

Friday, 29 October 2010

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HILLGROVE ANNOUNCES FID FOR KANMANTOO PROJECT FINALISATION OF PROJECT FINANCE FUNDING AND EQUITY RAISING

Proceeds to be used to fund the development of the Kanmantoo Copper/Gold Project and exploration activities in Indonesian projects

Hillgrove Resources Limited (ABN 73 004 297 116) (ASX: HGO) ("**Hillgrove**" or the "**Company**") today announced the Board has reached a final investment decision and has secured project finance for the Kanmantoo Copper/Gold Project ("**Kanmantoo Project**"). The project finance facilities comprise a A\$30 million project loan, A\$20 million in bonding and guarantee facilities, and associated commodity hedging facilities for the project. Hillgrove is also undertaking a fully underwritten A\$65 million institutional placement, including a conditional placement subject to the approval of shareholders¹ ("**Equity Raising**"). The package is expected to fully fund the completion of the Kanmantoo Project, and to enable the company to complete construction and commissioning through to production. In addition, proceeds from the Equity Raising will be used to fund exploration activities in Hillgrove's Indonesian projects and other general corporate expenses.

Business update and proposed use of proceeds

The Board of Directors of Hillgrove has reached a Final Investment Decision ("**FID**") and has approved the development of the Kanmantoo Project. Hillgrove has secured project finance for the development of the Kanmantoo Project, comprising A\$30 million senior debt, a A\$20 million bonding facility, and associated commodity hedging facilities. Hillgrove has completed implementation of the early commodity hedging program. The Project Finance Facility, together with existing cash reserves and the expected proceeds of the Equity Raising, complete the funding package.

Approximately A\$121 million from the total funding package will be used to bring the Kanmantoo Project to production (including contingency). The remaining proceeds will be used to fund activities in Hillgrove's Indonesian exploration projects as well as provide for other general corporate expenses. A summary of the sources and uses of funds, including the funding package, is presented below. Sources are expected to inter-alia: (i) fund the Kanmantoo Project through to production; (ii) fund activities at its Indonesian exploration projects; and (iii) fund other general corporate expenses.

¹ The conditional placement is to raise A\$50.5 million and is subject to approval at an Extraordinary General Meeting ("**EGM**") which is expected to be held on 3 December 2010 for this purpose



Sources and Uses

Sources of capital	A\$ million
Parent cash contribution (from existing cash position)	\$57.0
Project finance loan	30.0
Project finance bonding & guarantee facility ¹	20.0
Early payment facility with off take agreement with J.P. Morgan Metals & Concentrates	13.5
Equity raise	65.0 ²
Total	\$185.5

Uses of capital	A\$ million
Capex Kanmantoo	\$84.6
Capex contingency	10.0
Pre-strip	26.7
Fees and interest expenses (debt facilities and equity raise)	8.8
Project bonds & guarantee	27.5
Exploration costs Indonesia	17.6
Corporate expenses	10.3
Total	\$185.5

Note: This statement of sources and uses of capital excludes the net revenue and working capital associated with the ramp-up period

¹ A\$20 million bonding facility under Project Finance Facility (unfunded)

² Conditional placement portion is subject to shareholder approval at an EGM expected to be held on 3 December 2010

Summary of Kanmantoo Capital Costs

A summary of the capital costs for the Kanmantoo Project are shown below:

	Total capital costs A\$ million	Capital costs spent to date A\$ million	Remaining capital costs A\$ million
<u>Capital costs</u>			
Mining	\$17.1	\$0.1	\$17.0
Pillara processing plant	67.9	21.3	46.6
Other infrastructure	9.3	0.4	8.9
Project management costs	13.2	1.1	12.1
Subtotal	\$107.5	\$22.9	\$84.6
Contingency			\$10.0
Subtotal (including contingency)			\$94.6
<u>Pre-production costs</u>			
Pre-strip	26.7	-	26.7
Total (including contingency)	\$134.2	\$22.9	\$121.3

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Pro-forma Balance Sheet

Following the Equity Raising², Hillgrove will strengthen its balance sheet and, in combination with the Project Finance Facility, be funded to completion of the Kanmantoo Project:

