of subscribing for any additional shares (in excess of their rights entitlement) that are not taken up under the rights offer, up to their pro-rata share of any shortfall. If, after satisfying these subscriptions, there is still a shortfall, the remaining new shares will be taken up by HQ to ensure GCR will obtain all the capital that it seeks. However, the fact that all shareholders seeking additional shares (in excess of their rights entitlement) will receive allocations up to their pro rata share of any shortfall means shareholders will be treated fairly and preferred to non-shareholders.

As you know, Heron Resources Limited (**Heron**) has proposed that GCR place to Heron 19.9% of expanded capital at A\$0.005 per share, for total consideration of A\$1,879,853 (**Heron Proposal**).

Briefly, HQ considers that the Revised HQ Proposal is significantly superior to the Heron Proposal for the following reasons. These reasons are further explained, with greater detail, in section 5 of this letter.

- **Significant additional funding** – the Revised HQ Proposal would raise up to A\$3,400,000 for GCR, and 80% more than the amount proposed under the Heron Proposal. This is based on HQ's understanding of GCR's business plan capital requirements – see section 5 below. This provides GCR with

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significant additional funding to enable it to progress its major projects for the benefit of all GCR shareholders.

- **Less conditionality** – the Revised HQ Proposal is subject to far fewer conditions than the highly conditional Heron Proposal (which includes extensive conditions, many of which limit GCR's operational flexibility or are outside of GCR's control). This provides greater certainty that GCR will be successfully capitalised, while maximising GCR's operational flexibility while the capitalisation is implemented.
- **Avoids dilution** – the Revised HQ Proposal contemplates a rights offer, which will provide all existing GCR shareholders an opportunity to take up further shares in the company proportionate to their current holdings and, if they wish, to effectively co-underwrite the rights offer on a pro-rata basis (and if they do not wish to, to rely on the HQ underwriting). On the other hand, the Heron Proposal is a sale of 19.9% stake in GCR to an external party for no premium to the market price of GCR's shares since the proposals to capitalise GCR were announced, diluting the interest of all existing GCR shareholders.
- **Continued commitment of long term strategic supporter** – HQ and its associated entities (including Mr Xiaoming Li) have been long term strategic supporters of GCR. The Revised HQ Proposal will continue the alignment of the interests of GCR, HQ and other GCR shareholders, and will allow HQ and its associated entities to continue to contribute their technical and industry expertise for the benefit of GCR's projects and development.
- **No requirement to change existing strategy** – the Revised HQ Proposal does not require changes to GCR's board of directors. On the other hand, the Heron Proposal will not proceed unless GCR's board composition is changed, potentially affecting the ability of GCR to continue with its existing corporate plans and strategies.
- **Unclear how Heron's involvement would create value for GCR** - it is unclear given Heron's financial performance to date, how the involvement of Heron (both at the shareholder and board levels) would bring tangible benefits for GCR's projects and how it would create value for GCR's shareholders. Further, Heron has not addressed how it proposes to deal with potential



HQ Mining Resources Holding Pty Ltd

conflicts of interest (if they arise) between GCR projects and Heron's wholly owned operations.

- **Avoids issue of strategic stake for no premium** – the Heron Proposal contemplates the issue of a strategic 19.9% stake in GCR to an external party for zero premium to the market price of GCR's shares since the capitalisation proposals were announced. Allotment of a new strategic stake in a listed company like GCR should command a significant premium to market price, reflecting the benefits and influence it carries, including the right to unilaterally block future control transactions. However, Heron wants to be issued such as stake for no premium.

For these reasons, HQ urges GCR to support, and all GCR shareholders to vote in favour of, the Revised HQ Proposal at the forthcoming extraordinary general meeting (**EGM**). Shareholders are also urged to vote against the Heron Proposal, at the EGM.

2. How did HQ's revised proposal come about?

On 16 December 2013, Heron provided the Heron Proposal to GCR's board. For the reasons summarised above, HQ felt that the Heron Proposal was not in GCR's (or its shareholders') best interests. Accordingly, on 18 December 2013, HQ provided GCR with a binding proposal, under which GCR could choose between two alternative offers: (1) a placement to HQ for a maximum of 680,000,000 shares in GCR to raise A\$3.4 million; or (2) an offer by HQ to underwrite a rights offer by GCR for the same number of shares.

On 18 December 2013, the GCR board considered the proposals from HQ and Heron, but neither was approved, and the chairman called for an EGM at which GCR shareholders will be asked to express a view on which, if any, of the proposals should proceed.

