

Wednesday, 1 March 2023

\$39 MILLION INSTITUTIONAL PLACEMENT AND SHARE PURCHASE PLAN TO FULLY EQUITY FUND THE KANMANTOO COPPER GOLD PROJECT RESTART

SUMMARY

- Combined equity raising to raise up to circa \$39.0 million at a price of \$0.053 per share, comprising of:
 - \$36 million Placement strongly supported by institutional and sophisticated investors, in particular:
 - \$19.0 million from several new institutions along with strong ongoing support from existing shareholders; and
 - a further circa \$17.0 million from Freepoint Metals & Concentrates LLC (**Freepoint**); and
 - Existing shareholders will be offered the opportunity to participate in a Share Purchase Plan (SPP) to raise approximately \$3.0 million.
- Hillgrove has entered into a binding, conditional term sheet with Freepoint, providing Hillgrove with a price protection program for at least 16,000t of copper in concentrate, approximating to 50% of the first 2 years production.
- Proceeds from the capital raising will be used to fund:
 - Development for the Kanmantoo Underground, along with sufficient contingency;
 - Exploration to continue to expand the Resource and extend the mine plan; and
 - General working capital purposes.
- Recently announced Economic Assessment outlines first copper sales 7 months after mobilisation, with over \$200 million in after tax free cash flow to be generated over an initial 4 year mine life, with significant additional upside leverage to increases in the copper price and further Resource expansion.

Hillgrove Resources Limited (ABN 73 004 297 116) (ASX:HGO) ("**Hillgrove**", "**the Company**") is pleased to announce that it has:

- successfully completed a bookbuild process to raise \$19.0 million (before costs) through a two tranche placement of new fully paid ordinary shares in Hillgrove ("**New Shares**"), to institutional and sophisticated investors ("**Placement**"); and
- received a commitment from Freepoint Metals & Concentrates LLC ("**Freepoint**") for the raising of a further up to \$17.2 million (before costs) through an additional two tranche placement of New Shares to Freepoint ("**Freepoint Placement**").

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The Placement and Freepoint Placement, together with a Share Purchase Plan ("SPP") of approximately \$3.0 million, will provide Hillgrove with the equity funding to transform the Company into a producer at its 100% owned Kanmantoo copper gold project located in South Australia.

Commenting on the funding package, Hillgrove CEO and Managing Director, Lachlan Wallace said:

"We are pleased to announce an equity funding package which facilitates the commencement of the Kanmantoo underground operation to generate cashflow through production, along with continued mine expansion drilling."

The Kanmantoo Underground Stage 1 presents a unique opportunity to produce copper in a Tier 1 jurisdiction, generating post-tax cash flows in excess of \$200M in the initial stage. With all infrastructure and permitting in place, the project is well positioned for a fast, low capital restart, with first copper production only 7 months post mobilisation.

The resource potential is exciting, with 143 mineralised intersections from 122 holes, resulting in the increase in Mineral Resources from less than 1Mt in 2019, to almost 7Mt in 2022. Such high exploration strike rate and resource conversion provides confidence that further drilling may increase resources and expand the mine plan and generate more value for shareholders.

No debt

The equity-based funding enables the Kanmantoo project to start without debt. The Board considers this a far superior outcome for a number of reasons, including but not limited to:

- No debt repayment schedule provides the Company with significant operational flexibility.*
- The cost of debt has increased with recent interest rate rises and general capital tightening, such that there has been a convergence with the cost of debt and the cost of equity.*
- No debt covenants reduces restrictions on the Company distributing dividends, thereby potentially bringing forward the timing of fully franked dividend payments (note the Company has \$235 million in carried forward tax losses and \$17.5 million in franking credits).*

The high level of interest for the placement participation also demonstrates strong support for the project, particularly from Freepoint, a significant shareholder, and offtake partner. Freepoint has been a long-standing supporter of Hillgrove and the Kanmantoo project for many years dating back to the early days of the open pit development. Their leadership in the placement demonstrates their strong commitment to the development of the Kanmantoo underground project and appreciation of the on-lease exploration upside.

Funding ensures project delivery and facilitates growth

The quantum of funding provides sufficient operational contingency, as well as a significant exploration budget to enable mine expansion drilling to continue concurrent with underground development.

Delivery

Although the project is relatively low risk due to the existing infrastructure and the focus on depth extensions of mineral lodes previously mined in the open pit phase, having a contingency further de-risks the restart. The capital build of \$25m makes Kanmantoo one of the lowest capital-intensive development projects in the world. This is predominantly working capital associated with establishing the underground development, with first revenues from stopes which are informed by exploration drilling. Once operations commence, these initial stope designs will be refined with closer spaced drilling from underground. The funding provides contingency to be able to vary the schedule based on the drilling if required, which is considered prudent in the initial ramp-up.