	31 July 2010 Actual ¹ (A\$ million)	Pro-forma transactions (A\$ million)	Pro-forma Balance Sheet ² (A\$ million)
Assets			
Cash and cash equivalents	\$93.7	\$60.1	\$153.8 ³
Other current assets	12.5	-	12.5
Property, plant & equipment	46.3	-	46.3
Exploration and evaluation expenditure	43.3	-	43.3
Other non-current assets	3.5	-	3.5
Total assets	\$199.3	\$60.1	\$259.4
Liabilities			
Income tax payable	19.5	-	19.5 ⁴
Other current liabilities	8.1	-	8.1
Other non-current liabilities	9.1	(1.5)	7.6
Total liabilities	\$36.7	\$(1.5)	\$35.2
Net assets	\$162.6	\$61.6	\$224.2

¹ Extracted from HGO's Interim Report for the half-year ended 31 July 2010. A full copy of the Interim Report is available on HGO's website: www.hillgroveresources.com.au

² Reflects the issue of A\$65 million less transaction costs of A\$4.9 million. A tax benefit of A\$1.5 million representing 30% of the total transaction costs has been offset against the deferred tax liability

³ Figure does not include the A\$19.5 million tax liability that was paid out of HGO's cash position on 4 August 2010 (see footnote 4)

⁴ This tax liability of A\$19.5 million, as at 31 July 2010, which arose on the sale of an investment in Eastern Star Gas Limited ("ESG"), was paid in full on 4 August 2010

Kanmantoo Copper/Gold Project

Hillgrove's flagship project, the 100% owned Kanmantoo copper/gold mine, is located just 55km from Adelaide, in South Australia. As such, the project enjoys comparative cost advantages, and is close to necessary power, water, road, rail and port infrastructure. It will also benefit from attractive employment costs compared to remote fly-in/fly-out mine operations.

The Kanmantoo Project will provide Hillgrove with near term cash flows. Mining and stockpiling of ore is expected to commence in March 2011, with first copper/gold production scheduled for Q4 2011. The operation is configured to initially be a 2.4Mtpa open cut mine, potentially ramping up to 2.7Mtpa through operational efficiencies. The project has further potential to increase to a 3.5Mtpa operation with a modest Capex spend.

² The conditional placement portion of the Equity Raising remains subject to shareholder approval

The Kanmantoo Project has an estimated life of mine (“**LOM**”) of 10 years based on current resources, with future potential to expand through further exploration. LOM average payable metals production is forecast to be 21ktpa copper, 9kozpa gold and 174kozpa silver with average cash costs of US\$1.61/lb³. Hillgrove also has a LOM off-take contract with J.P. Morgan Metals & Concentrates LLC for all of the concentrate produced at the Kanmantoo Project. There is near-mine and regional exploration potential for the project and regional exploration will be considered on successful completion of the Kanmantoo Project.

The reserves and resources for the Kanmantoo Project are shown below:

Kanmantoo Mineral Resource – November 2008 ¹				
Category	Tonnes Mt	Cu %	Au g/t	Ag g/t
Measured	2.3	0.9	0.2	3.5
Indicated	22.5	0.9	0.2	3.3
Inferred	7.4	0.9	0.2	2.9
Total	32.2	0.9	0.2	3.2

Source: HGO's ASX release dated December 8th 2008

Note: Resource evaluation and mine plan optimisation are ongoing features of any mining development or operation. HGO has retained the services of a highly reputable firm in the field of geostatistics to undertake a geostatistical analysis of the resource and to refine that resource as and when grade control drilling comes to hand. This work is ongoing, and will also incorporate drill core assay and bench assay data from the old open pit operations in due course, with a view to improving our understanding of the mineralisation at the Kanmantoo Project. This will aid scheduled planning and optimisation studies in the near term, and operational control when the Kanmantoo Project commences production.

¹ Inclusive of Ore Reserve and reported using 0.25% Cu cut-off grade

Kanmantoo Ore Reserves – April 2010				
Category	Tonnes Mt	Cu %	Au g/t	Ag g/t
Proven	2.3	0.87	0.13	3.2
Probable	12.5	0.84	0.18	3.1
Ore reserve	14.8	0.85	0.17	3.1

Source: HGO's ASX release dated May 4th 2010

Note: Further mine optimisation work is being undertaken to potentially reduce unit cost of production

Indonesian exploration projects

Hillgrove's footprint in Indonesia includes interests in two main exploration projects: (i) Sumba Project (Hillgrove 80%); and (ii) Bird's Head Project (Hillgrove 80%). Hillgrove's assets in Indonesia are located in a highly prospective geological provenance for the Company's target commodities: copper and gold. Hillgrove's position was obtained through strong in-country experience base and development of pre-existing relationships.

³ Excluding royalties and including by-product credits.

