FINANCIAL AND COMMODITY RISK MANAGEMENT & HEDGING POLICY
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1. PURPOSE

A comprehensive financial and commodity risk management program supports the achievement of an organisation’s objectives by enabling the identification and evaluation of risks, setting acceptable risk thresholds, identifying and mapping controls against these risks and implementing policies and procedures to manage and monitor the risks.

This policy establishes the financial and commodity risk management framework and defines the procedures and controls for the effective management of Hillgrove Resources Limited’s (Hillgrove) risks that arise through the company’s copper, gold and silver mining activities.

A sound policy is essential to ensure all financial and commodity risks are fully recognised and treated in a manner consistent with:

- The Board’s management philosophy;
- Requirements of financiers;
- Commonly accepted industry practise and corporate governance; and
- Shareholders expectations of a base metals producer.

These issues will be addressed through the continuing evolution of this policy, which is to be reviewed annually at a minimum, as financial and commodity risks are likely to change over time.

2. SCOPE

This policy will guide all activities for managing commodity and foreign exchange transactional risks faced by Hillgrove. Hedge strategies are focused primarily on the management of market price risk while the financial risk management policy also covers credit risk that arises from any hedging contracts that are used to manage market price risk, together with other risks such as operational, accounting and liquidity risks.

3. SOURCES OF RISK

Hillgrove is an Australian reporting company headquartered in Sydney, New South Wales which, through its wholly owned subsidiary Hillgrove Copper Limited (HCL), holds an extensive landholding in the Kanmantoo Trough region to the West of Adelaide in South Australia. HCL is commencing operations in the second half of 2011.

Hillgrove is listed on the Australian Stock Exchange (ASX). Once in production, Hillgrove will be exposed to variability in movements in the copper, gold and silver price and foreign exchange rates (in particular AUD/USD) and movements in interest rates. Specifically Hillgrove is exposed to falling prices in copper, gold and silver, an appreciating AUD against the USD together with rising interest rates for borrowings and falling interest rates for cash investments.

4. RISK MANAGEMENT OBJECTIVES

The overriding objective of Hillgrove’s price risk management program is to accommodate participation in favourable commodity price movements whilst eliminating a proportion of the downside risk at an adequate margin above operating cash costs of site operations.

Management acknowledges that as circumstances change these risk management objectives may change and hence will be reconsidered and revised as a minimum as part of the annual review process.
The authorised risk management program must also comply with the hedging requirements of the financing institutions and be thoroughly understood by Hillgrove’s Board and executive officers with specific attention to the full range of financial outcomes of the hedge. In addition, with the introduction of AASB 139, accounting for hedging instruments must comply with the hedge accounting standard (see Appendix D).

This policy defines the parameters permitted in achieving these objectives, ensuring the program is conducted in a controlled and prudent manner.

5. STRUCTURE AND RESPONSIBILITIES

To ensure adequate segregation of duties facilitating independent checks, reducing the risk of error, breach of limits and fraud, Hillgrove’s risk management structure and responsibilities can be viewed in two main groups; the Oversight Group and the Execution and Administration Group. The authorities, skills and roles of each of these groups are defined below.

5.1 Oversight Group (Hillgrove Board)

Role and Responsibility

The oversight group will establish the business strategy and objectives for risk management activities, acceptable risk appetite, approve policy and procedures, and monitor and enforce compliance with the policy and procedures.

In consultation with the Managing Director this group is responsible for determining the extent of corporate exposures through appropriate discussion and analysis, oversight of the risk management processes adopted by the company, and for ensuring compliance with the terms of this policy.

Composition

The oversight group will comprise of the full Board.

Meeting Frequency

Not less than four times per year.

Independent Advice

The Oversight Group will have access to independent professional advice with respect to treasury risk management. The Treasury Adviser may be invited to attend meetings.

5.2 Execution and Administration Group (Managing Director, CFO and Treasury Adviser)

The Execution and Administration Group, through the Oversight Group is authorised to instruct its Treasury Advisor to execute and communicate market transactions, and monitor corporate risk positions. Specific roles of the Execution and Administration Group include:

- Implement hedging strategies as advised by the Oversight Group
- Manage and administer hedging transactions in accordance with the Financial and Commodity Risk Management & Hedging Policy
- Properly record transactions in the books of the Company
- Keep records of all transactions
- Reconcile Company records with those of the Treasury Adviser.
The Treasury Adviser will provide independent confirmation of market transactions and recording of terms, calculation of settlement amounts, monitor and report on compliance with policy and procedures, financial reporting of risk management activity and documentation.