In response to GCR's request, HQ and its associated entities have withdrawn the placement proposal and have refined the underwritten rights offer proposal, resulting in the Revised HQ Proposal. The terms of the Revised HQ proposal supersede the terms of the HQ's proposal of 18 December 2013.

3. What are the details of the Revised HQ Proposal?

Subject to the limited conditions set out below, HQ offers to:

- take up its entitlement under a pro-rata rights offer by GCR to issue 680,000,000 ordinary shares (or such lesser amount determined by GCR, but not less than 375,970,579 shares) at an issue price of A\$0.005 per share, which would raise up to A\$3,400,000 for GCR; and

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- underwrite, on an exclusive basis and for no cost to GCR, any remaining shortfall under the rights offer, but only after all GCR shareholders who wish to do so have subscribed for additional shares (in excess of their rights entitlement) that are not taken up by other GCR shareholders, up to their respective pro-rata share of any shortfall.

The Revised HQ Proposal is conditional on:

- (1) the Heron Proposal (including any revision of, or replacement of, that proposal) not being approved at the EGM and not proceeding; and
- (2) none of the events in paragraphs (a) to (h) of subsection 652C(1), or in paragraphs (a) to (e) of subsection 652C(2), of the *Corporations Act 2001* (Cth) occurring (or being agreed) in relation to GCR or a subsidiary between the date of this letter and the date on which the shares under the rights offer are issued (in each case inclusive) – as you would be aware these are matters which go to the value of the shares to be offered for subscription, and do not pose risk to the capital raising as they are matters within the control of GCR.

These conditions are for the benefit of HQ and may only be waived by HQ.

HQ reserves the right to vary or withdraw the Revised HQ Proposal by notice to GCR at any time before it is accepted by GCR.

The Revised HQ Proposal will expire at 5.00pm (Perth time) on the earlier of the day on which the EGM is scheduled and 28 February 2014, unless extended by HQ before that time. Upon expiry or withdrawal of this offer, HQ will be under no obligation to proceed with the proposal set out in this letter.

4. Are there any pre-conditions to HQ underwriting a GCR rights offer?

In its announcement to the ASX on 18 December 2013, GCR stated:

“Should the Company proceed to any new rights issue, the Corporations Act would preclude the Company from accepting an underwriting offer from HQ Mining unless management is unable to secure underwriting from other sources, including Heron.”



HQ Mining Resources Holding Pty Ltd

This statement is not correct. The Corporations Act does not contain any requirement for GCR to exhaust other sources of underwriting before accepting HQ's underwriting offer, nor is there a requirement for GCR to seek other underwriters to co-underwrite a rights issue with HQ. GCR could, if it wished, appoint HQ as the sole underwriter in respect of a rights offer if it determined that that was in its commercial interests (subject to the Takeovers Panel's jurisdiction, in relation to which a variety of factors are relevant, including need for and sources of funding and dispersal opportunities in relation to shortfall).

However, as part of the Revised HQ Offer, HQ proposes that all GCR shareholders have the option of subscribing for additional shares (in excess of their rights entitlement) not taken up by other shareholders, up to their pro rata share of any shortfall. This would effectively allow existing GCR shareholders to co-underwrite the rights issue with HQ on a pro-rata basis, providing all shareholders with the ability to avoid being diluted by the rights offer.

5. Why is the Revised HQ Proposal superior to the Heron Proposal?

HQ considers that its revised proposal is materially superior to the Heron Proposal for the following reasons.

(a) Additional significant funding certainty

It is apparent from the amount offered in the Heron Proposal that Heron is more interested in securing a strategic 19.9% stake in GCR than satisfying the funding needs of GCR. In contrast, the Revised HQ Proposal would raise up to A\$3,400,000 for GCR, which is 80% more than the amount (\$1,879,853) that is proposed to be raised under the Heron Proposal. This provides GCR with additional significant funding to enable GCR to progress its major projects for the benefit of all shareholders. The amount of \$3.4 million has previously been identified by the GCR board as the capital required by the company to advance its objectives, which HQ wishes to ensure is available to GCR.

Unlike the Heron Proposal, the Revised HQ Proposal does not commit GCR to how the capital raised must be deployed. HQ anticipates GCR to use the funds raised to further explore and develop GCR's tenements at Copper Hill, near Molong (New South Wales), and for exploration on GCR's most prospective tenements in the Gawler Craton (South Australia) and at Burra and Cargo (New South Wales), as well as providing working capital for GCR.