Sumba Island

Hillgrove is an 80% beneficial shareholder in PT Fathi Resources, which holds IUP322 on the island of Sumba. Hillgrove is responsible for the sole funding and management of all exploration and development activities up to a decision to mine. The IUP Explorasi (Exploration and Mining Business Licence) covers 1,000km² for a period of six years.

A major (more than 20km extent) structural corridor has been identified with intensive hydrothermal alteration, silicification and gold mineralisation. Numerous prospects have been identified for scout drilling. Hillgrove will commence a large airborne geophysical survey in Q4 2010 and aims to identify potential copper/gold porphyry targets.

Bird's Head

Hillgrove is an 80% beneficial shareholder in PT Akram Resources which holds IUP40/2010 in the Bird's Head region of West Papua. Hillgrove is responsible for the sole funding and management of all exploration and development activities up to a decision to mine. The IUP Explorasi covers 1,000km² for a period of six years.

Bird's Head is an ex Normandy project and Hillgrove has subsequently acquired drilling, geophysics and other key data. The Company's focus is on porphyry copper targets with overlapping hydrothermal systems in a 6.5km x 1.5km corridor. Aeromagnetic imaging shows strong magnetic anomalies associated with intense hydrothermal alteration and copper values to > 1%. Significant intercepts in Normandy trench sampling (including 50m @ 4.5g/t gold and 1.1% copper, and 10m @ 13.6g/t gold and 2.4% copper) combined with mapped advanced argillic and potassic / phyllic alteration in association with elevated copper values indicates the potential for porphyry-related copper/gold mineralisation. Hillgrove's near term aim is to commence drill testing the porphyry copper targets.

Project Finance Facility Overview

Hillgrove has accepted a commitment letter in respect of project financing for the Kanmantoo Project and is in the process of finalising a facility agreement with Macquarie Bank Limited and Barclays Bank PLC. The key terms of the project financing package are set out below:

The project finance facility commitments are:

- i) a Project Finance Facility
 - A\$30 million cash advance term loan facility
 - Project loan facility matures on 30 September 2015 (or earlier if the ore reserve tail falls below 33%)
- ii) a Performance Bond and Guarantee Facility
 - A\$20 million performance bond facility, which may be increased up to a maximum of A\$29 million, subject to cash collateralisation of the excess above A\$20 million
 - Performance bond facility matures on 31 March 2016

- To be used for PIRSA environmental bond and ElectraNet bank guarantee and other minor project guarantees if required
- iii) a Mandatory Hedging Facility (which requires mandatory AUD Copper hedging to be in place)
- iv) Discretionary Hedging Facility (which allows Copper, Gold and foreign exchange hedging)

There are material conditions to drawdown under the Project Finance Facilities which include:

- i) Finalisation of the Facility Agreement and other finance and security documentation
- ii) Other conditions typical of a Project Finance facility of this type apply
- iii) Hillgrove will require a successful completion of the Equity Raising in order to achieve the conditions to drawdown under the Project Finance Facility

Other material features and key terms include:

- i) Mandatory hedging
 - Borrower must not enter into committed hedging of > 65% of the underlying payable copper production for any year
- ii) Early Access Hedging
 - Access to early hedging is available to Hillgrove to enable it to progress mandatory hedging requirements
 - Hillgrove has completed implementation of the early commodity hedging program
- iii) Other key terms
 - HGO is to provide a completion guarantee and is obliged to meet any project cost overruns before project completion
 - HGO is to provide undertakings until project completion including a negative pledge and restrictions on further finance debt and disposals
 - Distributions from the project company to HGO will be subject to conditions including ratio compliance and project completion
 - No distributions will be permitted by HGO to its shareholders before completion

Equity Raising Overview

Hillgrove intends to raise A\$65 million under the Equity Raising, with the offer undertaken at a fixed price of A\$0.25 per share (the “**Offer Price**”). The fully underwritten Equity Raising will comprise two tranches:

- i) An unconditional placement of new shares to existing institutional shareholders and other institutional investors (the “**Unconditional Placement**”), expected to raise approximately A\$14.5 million; and

- ii) A conditional placement (the “**Conditional Placement**”), expected to raise approximately A\$50.5 million.
- Settlement of this tranche is subject to shareholder approval at an EGM proposed to be held on Friday, 3 December 2010.

The Offer Price represents a 16.7% discount to Hillgrove’s closing price on Thursday, 28 October and a 16.7% discount to the 5-day VWAP.

