

2 July 2009

## LETTER TO SHAREHOLDERS

Dear Shareholder,

### **MERGER TO CREATE A MID-TIER GOLD COMPANY**

As announced on 24 June 2009, Catalpa has signed a Merger Implementation Agreement with its largest shareholder, Lion Selection Limited, to establish Catalpa as a new mid-tier Australian gold producer.

The proposed merger will amalgamate Catalpa's 100,000+ oz pa Edna May Operation in Western Australia (in which Lion Selection have a 46.9% shareholding) and Lion's 30% ownership of the 100 000 oz pa Cracow Gold Operations in Queensland. Under the merger, Lion will also forfeit all its options held in Catalpa, contribute \$1.5m cash and Catalpa will also acquire a pre-emptive right over Newcrest's 70% stake in Cracow.

As the Cracow gold mine is currently well managed and operated by Newcrest Mining Limited (70%), the merger will not impact on Catalpa's resources or ability to construct Edna May gold project on time and under budget. The Cracow operation has a history of steady gold production of over 100,000 ounces pa for the past four years and it is considered to have considerable exploration upside.

In summary, the **new** Catalpa will have;

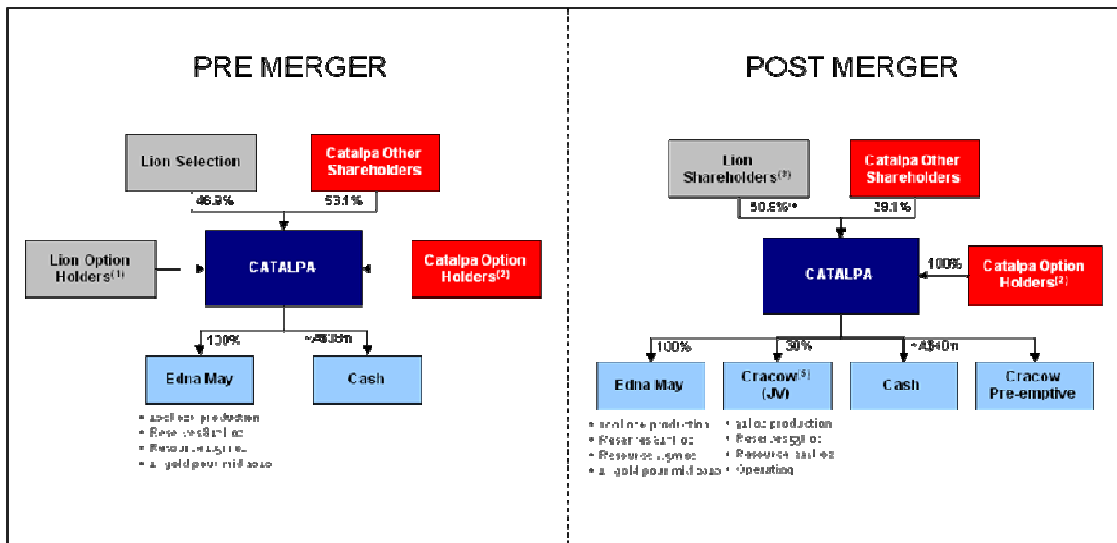
- A clean and open share register
- Removal of ≈130M options (pre consolidation)
- Removal of a large single shareholder (Lion Selection 46.9%)
- ≈145M shares
- ≈15.8M options
- No single shareholder with more than 6.5% shareholding
- Immediate producer status
- A life of mine average of more than 130,000 ounces recovered
- Exploration upside from both operations
- Significant cashflow to grow the company
- An experienced management team

Following implementation of the merger, expected in October 2009, Catalpa will be a cash flow positive gold producer from its 30% stake in Cracow and, together with production from Edna May Operations commencing mid 2010.

The merger will position Catalpa as one of Australia's four top gold producers, and, we believe, present an attractive new gold investment option in the mid-tier gold production ranks.