Resource Growth and Mine Life Extensions

Mine expansion drilling can commence concurrent with the underground development, with focus on both extending mine life, and increasing annual throughput.

The drilling indicates that the mineralisation extends 500m below the base of the main pit above Kavanagh, and over 200m below the Nugent pit, however the Stage 1 mine plan only extends ~250m below the main pit and ~150m below the Nugent pit due primarily to lack of drilling density at depth. Both of these areas remain open at depth and exploration drilling will continue in parallel with the Kanmantoo Stage 1 development, with a view to replace resource depletion from underground mining and to extend the mine life beyond Stage 1.

In addition to the depth and strike extensions of the Kavanagh and Nugent lodes, there are a number of other mineralised zones within the permitted lease that were either mined or drilled during the previous open pit operations. In late 2022, drilling commenced in two of these areas to demonstrate depth continuity below historic drilling and mining. These results confirmed significant lode systems proximal to the planned underground development on the Kanmantoo Mine Lease. Further drilling will be undertaken to determine the potential to bring these zones into the mine plan as additional work areas in order to increase annual copper production. The underutilised mill, and spare capacity in the permitted tailings storage facility enables this to be done without additional processing capital.

Commenting on the transaction, Freepoint Senior Managing Director, Philip Bacon said:

“Freepoint and Hillgrove’s close relationship has been fostered over a long period of time, which included financing the Kanmantoo technical studies in the early days. Since the completion of the open pit operations in 2020, the Hillgrove team has systematically grown the resource base, developed a robust initial mine plan, and has an exciting pipeline of exploration opportunity within the lease from which to grow the mine plan. We are pleased to continue to support the existing management team at Hillgrove and the Kanmantoo Underground Project, and look forward to first copper production in the near-term.”

CAPITAL RAISING TERMS

Placement

The Placement will involve the issue of 358,490,566 New Shares at an issue price of \$0.053 per share, raising \$19.0 million (before costs).

The Placement key terms are as follows:

- the issue of 293,572,200 New Shares, pursuant to the Company's available placement capacity under ASX Listing Rules 7.1 and ASX Listing Rules 7.1A, to raise \$15.6 million (before costs) ("**Tranche 1 Placement**"). The issue of New Shares under the Tranche 1 Placement is expected to occur on or about Thursday 9 March 2023;
- the issue of 64,918,366 New Shares to raise \$3.4 million (before costs) ("**Tranche 2 Placement**"), which will be conditional on the Company's shareholders approving the issue at the 2023 annual general meeting of the Company (**AGM**). The Company intends to hold the AGM on or about Friday 28 April 2023. The issue of New Shares under the Tranche 2 Placement will occur as soon as possible after shareholder approval is obtained.

Freepoint Placement

Freepoint entered into a binding, conditional term sheet with the Company to participate in the Freepoint Placement ("**Term Sheet**"), which will involve the issue of up to 324,528,302 New Shares at an issue price of \$0.053 per share (being the same price as that under the Placement), raising up to \$17.2 million (before costs).

The Freepoint Placement key terms are as follows:

- the issue of 88,296,130 New Shares to raise \$4.7 million ("**Tranche 1 Freepoint Placement**") provided the following conditions under the Term Sheet have been satisfied:
 - the Company's shareholders approving both the Tranche 1 Freepoint Placement and the Tranche 2 Freepoint Placement (defined below) at the AGM;
 - completion of the Placement and SPP (i.e. the \$19.0 million capital raising to institutional and sophisticated and existing investors outlined above and below); and
 - the Company and Freepoint entering into:
 - a formal subscription agreement governing the Freepoint Placement; and
 - formal agreements facilitating the Hedging.
- the issue of up to 236,232,171 New Shares to raise up to \$12.5 million ("**Tranche 2 Freepoint Placement**") provided the following conditions under the Term Sheet have been satisfied:
 - completion of the Tranche 1 Freepoint Placement; and
 - approval of the Tranche 2 Freepoint Placement under the *Foreign Acquisitions and Takeovers Act 1975 (Cth)*, or the Commonwealth Treasurer no longer empowered to make an order under FATA due to lapse of time.

To provide funding certainty, Freepoint and the Company agreed to enter into discussions and negotiations on a 'reasonable endeavours' basis with respect to potential alternate funding arrangements (including, potentially debt funding) in the unlikely event that the Tranche 2 Freepoint Placement does not complete due to an inability to satisfy the condition relating to FIRB approval.

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Hillgrove agrees to pay to Freepoint an equity structuring fee equivalent to 1.5% of the proceeds received under the Freepoint Placement.

Share Purchase Plan

In addition to the Placement, Hillgrove proposes to offer eligible shareholders with registered addresses in Australia and New Zealand up to A\$30,000 worth of shares under a non-underwritten Share Purchase Plan ("**SPP**"). The Record Date for the SPP is 7:00pm AEST Tuesday, 28 February 2023.

