

Hillgrove Resources Limited

HGO

Tuesday, 24 June 2008

Copper project awaiting financing and permitting green light

Recommendation Speculative Buy

Overview

HGO is currently progressing the financing of the Kanmantoo copper project that is located in the Adelaide Hills about 50 km south east of Adelaide. The project is located on the site of a former open cut mine that operated from 1971 to 1976. Reserves total 11.1 million tonnes averaging 0.93% copper, 0.2 g/t gold and 3.3 g/t silver. Contained metal is 291,000 tonnes of copper, 189,000 ounces of gold and 3.2 million ounces of silver. The deposit remains open at depth and along strike providing potential for an increase in the resource and reserve base. Currently the resource totals 31.8 million tonnes averaging 0.91% copper, 0.2 g/t gold and 3/1 g/t silver.

A definitive feasibility study that was completed in December 2007 found that a 2 million tonne per annum operation has a NPV of \$152 million based on a 6.5 year mine life and a flat copper price of \$3.50 per pound. The deposit will be developed as two open pits with a stripping ratio of 5:1. Treatment of the ore will involve conventional crushing, grinding and flotation. Average annual metal in concentrates will be 15,000 to 19,000 tonnes of copper, 7,000 to 9,000 ounces of gold and 110,000 to 140,000 ounces of silver. Average concentrate grade would be 25% copper, 3.5 g/t gold and 66 g/t silver. RBS Sempra Commodities has contracted to take the life of mine concentrate. HGO is targeting increased resources to allow for at least a 10 year mine life.

Capital cost of the project is estimated at \$130 million including a contingency of \$11 million. In March 2008 leading international investment bank Merrill Lynch was appointed to arrange the financing of the project's development.

Subject to final permitting the company envisages construction to commence in the third quarter of 2008 with commercial production beginning in the second half of 2009.

The major process water source for the project will be treated waste water from the Mount Barker District Council.

HGO holds an exploration portfolio covering over 970 sq km within the Kanmantoo Trough and the Gawler Craton. Located about 15 km to the south west of the Kanmantoo project and 7 km along strike from Terramin's (TZN) Angus silver lead zinc mine HGO holds the Wheel Ellen silver lead zinc project that was worked primarily in the 1850's and produced an estimated 75,000 tons at an over all grade of 25% zinc, 20% lead and 12 ounces per tonne silver. Recent drilling by HGO returned an intersection of 5 metres averaging 8.68% zinc, 5.89% lead and 2.34 g/t gold.

Strategically, HGO holds a 22.6% fully diluted interest in Eastern Star Gas (ESG) that has interests in coal seam gas and conventional oil and gas projects. ESG operates the Narrabri (65%) coal seam gas project in the Gunnedah Basin in northern NSW and has a 100% interest in the Wilga Park power station. Plans for expansion of this power station to a capacity of 40MW have been given major project status by the NSW government. ESG has 2P gas reserves totalling 120PJ and is currently conducting a large reserves appraisal program.

HGO also holds a 29.1% fully diluted interest in InterMet Resources (ITT) and has recently launched a takeover offer for the remaining interest based on four HGO shares for every five ITT shares. ITT holds iron ore, base metal and gold projects in north east Queensland and projects within the Gawler Craton and the Adelaide fold belt in South Australia that are prospective for copper and gold.

Snapshot

Last Price	\$0.325
Market Cap (m)	\$102.9
52 Week High	\$0.70
52 Week Low	\$0.18
Sector	Metals & Mining

Investment Fundamentals

Cash reserves	\$5.7 million
Shares on issue	316.7 million
Options on issue	57.3m unlisted options

Directors	Dean Brown AO (Chairman) David Archer (Managing) Ron Belz (Non Executive) John Gooding (Non Executive) John Quirke (Non Executive)
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Major shareholders	RBS Sempra 15.0%
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Price Chart



Business Description

HGO is a mineral exploration and development company with interests in South Australia. It is currently focused on bringing the Kanmantoo copper project into production. The company also holds strategic interests in emerging energy and resource companies.

Analyst: Paul Goody

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