Specifically the Treasury Adviser will:

- Supply regular market information
- Provide indicative pricing for hedging products
- Ensure competitive pricing for hedging products
- Execute transactions as required
- Record and value transactions in the Quantum treasury system
- Provide regular position reporting
- Attend Oversight Committee meetings as required.

6. RISK MEASUREMENT AND LIMITS

Hillgrove’s key focus is on ensuring that high production costs in early years are adequately covered by hedging. Hillgrove will review its position regularly to ensure that given its risk profile forecast operating cash flows will be reasonably covered by copper and gold sales subject to a range of price forecast alternatives.

Considering the current high copper prices and Hillgrove’s risk management objective of maximising participation to favourable commodity price movements whilst protecting the minimum forecast site operating costs, the company will adopt a low risk tolerance profile.

Commodity price and foreign exchange risk will be measured by determining the sensitivity of cash flows to changes in copper and gold prices and foreign exchange rates as they relate to the output from operations in Hillgrove’s Kanmantoo project.

The Hillgrove operations have a reserve and production schedule laid out in Appendix B and will be updated as soon as new information is available.

Hillgrove’s interest rate exposures are generated through any financing facility the company enters into and will be measured by determining the sensitivity to earnings by changes in interest rates. The risk management initiatives will apply to drawn amounts under the financing facility.

In order to ensure the effectiveness of the hedging program at Hillgrove, certain limits will be implemented which will guide all the hedging activities undertaken.

Hedging limits will be calculated on a percentage of the forecast copper and gold production and debt drawdown schedules. Hillgrove will ensure a sound forecasting process, capable of recasting revenues forward each quarter for the life of the Project.

6.1 Limits for Market Risk

Hillgrove has a medium risk tolerance profile which implies a low to medium percentage of hedging for highly probable exposures with a declining percentage over time, reflecting greater uncertainty of exposures.

Speculation (as defined as any transaction that increases Hillgrove’s exposure to market risks) is not permitted under any circumstances unless specifically authorised by the board.

Hedges will be initiated on an opportunistic basis to ensure that operating cash costs are covered by future sales based upon forecast price expectations. Determining the total overall level of hedging
between the minimum and maximum levels will be decided at the monthly Board meetings where factors such as current market conditions and consensus views, actual versus forecast production and the existing hedge position will be discussed.

The proposed market risk exposure limits will allow Hillgrove the opportunity to hedge up to a higher percentage above the minimum however the intention will remain to stay closer to the minimum unless circumstances favour increased hedging. While it is not possible to formularise the trigger points that will determine a higher percentage of hedging, the minutes of the monthly Board meetings will be well documented to justify any recommendations and decisions.

On the basis of the above criteria, the commodity and foreign exchange framework for hedging Hillgrove’s market risk exposures, using hedge ratios (i.e. percentage of notional exposure hedged) are as follows:

### Commodity Hedging Limits

<table>
<thead>
<tr>
<th>Rolling from a date</th>
<th>Metals</th>
<th>Precious Metals</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Copper</td>
<td>Precious Metals</td>
<td>USD/AUD</td>
</tr>
<tr>
<td>Year 1</td>
<td>50%</td>
<td>50%</td>
<td>Min</td>
</tr>
<tr>
<td></td>
<td>75%</td>
<td>75%</td>
<td>Max%</td>
</tr>
<tr>
<td>Year 2</td>
<td>35%</td>
<td>35%</td>
<td>Min</td>
</tr>
<tr>
<td></td>
<td>75%</td>
<td>75%</td>
<td>Max%</td>
</tr>
<tr>
<td>Year 3</td>
<td>25%</td>
<td>25%</td>
<td>Min</td>
</tr>
<tr>
<td></td>
<td>65%</td>
<td>75%</td>
<td>Max%</td>
</tr>
<tr>
<td>Year 4</td>
<td>0%</td>
<td>0%</td>
<td>Min</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>60%</td>
<td>Max%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total of Period</th>
<th>28%</th>
<th>28%</th>
<th>28%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>28%</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Max</td>
<td>66%</td>
<td>71%</td>
<td>70%</td>
</tr>
</tbody>
</table>

* The hedging of Quotational Period (“QP”) Risk is the exception where 90% of provisionally priced volumes can be hedged on appropriate QP hedging terms.

Interest rate risk management is to be evaluated on a case by case basis and must be approved at Board level.