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A high level breakdown of how the \$3,400,000 raised under the Revised HQ Proposal can be deployed is set out below, but this would be refined and determined by the GCR board and management.

Use of funds raised	A\$
Exploration (Copper Hill, Gawler Craton, Burra, Cargo)	1,100,000
Development work, including permit applications, at Copper Hill	1,500,000
Other working capital, administration	640,000
Underwriter's fees	Nil
Printing and mail outs	20,000
Quotation fees	10,000
Other costs, including professional fees and bank charges	30,000
TOTAL	3,400,000

(b) **Less conditionality**

The Revised HQ Proposal is subject to far fewer conditions than the highly conditional Heron Proposal (which includes extensive conditions such as no material adverse change, no material asset disposals, no changes to GCR board structure and composition, and no changes to various market and commodity indices). Many of the conditions in the Heron Proposal would limit GCR's operational flexibility until that proposal is implemented, while other conditions are outside the control of GCR and could be triggered and result in no funding to GCR despite GCR's best efforts to avoid this.

As a result, the Revised HQ Proposal has higher execution certainty for GCR, maximising the likelihood that the capitalisation will proceed. It also maximises GCR's operational flexibility between now and the time of the capitalisation.



HQ Mining Resources Holding Pty Ltd

(c) Ability to avoiding dilution

Under the Heron Proposal, all GCR shareholders will be diluted by the 19.9% placement to Heron. GCR shareholders will not receive any direct or indirect compensation for this dilution since Heron will not pay any premium for the strategic stake that is proposed to be issued to it.

On the other hand, the Revised HQ Proposal contemplates a rights offer, which will provide all GCR shareholders an opportunity to take up further shares in the company proportionate to their current holdings in the company and, if they wish, to effectively co-underwrite the rights offer with HQ on a pro-rata basis. GCR shareholders who take up their rights will be able to avoid being diluted by the rights offer, and those who decide to apply for additional shares (in excess of their rights entitlement) may have the ability to increase their percentage holding pro rata.

Under the Revised HQ Proposal:

- All existing GCR shareholders will be offered an entitlement to new GCR shares pro rata to their existing interest in the company.
- GCR shareholders may take up this entitlement and may, if they choose, also apply for additional GCR shares.
- If GCR shareholders in aggregate apply for more additional shares than the aggregate shortfall arising from the shareholders who choose not to take up their rights offer entitlement, the additional shares will be allocated pro rata (according to the shareholding of those GCR shareholders who applied for additional shares, but capped at the number of additional shares they each applied for).
- If there are not enough applications for additional shares to cover any shortfall, HQ will take up the shortfall to guarantee that GCR will obtain the amount of capital that it seeks.

Accordingly, the Revised HQ Proposal is a proposal that provides a fair and equal opportunity for existing GCR shareholders to contribute further capital to GCR at a price that is only available in return for the commitment shown by existing shareholders and for the benefit of GCR's development.



(d) Continued involvement of a long term strategic shareholder

HQ and its associated entities (including Mr Xiaoming Li) have been long term strategic supporters of GCR. HQ views its proportionate level of investment in GCR as an important factor in its ongoing support of the company and its direction.

The implementation of the Revised HQ Proposal will continue the alignment of the interests of GCR and GCR's shareholders, including HQ and its associated entities. In particular, the Revised HQ Proposal will continue to see both GCR and HQ sharing of the firm belief in the value of well-funded and directed exploration, especially drilling, in discovering ore bodies.

In addition, the continued involvement of HQ as a strategic shareholder in GCR will allow HQ and its associated entities to continue to contribute their technical and industry expertise for the benefit of GCR's projects and development. HQ, under Mr Xiaoming Li's direction, has a strong track record of giving autonomy to GCR's management, while providing metallurgical and mining expertise to the company. In addition, Mr Xiaoming Li has for many years provided practical support to GCR, including by arranging for the underwriting of the 2010 rights issue for no charge and by continuing to provide his director services to GCR for no fee.

Mr Xiaoming Li has long term mining interests with successful mining exploration, development and operations. For a summary of Mr Xiaoming Li's and his associated companies' credentials, please refer to section 6 below.

(e) No requirement to change existing strategy

The Revised HQ Proposal does not require changes to GCR's established board of directors, whereas the Heron Proposal will not proceed unless changes are made to GCR's board representation, potentially affecting the ability of GCR to continue with its corporate plans and strategies.



