

# Hillgrove Resources Ltd

## Initiating coverage: Site Visit

Ray Chantry  
(03) 9602 9219  
rchantry@baillieu.com.au

### RECOMMENDATION

Traders - **SPECULATIVE BUY**

HGO / HGOOA		\$0.26 / \$0.057	
Monthly Turnover (m)	33.7	Market Cap (m)	\$45.1
Shares Issued (m)	173.6	12 Month High/Low	\$0.295-\$0.125
<b>Valuation:</b>	<b>\$0.47-\$0.80</b>		30 March 2006

### Background

- HGO's principal asset is a 197,000 tonne contained copper resource at Kanmantoo (51km East of Adelaide) in South Australia. Last week HGO moved to prefeasibility for developing a mine which could produce 25,000 tonnes of copper, a minor amount of gold and garnets for industrial consumption from Qtr 1 CY 2008.

HGO also has 32.5% of the Gunnedah gas project with initial production from this field expected late this calendar year.

Finally, HGO has just sponsored the float of its uranium assets in Intermet which will have a market capitalisation of +\$4 million. Its assets are principally in the Gawler Craton in South Australia.

- Kanmantoo copper (90% HGO)**

We have been looking for an "unhedged blob" of copper that can be developed economically and in a relatively short space of time and within a junior; we believe we've found it at Kanmantoo.

Where the bloody hell is that? Over the Adelaide Hills, about 50 kms adjacent to the main freeway and railway with the deposit sitting on a mine lease with no native title. **The present JORC resource is 197,000 tonnes but this may soon be lifted to around 230,000 tonnes of contained copper with about +130,000 ounces of gold.** The present copper grade is 1.1%, but it's likely, given the exploration results, this grade will move beyond 1.2%, providing (with the gold) a robust deposit. Kanmantoo was an open cut mine which ceased production in 1976 and due to a convoluted ownership structure, remained in limbo until 2½ years ago when HGO became involved.

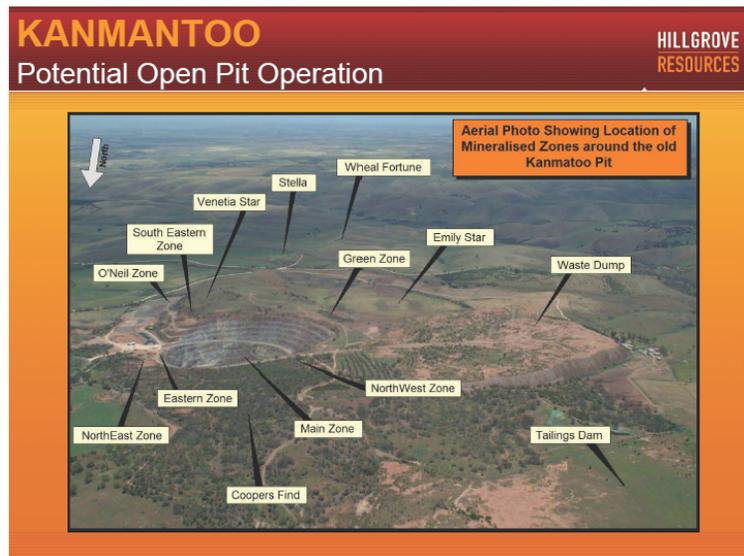
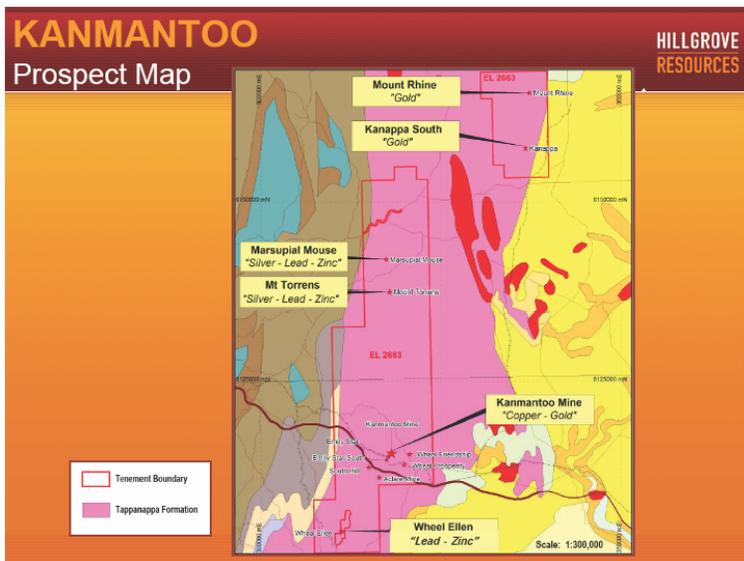
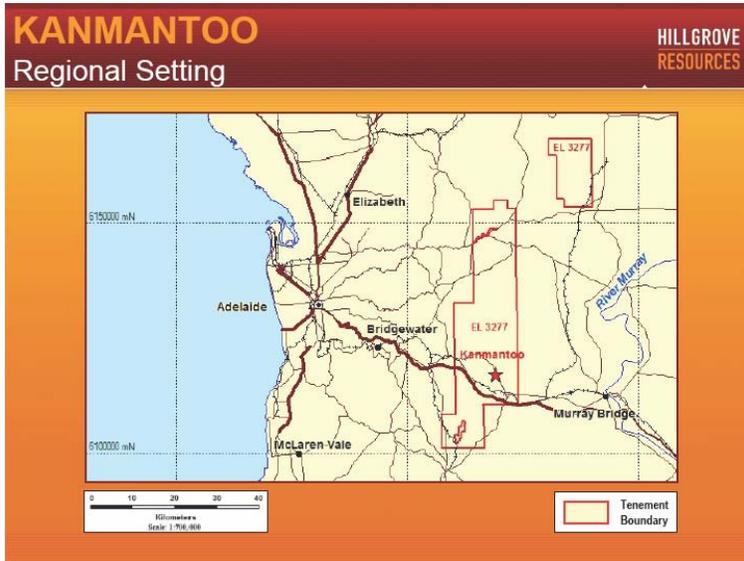
### PROFIT FORECAST - PRELIMINARY

