

Wednesday, 15 July 2009

## Completion of Sale of Eastern Star Gas Investment

- **Investment in ESG sold for \$171 million cash**
- **Profit on sale of \$94 million before tax**
- **Hillgrove convertible bonds bought back for USD\$39 million and cancelled**
- **Cash balance of \$131 million or \$0.32 per Hillgrove share net of purchase of convertible bonds and before tax**
- **Significant upside retained if change of control of ESG occurs within 18 months**

Hillgrove Resources Limited (ASX: HGO) advises that it today completed the sale of 151,823,529 shares and 23,720,614 options, exercisable at \$0.15 per option, in Eastern Star Gas Limited to Santos Limited. Santos paid \$171,986,050 cash equating to a price of \$1.00 per Eastern Star share and \$0.85 per Eastern Star Gas option.

It is anticipated that Hillgrove will book a profit on the transaction of approximately \$94 million before tax for the half year ending 31 July 2009. Tax payable on the transaction is estimated to be approximately \$23 million after utilising anticipated carry forward tax losses.

The Chairman of Hillgrove, the Hon. Dean Brown AO, said today "Apart from crystallising a very satisfactory return on our original cash investment cost of \$19.42 million, the cash from the sale enhances the company's balance sheet, has allowed the repayment of all outstanding debt, eliminates the possibility of the conversion of the bond debt to equity and provides a solid bank of working capital to fund the continued exploration of our highly prospective Indonesian epithermal gold and porphyry copper/gold portfolio".

"Apart from these benefits, Hillgrove retains upside exposure to the Eastern Star Gas share price should there be a takeover of Eastern Star Gas in the next 18 months".

Santos is required to make an additional payment to Hillgrove in the event that Santos or a third party completes the acquisition of a beneficial interest of more than 50% in Eastern Star Gas at a bid price in excess of AUD\$1.00 per share and within 18 months of Santos' acquisition of Hillgrove's interest in Eastern Star Gas shares and options. Upon the completion of the acquisition, the calculation of the additional payment would be as follows:

- i. if the change of control transaction is undertaken by Santos, 100% of the excess multiplied by 175,544,143 shares; or
- ii. if the change of control transaction is undertaken by a third party, 50% of the excess multiplied by 175,544,143 shares.

In a related transaction, Hillgrove has purchased all of the convertible bonds on issue to the Stark Investments group for a total of USD\$39 million (approximately AUD\$49.86 million). This has resulted in both the cancellation of the debt and, importantly, the elimination of the potential for these to be converted into 168.4 million new Hillgrove shares.

### Hillgrove Resources Limited

ACN 004 297 116

Level 41 Australia Square, 264 George Street, Sydney NSW 2000

Tel: 02 8221 0404 Fax: 02 8221 0407

[www.hillgroveresources.com.au](http://www.hillgroveresources.com.au)

Mr. David Archer, the Managing Director of Hillgrove said "Hillgrove is almost unique in this market – it is underpinned by a large cash base plus it has significant exploration and development upside".

"With 413,027,311 shares on issue and a current cash balance of \$131 million, Hillgrove's cash backing is a very healthy \$0.32 cents per share after the purchase of convertible bonds but before tax on the Eastern Star Gas transaction. On top of this we have the value of the Kanmantoo Copper Gold Project and \$14.5 million worth of property, plant and equipment as at 31 January 2009".

"We have no immediate plans for the deployment of the cash outside of our existing activities".

"As previously announced, we are seeking to team with an incoming joint venture partner who will provide the funding for the development of the Kanmantoo mine. The current estimate of the cost to complete the mine development is \$99.4 million".

"Our focus from here will be on the exploration of our Bird's Head Project (Hillgrove 80%) in West Papua where we are targeting the discovery of world class epithermal gold and porphyry copper-gold deposits. Field activities will start later this month and, depending on results, a 10,000 metre drilling programme is planned over the next 18 months".

### **About Hillgrove**

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

Hillgrove's flagship development is the Kanmantoo Copper Gold Project, located less than 60km from Adelaide. Kanmantoo currently hosts a Mineral Resource of 32.2Mt (2.3MT Measured, 22.5MT Indicated and 7.4MT Inferred) grading 0.9% copper and 0.20g/t gold, containing 292,200 tonnes of copper, 191,100 ounces of gold and 3,313,600 ounces of silver. With production targeted for the first quarter of 2011, Kanmantoo will be a 2Mt p.a. open-cut mine producing approximately 17,000 tonnes of copper in concentrate and 8,000 ounces of gold per annum.

*The information in this announcement that relates to Exploration Results is based on information compiled by Mr. Dale Ferguson, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr. Ferguson is the General Manager-Exploration and Operations of Hillgrove Resources 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.'. Mr. Ferguson consents to the inclusion in the announcement of the matters based on his information in the form and context in which it appears. The Mineral Resource estimate is based on information compiled by Mr Paul Payne, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Payne is Manager – WA Mining Consulting 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'. Mr Payne consents to the inclusion in this announcement of the matters based on his information in the form and context in which it appears.*

For more information contact:

Mr. Dean Brown AO  
Chairman  
Hillgrove Resources Limited  
Mobile: 0419 863 723

Mr. David Archer  
Managing Director  
Hillgrove Resources Limited  
Mobile: 0414 737 767