### 6.2 Limits for Hedging Instruments

The hedge program will only be implemented using Over the Counter (OTC) authorised instruments (as outlined in section 6.3) with approved counterparties. Any other product requires the prior approval of the Board of Directors.

### 6.3 Authorised Instruments

The following authorised instruments may be used for hedging:

<table>
<thead>
<tr>
<th>Metals</th>
<th>Foreign Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash (in A$ &amp; US$)</td>
<td>Spot (A$/US$)</td>
</tr>
<tr>
<td>Copper, silver and gold forwards</td>
<td>Forward Exchange Contract (A$/US$)</td>
</tr>
<tr>
<td>Bought copper, silver and gold put</td>
<td>Bought US$ put/ A$ call options*</td>
</tr>
<tr>
<td>Collar Instruments (in US$)*</td>
<td>Collar options (A$/US$)*</td>
</tr>
</tbody>
</table>

* Only as part of an AASB 139 compliant structure.
In addition hedges are to conform to the following directives:

- Hedges will cover no more than 4 years of production
- Any hedge beyond 4 years will require specific approval by the Board
- No hedge will extend beyond scheduled production as defined in Appendix B as amended from time to time
- Only instruments set out above will be used
- Compliance will be reviewed and reported to the Board at the time of any update of Appendix B
- This policy will be reviewed at the time of any refinancing for compliance to new loan documentation
- Mark to markets of the hedging portfolio will be produced no less than monthly and communicated to the Board
- The Board and Company’s financing institutions will be informed of hedging levels to ensure compliance with any financing facility
- Where timing and production differences require, hedge contracts may be rolled at historic rates and adjusted accordingly to the prevailing forward market rate (subject to approval from Board and hedge counterparties).

### 6.4 Credit Risk

Credit risk is created through Hillgrove having the risk of financial loss by a counterparty failing to deliver on its obligations. Credit risk will be measured as the net current market value of transactions that Hillgrove has outstanding with any single credit counterparty, by credit rating. Current market value is an indication of the amount owed by/to the counterparty in the event that either party defaults on their obligations.

Counterparty credit risk will be managed by dealing with an agreed range of suitable financial institutions based on their credit rating and nomination in appendix E. Hillgrove’s Treasury Advisers will monitor counterparty credit ratings and Hillgrove’s exposure to each and report on these on a monthly basis.

Within this policy requirement, exposure (based on notional face value of outstanding contracts) to single counterparties should be limited to approximately A$50m net; other than in relation to project finance.

### 6.5 Liquidity Risk

Liquidity risk is the risk that Hillgrove will be unable to meet its financial obligations in an orderly and timely manner or incur excessive borrowing costs. Hillgrove will use internally produced cash flow forecasts as the basis for managing this risk. Hillgrove will produce these cash flow forecasts monthly and forward for the term of any commodity price hedging arrangements.

All facilities will be reviewed annually for adequacy and margin competitiveness.

### 6.6 Pricing Risk

Pricing risk is the risk that Hillgrove’s counterparties fail to offer fair and reasonable prices in relation to hedging any of the identified market risks as outlined in section 3 “Sources of Risk”. Through the Treasury Adviser, Hillgrove will closely monitor pricing provided by approved counterparties and endeavour to introduce alternative dealing counterparties when appropriate to ensure greater flexibility and competitiveness in pricing.
7. HEDGING APPROACH

This section outlines the parameters and guidelines for initiating and readjusting hedges.

7.1 Speculative Activities

Speculation is defined as entering into any activity that increases the company’s natural risk position or changes the direction of the exposure (e.g., if Hillgrove were to enter into a commitment to sell copper at an agreed future price when forecast production does not provide sufficient copper to sell; sell a naked option beyond 6 months; or, fix a hedging commitment for only one of USD metal or AUD/USD without at least appropriate bought option cover on the other leg).

Speculation is not permitted under any circumstances.

7.2 Hedge Strategy and Adjustment

It is the company’s view that it cannot time or beat the market, thus hedges will be initiated on a regular basis with the aim of maintaining a rolling 12 months of hedge positions, and within appropriate execution parameters as described in this policy. This strategy also ameliorates the risk attached to doing too much hedging at one time at a single rate.

Only over the counter (OTC) authorised instruments as defined in section 6.3 will be used for a maximum term and amount as expressed in the Risk Measurement and Limits section of this policy.

Taking advantage of in the money hedging positions and closing out hedges in place with existing counterparties requires Board approval.