(f) Unclear how Heron's involvement would create value for GCR

The Heron Proposal contemplates the issue of a 19.9% stake in GCR to Heron (which will make Heron the second largest shareholder in GCR) and the appointment of one director nominated by Heron to the GCR board. Heron asserted in its proposal that it will become an aligned strategic investor for GCR, and that it has a strong balance sheet and an extensive exploration portfolio in close proximity to GCR assets. Further, Heron asserted that it will be able to provide strong technical input to GCR's board decision making.

HQ believes that it is unclear, given Heron's financial performance to date, how the involvement of Heron (both at the shareholder and board levels) would bring tangible benefits for GCR's projects and how it would create value for GCR's shareholders. HQ understands that while Heron has some history in trading mineral exploration rights, it has not yet successfully built and run a mining operation, and its operating results for the 2013 and 2012 financial years were respectively losses of A\$10.48 million and A\$5.36 million (equivalent to a loss of nearly A\$0.04 per share in 2013 and a loss of approximately A\$0.023 per share in 2012). In addition, the share price of Heron has fallen by approximately 33% since the beginning of 2013.

Further, given that many of Heron's projects are in close proximity to GCR's assets, it is unclear how Heron (through its GCR board representation and its shareholding, if its proposal were implemented) would address potential conflicts of interest (if they arise) between GCR's projects and Heron's wholly owned assets. HQ believes there is significant risk, in developing GCR's and Heron's assets, that decisions may need to be made which favour either GCR or Heron, and that it is in the best interests of GCR shareholders that these decisions be made without input from persons associated with Heron.

(g) Avoids issue of strategic stake and grant of board representation for no premium

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The Heron Proposal contemplates the issue of a strategic 19.9% stake in GCR to an external party (ie Heron) for zero premium to the market price of GCR's shares since the capitalisation proposals were announced. In addition, Heron seeks the right to appoint its nominees to the board, to advance its interests, again for no charge.

A new strategic stake in a listed company, particularly when accompanied by board representation rights (and when sought by a party who has potential conflicting interests), should command a significant premium to the market price of the shares in question. This premium indirectly benefits the existing shareholders of the company and reflects the benefits and influence conferred by a strategic stake, including the right to unilaterally block potential future control transactions, the right to appoint nominee directors and the capacity to influence the policies and operations of the company. Despite this, Heron proposes that it be issued such a stake for no premium.

6. About Mr Xiaoming Li and his associated companies

Mr Xiaoming Li has been a non-executive director of GCR since 13 January 2009. Mr Xiaoming Li has over 20 years of experience in mining investment and operation, and has successfully invested in several significant iron, copper, zinc and lead mines in Mongolia, Kazakhstan, Chile, Philippines, Cambodia and China. Mr Li is the chairman of China United Mining Investment Co., Ltd. (**CUMIC**), Qinlong (International) Group (**Qinlong**) and Hong Kong Lungming Investment Ltd.

CUMIC is a Beijing-based investment company specialising in mineral and mining investment, and has a portfolio of exploration and mining assets in various parts of the world, focusing on iron, copper and gold.

HQ is the Australian investment vehicle of CUMIC, and shares common shareholders as CUMIC.

Qinlong was founded in 1989 and is wholly owned by Mr Xiaoming Li. In the 24 years since incorporation Qinlong has grown into a diversified multinational group with businesses in mineral resources, mineral water, real estate development and investment finance, with each line of business managed and accountable under a separate division. Qinlong's mining division has operations in Mongolia, Cambodia, Australia, Russia, Kazakhstan, Chile and other South American countries. Its investment extends to mineral resources such as iron ore, lithium, gold and coal. In the area of iron ore mining, four mines are already producing (three in Mongolia and one in China), with a combined output of 10M MT per annum.

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7. Next steps and director recommendation

GCR's share price has suffered substantially over the past year, and HQ considers that assisting GCR to raise capital on the basis proposed above will benefit the company's existing shareholders. It also avoids GCR issuing a strategic stake without the usual compensation for such an issue, as the Heron Proposal envisages.

HQ is ready to proceed with its proposal at GCR's earliest convenience and can provide draft transaction agreements to GCR for finalisation upon acceptance of its proposal. Funds would be available by 20 February 2014 (against the issue of the relevant shares).

Mr Xiaoming Li and Ms Xun (Suzanne) Qiu are both directors of GCR and each recommends that GCR shareholders vote in favour of the Revised HQ Proposal, and against the Heron Proposal, at the EGM.

Kind regards

Yan Li

Managing Director of HQ Mining Resources Holding Pty Ltd

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