HILLGROVE RESOURCES

COMMODITY RISK MANAGEMENT & HEDGING POLICY

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1. PURPOSE

A comprehensive financial and commodity risk management programme 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 any 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 provides Board delegation and guidance for all activities of management to manage commodity and foreign exchange transactional risks faced by Hillgrove within a three year Period of Review. 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 and accounting risks.

3. SOURCES OF RISK

Hillgrove is an Australian reporting company headquartered in Adelaide, South Australia which, through its wholly owned subsidiary Hillgrove Copper Pty Limited (**Copper**), holds an extensive landholding in the Kanmantoo Trough region to the South East of Adelaide in South Australia.

Hillgrove is listed on the Australian Securities Exchange (ASX). Hillgrove, when in production, is exposed to variability in movements in copper, gold, silver 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, and appreciation of the AUD against the USD.

4. RISK MANAGEMENT OBJECTIVES

The overriding objective of Hillgrove's price risk management programme 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 programme must also comply with the hedging requirements of any 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.

This policy must comply with the hedge accounting standard (AASB 139).

This policy defines the parameters permitted in achieving these objectives, ensuring the programme 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 Treasury Committee and the Execution Team. The authorities, skills and roles of each of these groups are defined below.

5.1 Treasury Committee

Role and Responsibility

The Treasury Committee 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.

This group is responsible for:

1. Determining the extent of corporate exposures through appropriate discussion and analysis that determines these Policy Limits;
2. Oversight of the risk management processes adopted by the company;
3. Delegation of these Policy Limits to the Execution Team;
4. Ensuring compliance with the terms of this policy; and
5. Minimum Annual review of Policy Limits.

Composition

The Treasury Committee group will be appointed by the Board of Directors and comprise of:

- Chairman of the Audit Committee (or his designate)
- MD/CEO
- Chief Commercial Officer and Company Secretary

Meeting Frequency

Semi-annually or as agreed by the Committee.

Independent Advice

The Treasury Committee will have access to independent professional advice (Treasury Adviser[1]) with respect to treasury risk management. The Treasury Adviser may be invited to attend meetings.

5.2 Execution Team

- MD/CEO
- Chief Commercial Officer and Company Secretary
- Treasury Advisor (for execution only)
- Financial Controller (for execution only)

The Execution Team, through the Treasury Committee's delegation is authorised to communicate to the Treasury Advisor market transactions, and monitor corporate risk positions. Specific roles of the Execution Team include:

- Implement hedging strategies within these Policy parameters (only the MD/CEO, CCO / Company Secretary can provide final authorisation for a transaction - See Section 10);
- Manage and administer hedging transactions in accordance with the Commodity Risk Management & Hedging Policy;
- Properly record transactions in the books of the Company;
- Keep records of all transactions; and
- 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:

- Provide advice in relation to management of commodity and Foreign Exchange risk;
- Supply regular market information;
- Provide indicative pricing for hedging products;
- Ensure competitive pricing for hedging products;
- Execute transactions as required;

[1] In its discretion, the Treasury Committee may agree a Treasury Adviser is not required. In this event, this can be conducted by the Execution Team.

- Record and value transactions;
- Provide regular position reporting;
- Attend Treasury Committee meetings as required; and
- Provide regular reporting (QP Monthly / Quarterly Board report).

6. RISK MEASUREMENT AND LIMITS

Hillgrove's key focus is on ensuring that its production costs and other repayment obligations 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. In doing this, the company will also be mindful of its Mandatory Hedging obligations which may fall beyond the Period of Review determined by this policy.

Given Hillgrove's risk management objective is to maximise participation to favourable commodity price movements whilst protecting the minimum forecast site operating costs, the company will adopt a medium 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 mine. The volume of risk is determined by the Life of Mine Model and when managing QP risk, the physical metal is recognised when there is a stockpile in excess of a combined 2,000 dmt of concentrate available at the port and the 'Shed' which can result in an Early Payment invoice being issued (See Policy Schedule E - Quotational Period Policy).