7.3 Execution

Hedges will be brought in line with the policy parameters within one week of completion of the quarterly update of exposure information, and further adjustments may be made in the event that there is a significant change in the forecast cash flows of the business. Hedge initiation must be within the authorities and limits of this policy as outlined in the section titled Risk Measurement and Limits and the attached Authorities schedule for originators.

All limits will be checked prior to consummation of transactions. All quotes will be verified to the market using a reliable information source.

8. DOCUMENTATION AND CONFIRMATION REQUIREMENTS

All transactions must be executed using standard documentation reviewed and agreed by Hillgrove. Appropriate documents include International Swaps and Derivatives Association (ISDA) master agreements.

The Treasury Adviser will confirm all transactions verbally and in writing within the same day. All confirmations are sent to the Managing Director and the Chief Financial Officer as they also settle the transaction.

9. REPORTING REQUIREMENTS

Hillgrove will maintain an on-going register of all hedges vs. forecast production schedules and anticipated cash flows and ensure the percentage hedged is within the policy framework. This will be audited to a monthly marked-to-market report provided by its Treasury Adviser, and reported at Hillgrove’s Board Meeting.
10. AUTHORITIES

Through the Treasury Committee, the Managing Director or Chief Financial Officer may be authorised to instruct the company’s Treasury Advisor to implement hedging. In either case, the Managing Director or Chief Financial Officer must then advise the members of the Treasury Committee when such implementation has been effected.

The Treasury Committee is responsible for managing the Board approved hedging framework.

11. POLICY ADMINISTRATION

The Board will review and approve any changes to the main body of the policy. In addition, the Board will review the full policy and related schedules on an annual basis. The Execution and Administration Group will approve all revised schedules.

12. COMPLIANCE

The Managing Director is responsible for ensuring all employees conform to this policy.

Employees are responsible for reporting any breaches as soon as they occur by notifying the Managing Director in writing.

13. POLICY SCHEDULES AND ADDITIONAL INFORMATION

A. Approved Financial Instruments and/or Structures
B. Forecast Production Schedule
C. Authorised Treasury Officers
D. AASB 139 Compliance
APPENDIX A – APPROVED FINANCIAL INSTRUMENTS AND/OR STRUCTURES

Copper and Gold Forwards

This is basically where Hillgrove establishes a series of forward contracts at an agreed price, agreed maturity date and for an agreed tonnage amount. The net contango/backwardation is spread equally amongst the contracts resulting in a series of Copper forwards at the same price per tonne.

Hillgrove is guaranteed a maximum worst case delivery price however Hillgrove cannot participate in any favourable spot price movements. Hillgrove has also created an obligation to deliver tonnes on the maturity date.

Advantages
- Easy to pre-deliver and extend
- No up-front cost
- Fully eliminates risk of adverse movements in the Copper price

Disadvantages
- Obligation to deliver Copper
- Requires hedging lines
- No participation in any favourable moves in the cash price.

At maturity the following scenario would occur:

Irrespective of where the cash price is at maturity, Hillgrove would be obliged to deliver copper at the contract rate. This may however be permitted to be rolled forward to meet a delayed delivery schedule “if permitted” by Hillgrove’s counterparty.

Bought Copper Put (or Floor) Options

Hillgrove purchases an outright Copper Put (or Floor)/ AUD Call option which provides Hillgrove with the right, but not the obligation, to sell Copper and buy AUD for an agreed face value and strike price at an agreed future date against payment of an up-front premium.

Therefore Hillgrove is guaranteed a maximum worst case delivery price with unlimited favourable participation - though at a known margin above the spot price (e.g. premium paid). Upon expiry, Hillgrove can either exercise the option or deal at the prevailing spot price. Alternatively, if cover is not required, and the option is in-the-money, then Hillgrove would exercise the option to crystallise a gain.

Advantages
- Maximum loss is limited to amount of premium paid;
- Full participation in favourable movements in cash price (excluding premium);
- No obligation to deliver;
- Does not require hedging lines; and
- Eliminates risk of adverse movements in the copper price to level of strike price.
Disadvantages

- Up front option premium payable;
- Pre-delivery involves cancellation of option and any residual premium recouped either taken in cash or embedded into the cash price.

At maturity the following scenarios could occur:

- If on maturity the cash price is below the Floor level, then Hillgrove would exercise its right to sell the copper at the floor level; or
- If on maturity the cash price were higher than the floor level, then Hillgrove would allow the option to lapse and transact in the higher cash market.