Catalpa's corporate structure pre and post the merger is as follows:



**Notes**

- (1) Currently hold 125.3m options to be forfeited following merger
- (2) Currently hold 175.3m options (~15.8m options post 1 for 1 consolidation)
- (3) Lion Selection's holding in Catalpa ceases following the merger. Lion Shareholders are issued Catalpa shares in exchange for their shares in Lion Selection
- (\*) Reduces to ~57% on a fully diluted basis
- (\*) Figures for 30% interest

**Benefits to Catalpa Shareholders**

The proposed merger presents significant and immediate benefits for Catalpa shareholders, including:

- Creation of a mid-tier Australian gold producer (Australia's fourth largest) with diversified operations and immediate production and cash-flow profile
- Continued focus on advancing the fully-funded Edna May Operations to production in mid 2010
- An experienced Board and management team
- Significant increase in size and scale of Catalpa's operations
  - Increase in Resources from 1.5m oz to 1.7m ounces gold
  - Increase in Reserves from 817,000 oz to 870,000 ounces gold
  - Combined production of 130,000+ ounces gold pa (once Edna May is at full production)
- Two significant assets:
  - the Edna May Gold Project in Western Australia which, when commissioned in mid 2010, is planned to produce at a rate in excess of 100,000 oz per annum with an estimated life of mine cash operating cost of \$636/oz (pre-royalty), a current mine life of around 8 years and 352,317 ounces sold forward at a fixed flat price of A\$1,557.5/oz; and
  - 30% joint venture interest in Cracow Gold Mine in Queensland with a share of current production of around 30,000 oz per annum at a cash cost of < A\$600/oz
- Significant potential to add additional resources and reserves at both Edna May and Cracow operations through near mine exploration success
- Pre-emptive right over Newcrest's 70% interest in the Cracow Gold Mine
- Removal of Lion's controlling shareholding to encourage greater share liquidity



## **Merger Terms and Conditions**

The Merger will be implemented via a Scheme of Arrangement of Lion shareholders, pursuant to which Catalpa will acquire all of the shares in Lion. Under the Scheme, Lion shareholders will receive one Catalpa share for each Lion share they hold (post Catalpa undertaking a 1 for 11 share consolidation).

In conjunction with the Scheme, Lion will first undertake a demerger of its investment assets and undertake a 10c per share cash distribution to its shareholders.

## **What Shareholders Should Do**

The Merger is unanimously recommended by both the Boards of Lion and Catalpa and each director intends to vote their respective shareholdings in favour of the Merger, in the absence of a superior competing proposal.

Catalpa will convene an Extraordinary General Meeting in September 2009, at which we hope we can rely on your approval of the proposed share consolidation and merger. The notice of meeting will be distributed in due course.

In the interim, please do not hesitate to contact me on +61 8 9321 3088 if you have any queries relating to the proposed merger. Alternately, please visit Catalpa's website [www.catalparesources.com.au](http://www.catalparesources.com.au) which will be continuously updated with new information including a dedicated Merger page.

This is an exciting opportunity for Catalpa, and one that supports our vision to create a mid-tier gold producer that will allow our shareholders to capitalise on the buoyant outlook for gold.

In recent months, Catalpa has made considerable progress towards this vision. We have:

- Increased Edna May's Reserves by more than 50%
- Finalised the Edna May Gold Operations Feasibility Study outlining a 100 000+ oz per annum gold operation with extremely attractive annual cash operating margins to fund Catalpa's future growth;
- Secured full funding for the Edna May Operations against a challenging economic backdrop to achieve first gold production in mid 2010;
- Achieved a forward sold gold price of A\$1,557.5 per ounce for 352,317 ounces of Edna May's production, which represents a premium of 34% (based on a gold price of A\$1,160 per ounce on 30 June 2009);
- Significantly progressed the pre-construction and approvals processes in preparation for the recommissioning of the Edna May Operations; and
- Negotiated attractive merger terms with Lion Selection to achieve significant growth and an early production and cash flow profile by October 2009.

These achievements could not have been realised without the ongoing support of Catalpa's shareholders. I trust that we can continue to rely on your support, and in particular, your approval for the planned merger with fellow Catalpa Shareholder, Lion Selection.



I look forward to seeing you at the EGM in September; in the interim, please do not hesitate to contact me on +61 8 9321 3088 if you have any queries.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bruce McFadzean'. The signature is fluid and cursive, with a large loop at the beginning and a long, sweeping tail that extends to the right.

**Bruce McFadzean**  
**Managing Director**