In order to ensure the effectiveness of the hedging programme 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 payable. Hillgrove will ensure a sound forecasting process, capable of forecasting revenues forward each quarter for the life of the Project, is in place.

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. Speculation (as defined as any transaction that increases Hillgrove's exposure to market risks above scheduled production) is not permitted under any circumstances.

Hedges will be initiated on the basis of ensuring 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 semi-annual Treasury Committee meeting or with the prior approval of the Chairman of the Treasury Committee, where factors such as current market conditions and consensus views, actual versus forecast production and the existing hedge position will be discussed.

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

	Metals				Currency	
Rolling	**Copper**		**Gold and Silver**		**AUD/USD**	
	Min+	Max %	Min+	Max%	Min+	Max%
Quotational Period*	0%(1)	90%	0%	90%	0%(1)	90%
3 – 6 Months	0%(1)	85%	0%	80%	0%(1)	85%
6 – 9 Months	0%	75%	0%	70%	0%	75%
10 – 24 Months	0%	60%	0%	55%	0%	60%
25 – 36 Months	0%	50%	0%	35%	0%	50%

* The hedging of Quotational Period ("QP") Risk is the exception where 90% of provisionally priced volumes can be hedged on appropriate QP hedging terms (See Appendix E that outlines the QP policy).

\+ Minimum hedge levels will be reviewed by the Treasury Committee using financial drivers to determine minimum requirements (mandatory hedging does fall beyond the initial period covered in this document).

(1) To be discussed at each semi-annual Treasury Committee meeting in the context of minimum tolerable cash levels and break even cost of production.

6.2 Limits for Hedging Instruments

The hedge programme 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:

Metals	**Foreign Exchange**
Cash (in A$ & US$)	Spot (A$/US$)
Copper, silver and gold forwards (in A$ & US$)	Forward Exchange Contract (A$/US$)
Bought copper, silver and gold put options (in A$ & US$)	Bought US$ put/ A$ call options
Collar Instruments (in US$)	Collar options (A$/US$)

In addition, hedges are to conform to the following directives:

- Hedges will cover no more than 3 years of production;
- Any hedge beyond these policy limits will require specific approval by the Treasury Committee;
- No hedge will extend beyond scheduled production;
- Only instruments set out above will be used;

- Compliance will be reviewed and reported to the Board at the time of any update to the Life of Mine model;
- 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 quarterly;
- The Board and Company's financing institutions will be informed of hedging levels to ensure compliance with any financing facility; and
- 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 hedge counterparties) and only within 6 months of restructure date (See section 7.2).

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 D. Hillgrove's Treasury Adviser will monitor counterparty credit ratings and Hillgrove's exposure to each and report on these on a quarterly basis.

6.5 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

It is the company's view that it cannot time or beat the market, thus hedges will be initiated following review by the Treasury Committee on a Semi-annual basis or with the prior approval of the Chairman of the Treasury Committee, and within appropriate 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.

Restructure of mandatory hedging into QP hedging is only permissible in anticipation of Scheduled Shipments within 6 months of restructure date and must be replaced with USD based metal (copper) and currency hedges to continue within the structure of this policy.

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 6 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 CCO as transactions are settled (the MD/CEO to be included in the correspondence where it is related to placing or restructuring of the mandatory hedges as well as at the time of any QP restructure).

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 Meetings on a semi-annual basis.

A semi-annual report summarising the previous quarter activities will be prepared and reported to the Treasury Committee.

Any breaches to this policy will immediately be reported to the Treasury Committee.

10. AUTHORITIES

Through the Treasury Committee delegation, only the MD/CEO, CFO / Company Secretary can provide final authorisation to implement hedging. Once a transaction is effected, the Treasury Advisor must advise the Execution Team individually by email.

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 Treasury Committee will approve all revised schedules.

12. COMPLIANCE

The MD/CEO and CCO are responsible for ensuring all employees conform to this policy.