Yr to Jun 30		2006(e)	2007(e)	2008(e)
NPAT	\$m	(1.0)	(3.2)	(1.6)
EPS	¢	(0.6)	(1.5)	(0.7)
P/E	x	(46.5)	(17.0)	(34.8)
Exch.Rate	A\$/US\$	0.73	0.73	0.73
Copper	USc/lb	180	155	140

**The present open pit has at least 2 million tonnes of 1% copper ready for mining;** and previous drill data indicates copper mineralisation – extends down to \$600m.

Based on the information derived from this trip, we have updated our model of the prospective Kanmantoo mine and made the following key assumptions: Capex A\$80m, hedging zero, LT copper price US\$0.95/lb, LT exchange rate US 73c with a mine life of 8 years with a start in Q1 2008. If we include an imputed value for its CBM asset of A\$14m and its uranium interests of A\$4m, our first pass base valuation is \$0.45 per share. We understand that the mine can be financed using straight bank debt while, in terms of equity contributions, the current listed options (expiry 31/12/06) will fund \$7.6m and we would expect the company to raise a further \$10m (the latter could be achieved from selling its CBM interests).

- Hillgrove has been aggressively exploring in and around the current resource and has found the area to be pregnant with copper targets but also has recently found an area (Venetia Star) which has yielded significant gold mineralisation** (see map over). Importantly, this area was the result of targeting a coincident magnetic and IP response. The follow up to the discovery hole was drilled 80 metres away and identified similar mineralisation, assays are awaited.
- What staggered me on the visit was the extent of HGO's mineral tenement area, 1974 sq km of the base metal prospective Kanmantoo Trough which one can see on the maps overleaf. The real difficulty for HGO is to stop its geologists wanting to drill more targets! However, we are assured that the current drill program, as part of the prefeasibility study, is primarily targeted at converting inferred resource to measured resource for the basis of the final feasibility. It's too early to get excited about the exploration upside but there is a prospect to the south called Wheel Ellen which is in the same rocks, same stratigraphy as Terramin's Angus zinc project. We would expect any subsequent resource/reserve at W. Ellen to be treated at the Angus plant.



This document has been prepared and issued by  
E.L. & C. Baillieu Stockbroking Ltd  
Australian Financial Services Licence No 245421  
Participant of ASX Group

**Disclosure of Potential Interest and Disclaimer**

E.L. & C. Baillieu Stockbroking Ltd and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time.

Your adviser will earn a commission of up to 40% of any brokerage resulting from any transactions you may undertake as a result of this advice.

- (a) in preparing the advice, the licensee did not take into account the investment objectives, financial situation and particular needs of any particular person, and
- (b) before making an investment decision on the basis of that advice, the investor or prospective investor needs to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of the particular investment need, objectives and financial circumstances of the investor or prospective investor.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by E.L. & C. Baillieu Stockbroking Ltd.

Save for any statutory liability that cannot be excluded, E.L. & C. Baillieu Stockbroking Ltd and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

E.L. & C. Baillieu Stockbroking Ltd assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

**E.L. & C. Baillieu Stockbroking Ltd**  
**A.B.N. 74 006 519 393**

Website: [www.baillieu.com.au](http://www.baillieu.com.au)

Offices

**Melbourne**

Level 27, 360 Collins Street

Melbourne Vic 3000

Ph: (03) 9602 9222, Fx: (03) 9602 2350

Toll Free: 1800 339 521

**Sydney**

Level 18, Gold Fields House

1 Alfred Street, Sydney NSW 2000

Ph: (02) 9247 7451, Fx: (02) 9247 4092

**Bendigo**

Level 1, 52 Mitchell Street

Bendigo Vic 3550

Ph: (03) 5443 7966, Fx: (03) 5442 4728

The author of this report holds shares in Hillgrove Resources Ltd