The issue price under the SPP will be at the same price as the Placement.

The offer price of \$0.053 per share represents a discount of 17.2% to Hillgrove's last closing price of \$0.064 per share on 24 February 2023 and a 15.3% discount to the 5-day VWAP.

Participation in the SPP is entirely optional and is open to all shareholders, other than shareholders who have registered addresses in countries outside Australia and New Zealand where regulatory requirements make participation by the shareholder unlawful or impracticable. Full details of the SPP will be sent to eligible shareholders shortly.

New Shares issued under the Placement, Freepoint Placement and SPP will rank equally with existing Hillgrove ordinary shares on issue with effect from their date of issue.

Canaccord Genuity (Australia) Limited are acting as the Sole Lead Managers for the Placement and SPP.

HEDGING TERMS

Concurrent to the capital raising, the Company and Hillgrove Copper Pty Ltd (a wholly owned subsidiary of the Company) have entered into a binding term sheet ("**Hedging Term Sheet**") for a mutually agreeable hedging program for AUD copper with Freepoint, covering at least 16,000 tonnes of copper (the "**Hedging Program**") in concentrate on the following schedule:

- 6,000 tonnes at, or as close as practical, to completion of the Tranche 2 Freepoint Placement or such other alternate funding for the Tranche 2 Freepoint Placement and the copper price is above A\$12,500/t plus hedging margin ("**Tranche 1 Hedging**"); and
- an additional 10,000 tonnes when certain operating performance hurdles are met and the copper price is within the pricing window of A\$12,000/t - A\$21,650/t plus hedging margin ("**Tranche 2 Hedging**"). Hillgrove has the right to (subject to the right of first refusal of Freepoint) to pursue third party offers for the Tranche 2 Hedging if the copper price increases above A\$21,650/t prior to achieving the performance hurdles required to effect the Tranche 2 Hedging.

The Hedging Program will assist the Company achieve pricing stability for its copper product and underpin the financials of the mine plan. The Hedging Program is subject to the satisfaction of standard conditions for transactions of this nature, including:

- completion of technical, legal and financial due diligence by Freepoint to its satisfaction;
- approval by Freepoint's board of directors to the hedging;
- the copper price being greater than the aggregate of A\$12,500/t plus hedging margin;

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- the completion of the Placement;
- the completion of the Tranche 2 Freepoint Placement;
- the parties entering into full formal documentation to reflect the key terms of the Hedging Term Sheet; and
- Hillgrove providing Freepoint security over the Project assets and Hillgrove's shares in its subsidiaries.

INDICATIVE TIMETABLE

The indicative timetable of the Placement, Freepoint Placement and SPP is detailed below:

INDICATIVE TIMETABLE INFORMATION

PLACEMENT

Settlement of Tranche 1 Placement Shares	Wednesday, 8 March 2023
Allotment of new shares under Tranche 1 Placement	Thursday, 9 March 2023
Settlement of Tranche 2 Placement Shares	As soon as possible after AGM
Allotment of new shares under Tranche 2 Placement	The next business day following the Settlement of Tranche 2 Placement Shares

SHARE PURCHASE PLAN

Record Date for SPP Offer	7.00pm, Tuesday 28 February 2023
Announcement of SPP Offer	Wednesday 1 March 2023
SPP Offer opens and despatch of SPP Offer booklet	Monday, 6 March 2023
SPP Offer closing date	Monday, 27 March 2023
Announcement of results of the SPP Offer	Monday, 3 April 2023
Allotment of new shares under the SPP Offer	Monday, 3 April 2023
Quotation of new shares under the SPP Offer	Tuesday, 4 April 2023

FREEPOINT PLACEMENT

Settlement of Tranche 1 Freepoint Placement Shares	As soon as possible after the completion of the Tranche 2 Placement
Allotment of new shares under Tranche 1 Freepoint Placement	The next business day following the Settlement of Tranche 2 Placement Shares

INDICATIVE TIMETABLE INFORMATION

Settlement of Tranche 2 Freepoint Placement Shares	As soon as possible after the completion of the Tranche 1 Freepoint Placement, and FIRB approval is obtained to the Tranche 2 Freepoint Placement Shares
Allotment of new shares under Tranche 2 Freepoint Placement	The next business day following the Settlement of Tranche 2 Placement Shares

Note – The timetable is indicative only and subject to change. The commencement and quotation of new shares is subject to confirmation from ASX. Subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable rules, Hillgrove reserves the right to amend this timetable at any time, including extending the period for the SPP or accepting late applications, either generally or, in particular cases, without notice – unless otherwise specified, all times and dates refer to Sydney time.

INVESTOR PRESENTATION

Further details of the capital raising are outlined in the investor presentation released on the ASX platform today.

Authorised for release by the Board of Hillgrove Resources Limited.

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