Employees are responsible for reporting any breaches as soon as they occur by notifying the MD/CEO or CCO in writing.

13. POLICY SCHEDULES AND ADDITIONAL INFORMATION

A. Approved Financial Instruments and/or Structures

B. Authorised Treasury Officers

C. Approved nominated Counterparty List

D. QP Policy

POLICY SCHEDULE A – APPROVED FINANCIAL INSTRUMENTS AND/OR STRUCTURES

1. Copper and Gold Forwards

Hillgrove would establish 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 delivery price however Hillgrove cannot participate in any favourable spot price movements for that committed tonnage. Hillgrove has also created an obligation to deliver tonnes on the maturity date.

Advantages

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

Disadvantages

- Obligation to deliver Copper;
- Requires hedging lines; and
- 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.

2. 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 the strike price.

Disadvantages

- Up front option premium payable; and
- 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.

3. Nil Premium Copper Collar Option

This structure is a combination of options whereby Hillgrove purchases 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 Hillgrove with protection against the copper price falling below the minimum price;
- 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.

4. 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 however, can be arranged for less than 2 business days i.e. 'TOM' is settled in 1 business day and a 'Today' settled same day.

5. 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.

6. 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 (i.e. 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.

7. 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.

POLICY SCHEDULE B – AUTHORISED TREASURY OFFICERS/ADVISOR

Treasury Committee

- Chairman of the Audit Committee (or his designate)
- MD/CEO
- CCO and Company Secretary

Authorised Management

Only the MD/CEO, CCO / Company Secretary can provide final authorisation to instruct the company's Treasury Advisor (in the event there is one appointed) to implement hedging (with a second member from the Execution Team to be included in the email correspondence).

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 MD/CEO. Any proposed permanent changes to the authority and responsibilities need to be resubmitted to the Board for approval.

Authorised Signatories

Execution Team (MD/CEO and CCO / Company Secretary) have the authority to administer and authorise treasury functions.

Confirmations for hedge transactions involving new positions or trading out of old positions requires one authorised management signature (MD/CEO and CCO / Company Secretary).

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.

Treasury Advisor

The Treasury Advisor will be an independent advisory firm engaged by Hillgrove Resources.

POLICY SCHEDULE C – APPROVED NOMINATED COUNTERPARTY LIST

Macquarie Bank Limited

Freepoint Metals and Concentrates LLC (Freepoint)

POLICY SCHEDULE D – Quotational Period (QP) Policy

Quotational Period Hedging

QP Hedging is the term that traditionally describes any forward pricing of metals for the period between the timing of receipt of provisional cash payments from the smelter/trader and the pre-determined averaging period where the final pricing of the contained metal is actually determined.

In reality, the position described above was primarily created to preserve the margins (minimise the price risk) of smelters. The point at which a company's price risk in metal is recognised and it should potentially be sold/hedged can be prior to the point at which provisional payments are received. The earliest and latest points of recognition are set out in the Schedule and will be reviewed no less than annually.

Because all contained metal is ultimately sold to Freepoint on the basis of the pre-advised monthly average, the intention of the QP hedging strategy will be to ensure that hedges executed, will be done so on the basis that they will be closed out against the same price average at which the contained metal is priced. In this way the actual net price received through the combination of the smelter contract and the hedge contract will be the hedge price.

Under the terms of "Offtake agreement", the final price averaging period is either the calendar month prior to the month of scheduled shipment (MPMSS) or 5 months after the month of ship arrival (5MAMA – also known as spread adjusted under the offtake agreement), dependent upon determination by Freepoint.

To some extent, QP hedging is not really hedging (in the sense of setting a price for outputs not yet produced) but is instead a method to cover the risk that exists on metal already produced, but not yet paid for by the buyer. As a consequence, QP pricing/hedging can be done to a very high percentage of the exposure, limited only by the degree of certainty in the measurement error on contained metal. As such, it falls outside the broader hedging limits as articulated in this Policy and instead be monitored against the QP Hedging Limits set out in the Policy Schedule below.