Nil Premium Copper Collar Option

This structure is a combination of options whereby Hillgrove purchase a Copper Put/AUD Call (Floor) and simultaneously sell a Copper Call/AUD Put (Cap) to offset the cost of the Floor, thereby creating a collar to achieve nil premium.

This provides Hillgrove with the protection against a depreciation of the AUD Copper price to the level of the Floor, though restricting any benefit from a rising AUD Copper price to the level of the sold Cap.

Advantages

- Protection – the minimum price provides you with protection against the copper price falling below the minimum price; and
- Allows for the opportunity to partially participate in favourable price moves above the minimum price, up to the maximum price level; and
- Is flexible in that it can be structured to suit the particular production profile of the mine.

Disadvantages

- Restriction within band of AUD copper prices;
- Obligation to deliver against sold Cap option;
- Unlimited loss potential above Cap level; and
- Difficult to pre-deliver prior to maturity. Utilisation would require cancellation of option and any refund subsequently embedded into the prevailing spot price.

At maturity the following scenarios could occur:

- If on maturity the cash price is higher than the Cap, then Hillgrove will be obliged to deliver the copper at the Cap level;
- If on maturity the cash price is between the Cap and the Floor level, then Hillgrove would sell at the prevailing cash price for the ‘required’ amount; and
- If on maturity the cash price were below the floor level, then Hillgrove would exercise their right to sell copper and purchase AUD at the Floor level.

Spot FX Deal

A contract with an approved counterparty, whereby Hillgrove sells one currency (eg.USD) for another (eg.AUD) at the prevailing spot rate. Settlement of a spot deal is 2 business days. Spot deals can be arranged for less than 2 business days i.e. ‘TOM’ is settled in 1 business day and a ‘Today’ settled same day. Limiting hedge, in that it carries a delivery obligation at the spot rate struck with the counterparty.
**FX Forward**

A contract with an approved counterparty, whereby Hillgrove sells one currency (e.g. USD) for another (e.g. AUD) at a fixed forward exchange rate for a fixed future date. The spot rate is adjusted by the prevailing forward margin for the term to maturity.

Limiting hedge, in that it carries a delivery obligation at the contract rate struck with the counterparty.

**Advantages**
- Known forward exchange rate;
- Easily pre-delivered or extended (after adjustment to the contract rate by relevant forward margin for the term to maturity); and
- No upfront costs.

**Disadvantages**
- Hedging lines required;
- Obligation to deliver;
- No participation in future downward movements in the bought currency (i.e. limiting); and
- Unlimited loss potential.

**At maturity the following scenario will occur:**

Irrespective of where the spot rate is at maturity, Hillgrove will be obliged to deliver the USD’s at the contract rate. However, this ‘may’ be able to be rolled forward to meet a delayed delivery schedule ‘if permitted’ by counterparty.

**AUD Call (or Cap) Option**

A cap consists of the purchase of an outright AUD Call/Foreign Currency Put (Cap) whereby Hillgrove has the right, but not the obligation, to buy AUD and sell the foreign currency (e.g. USD) for an agreed principal at an agreed strike price for a future date. Through the purchase of a cap, Hillgrove is guaranteed a maximum worst case exchange rate against payment of an upfront premium.

Non Limiting hedge, in that it carries ‘no’ delivery obligation at the strike rate struck with the counterparty.

**Advantages**
- Maximum loss is limited to amount of premium payable/paid;
- No obligation to deliver;
- Allows full participation in favourable movements in the spot rate (ie. non-limiting) below the cap strike rate;
- Fully eliminates risk of adverse currency movements to the level of the cap;
- If cover is not required, and the option is in-the-money, then Hillgrove would surrender the option to crystallise a gain; and
- Does not require hedging lines.

**Disadvantages**
- Upfront premium payable; and
- Not able to pre-deliver prior to maturity. Utilisation would require surrender of options and any refund, subsequently embedded into the prevailing spot rate.
At maturity the following scenarios could occur:

- If on maturity the spot rate is above the cap level, then Hillgrove would exercise its right to deliver USD’s at the cap level; and
- If on maturity the spot rate is lower than the cap level, then Hillgrove would be free to transact its USD’s in the spot market and option would lapse unutilised.

Nil Premium FX Collar

This structure is a combination of options whereby Hillgrove purchases an AUD Call/Foreign Currency Put (Cap) and simultaneously sells an AUD Put/Foreign Currency Call (Floor) to offset the cost of the Cap, thereby creating a collar to achieve nil premium.