The Equity Raising has been fully underwritten by J.P. Morgan and Wilson HTM Corporate Finance Ltd, who are acting as Joint Underwriters and Joint Lead Managers to the offer.

J.P. Morgan is acting as Sole Bookrunner to the Equity Raising.

Indicative Equity Raising timetable:

Event	Date
Trading Halt	Friday, 29 October 2010
Unconditional Placement Bookbuild	Friday, 29 October 2010
Trading Halt lifted	Monday, 1 November 2010
Unconditional Placement Settlement Date	Friday, 5 November 2010
Unconditional Placement Shares Commence Trading on ASX	Monday, 8 November 2010
Extraordinary General Meeting (“ EGM ”)	Friday, 3 December 2010
Conditional Placement Settlement Date (if approved at EGM)	Tuesday, 7 December 2010

This timetable is subject to change. Subject to its obligations under the underwriting agreement, Hillgrove reserves the right to vary the timetable without notice. The commencement of trading of new shares is subject to confirmation from ASX.

Share Purchase Plan

In addition to the Equity Raising, Hillgrove proposes to offer eligible shareholders with registered addresses in Australia and New Zealand up to A\$15,000 worth of shares under a non-underwritten Share Purchase Plan (“**SPP**”). Shareholders that participated in the SPP conducted by Hillgrove earlier this year will only be eligible to participate up to an aggregate of A\$15,000 across the two SPPs.

The record date for the SPP will be Thursday, 28 October 2010.

The issue price under the SPP will be no higher than the price paid by institutional investors under the Equity Raising, and will be confirmed with other details of the SPP. Any proceeds raised under the SPP will be used to fund general corporate purposes.

Full details of the SPP will be sent to eligible shareholders shortly.

Disclaimer and caution regarding forward looking statements

This release is not an offer or an invitation to acquire Hillgrove shares.

This announcement has been prepared for publication in Australia and may not be released or distributed in the United States. This announcement does not constitute an offer of securities for sale in the United States or any other jurisdiction. Any securities described in this announcement may not be offered or sold in the United States, except in transactions exempt from, or not subject to, registration under the US Securities Act of 1933 (as amended) and applicable US state securities laws. The shares in the Equity Raising and the SPP have not been, and will not be, registered under the US Securities Act.

This release contains certain "forward-looking statements". The words "anticipate", "believe", "will", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, production targets, the ability to secure financing, expansion and mine development timelines, infrastructure alternatives and financial position and performance are also forward-looking statements. Any forecast or other forward-looking statement contained in this release is subject to known and unknown risks and uncertainties and may involve significant elements of subjective judgment and assumptions as to future events which may or may not be correct. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the issuer, that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. You are cautioned not to place undue reliance on forward-looking statements. These forward-looking statements are based on information available to us as of the date of this release. Except as required by law or regulation (including the ASX Listing Rules) we undertake no obligation to update these forward-looking statements.

Cautionary note regarding reserves and resources

We have estimated the reserves and resources included in this presentation in accordance with the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' ("JORC Code"). The JORC Code differs in several significant respects from Industry Guide 7 of the US Securities and Exchange Commission ("SEC"), which governs disclosures of mineral reserves in registration statements and reports filed with the SEC. In particular, Industry Guide 7 does not recognize classifications other than proven and probable reserves, and the SEC does not permit mining companies to disclose mineral resources in SEC filings.

About Hillgrove

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on developing its Indonesian and Australian base and precious metals projects. The Company is targeting the discovery of significant epithermal gold and porphyry copper/gold deposits in Eastern Indonesia.

HILLGROVE RESOURCES LIMITED

Hillgrove's flagship development is the Kanmantoo Copper Mines, located less than 55km from Adelaide in South Australia. Kanmantoo currently hosts a Mineral Resource of 32.2Mt (2.3Mt Measured, 22.5Mt Indicated and 7.4Mt Inferred) grading 0.9% copper and 0.2g/t gold, containing 292,200 tonnes of copper, 191,100 ounces of gold and 3,313,600 ounces of silver. With completion of construction targeted for 2011, Kanmantoo will be a 2.4MT per annum open-cut mine producing approximately 20,000 tonnes of copper in concentrate and 10,000 ounces of gold per annum.

The information in this presentation that relates to Mineral Resource estimates for the Kanmantoo Project is based on information compiled by Mr Paul Payne, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Payne is Executive Consultant with Runge Limited and has sufficient relevant experience to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Payne consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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