Objectives

In addition to HGO's longer term hedging strategy, which focuses on reducing the future impact on projected cash flows of large adverse price moves, HGO will engage in hedging the price risks and timing differences arising from the terms of its physical supply/sales arrangements (QP Hedging).

The primary objective of QP Hedging is to remove the price risk inherent in the delayed price setting mechanism set down by Freepoint. A secondary and important outcome of this process is to limit the risk of large negative differences between provisional cash payments and final price settlements. (Under the physical contract, if the actual average price achieved upon final pricing is lower than the price upon which the provisional payment was based, funds may be required to be remitted by HGO. The opposite is true if the final price is higher than the provisional payment).

Where HGO has entered into mandatory or discretionary hedging arrangements, these contracts will fall under the QP hedging policy once they have a maturity date within the period set out in the Schedule and are notionally allocated to specific shipments (dependent upon the Freepoint's nomination of QP period) and /or restructured as required.

Approach

The best approach to recognise the value of produced metal at prevailing market prices and stabilise cash flows between HGO and Freepoint is for HGO to enter into forward metal sales at the time of risk recognition, and no later than the provisional payment, thereby ensuring that the minimum price to be ultimately achieved is known at the time of the provisional payment.

Advantages

QP hedging recognises value at the conclusion of the mining process, provides for protection against falling metal prices between that time and the time frame where Freepoint choses to price it and neutralises the possible adverse impact on future cash flows. Stabilising this volatility of pricing gives HGO greater certainty around future cash flow allowing for more robust short-term planning.

Disadvantages

The structure of the market can be such that the best hedge prices achievable for the appropriate averaging period are lower than the prevailing cash market prices (backwardation prevails) and therefore the prices implied by the Provisional Payments giving the appearance of locking in a loss by QP hedging.

Alignment with existing hedge contracts

Before any QP hedging is entered into, all existing hedge contracts need to be considered and an allocation of the appropriate amount of those Mandatory or Discretionary hedges needs to be made to the physical production in question. Once that is done the level of QP hedging required is for the residual price exposure that exists, if any, within the agreed range for QP hedging. A restructure of existing hedge contracts may be required to ensure that the settlement pricing structure of the existing hedge contracts aligns to the final pricing arrangements.

Policy Schedule

Approved Hedging Levels

Metal	Copper (Cu)		AUD/USD	
	Min %	Max %	Min %	Max %
* QP period only	0	90	0	90

** These percentages have a tolerance of 5% due to variances in metal content.*

It is important to note the high maximums are allowable because the material has already been produced and must be aligned to net payable metal. The 90% threshold (compared to 100%) reflects that some uncertainty on final physical deliveries can subsist until Final Payment.

The default position of QP Policy will be to be as close to the maximum as is considered prudent.

Those issues that might impact a decision to actively minimise QP hedging are very steep backwardations in range trading or up trending markets and/or in circumstances where there is a significant level of hedging in the periods beyond the designated QP period.

The physical metal is recognised when there is a stockpile in excess of a combined 2,000 dmt of concentrate available at the port and the 'Shed' which can result in an Early Payment invoice being issued.

The defined QP period is up to 6 months (dependent upon Freepoint declaration).

Due to the variable QP period which can be nominated by Freepoint, there are occasions when a mandatory hedge which are allocated to a shipment, will be liquidated and cash settled. This is likely to occur when MPMSS is declared or fixed price has been agreed with Freepoint and the QP period is likely to occur prior to shipment and also risk recognition for a proportion of the metal. The Execution team will liaise very closely with the Treasury Advisor to ensure that these transactions are timed to keep recognised risk and remaining hedging within policy (i.e. Price metal volume may at times be greater that risk recognised metal).

Instruments

All contracts which are required for QP will be aligned to Freepoint payments. In the current contracts these are Asian style (or averaging) swaps.