This provides Hillgrove with the protection against an appreciation of the AUD to the strike rate of the cap (i.e. Hillgrove has the right but not the obligation), though restricting any benefit from a falling AUD down to the strike rate of the sold floor (i.e. Hillgrove obliged to deliver).

Limiting hedge, in that it carries a delivery obligation at the strike rate of the sold floor struck with the counterparty.

Advantages

- Provides cheap insurance, whilst allowing some participation in favourable downward movements to level of the sold floor; and
- Fully eliminates risk of adverse currency movements to the level of the cap.

Disadvantages

- Hedging lines required;
- Restriction within band (i.e. limiting);
- Obligation to deliver against sold floor option;
- Unlimited loss potential under floor level; and
- Not able to pre-deliver prior to maturity. Utilisation would require cancellation of option and the gain/loss subsequently embedded into the prevailing spot rate.

At maturity the following scenarios could occur:

- If on maturity the spot rate is lower than the floor, then Hillgrove will be obliged to deliver the USD’s at the floor level;
- If on maturity the spot rate is between the cap and the floor level, then Hillgrove would convert USD’s at the prevailing price for the ‘required’. If on maturity the spot rate is above the cap level, then Hillgrove would exercise their right to deliver the USD’s at the cap level.
APPENDIX C – AUTHORISED TREASURY OFFICERS

Oversight Group

Chairman of the Board
Managing Director
Chief Financial Officer and Company Secretary

Authorised Management

Drew Simonsen (Managing Director)
Russell Middleton (Chief Financial Officer)

The Managing Director and the Chief Financial Officer and Company Secretary are authorised to instruct the Treasury Advisor to enter into new transactions.

Where exceptional circumstances exist which may require a temporary delegation of authority and responsibilities to other executive officers, this can only be done with written approval of the Managing Director. Any proposed permanent changes to the authority and responsibilities need to be resubmitted to the Board for approval.

Levels of Authority

The Managing Director and Chief Financial Officer have the authority to administer treasury functions.

Movement of funds between financial institutions (counterparties) requires two authorised management signatures.

Hedge transactions involving new positions or trading out of old positions requires two authorised management signatures.

Delivery of copper, silver and gold into hedge positions, the rolling of funds held on deposit with a financial institution (counterparty), compliance with financing covenants, all require the signature of one authorised management.
APPENDIX D – AASB 139 COMPLIANCE

To qualify for hedge accounting under Australian Accounting Standards a derivative financial instrument must be considered highly effective in hedging the identified risk exposure.

A hedge is considered highly effective if it offsets changes in the fair value or cash flow associated with the hedged item, within a range of outcomes. The generally accepted range of outcomes is when the changes associated with the derivative are within 80 to 125% of the changes associated with the hedged item.

In order to qualify for hedge accounting, Hillgrove will be required to assess hedge effectiveness both prospectively and retrospectively. Prospective effectiveness testing will determine whether the hedge relationship is expected to be highly effective in the future and retrospective effectiveness testing will measure how effective a hedge relationship has been over the reporting period.

Prospective Testing

Hillgrove will assess prospective effectiveness by matching the critical terms of both the hedged item (e.g. anticipated copper production) and the derivative (e.g. a copper flat forward contract) and ensuring the anticipated (copper) production schedule is highly probable.

In order to match critical terms the hedged item and the derivative need to have the same anticipated settlement month, same foreign currency and same notional amounts (e.g. the first 1,000t of copper production during a given month).

In order to ensure anticipated copper production is highly probably there must be a 90% or more likelihood that the production will take place. Hillgrove can rely on the following to satisfy the highly probable assertion:

- Management’s hedging intent at inception (i.e. aim to hedge between 50% and 75% of forecast annual copper production);
- Hillgrove forecasts (i.e. forecast production for hedging purposes are based on budget numbers and supported by copper reserves); and
- Hillgrove forecasting history (i.e. assessment of Hillgrove’s ability to meet sales forecasts over the last 12 to 18 months).

Retrospective Testing

Retrospective effectiveness is determined by assessing whether the changes in fair value of the hedging instrument has offset the changes in the fair value or cash flows of the hedged item relating to the risk being hedged. Hedge accounting is only permitted if the hedging relationship is highly effective i.e. between 80% and 125% at the inception of the hedge and on an ongoing basis.
APPENDIX E – APPROVED NOMINATED COUNTERPARTY LIST

Barclays Bank Plc

Macquarie Bank Limited

Credit Suisse.