

HILLGROVE RESOURCES LIMITED

ACN 004 297 116

HILLGROVE
RESOURCES

PROSPECTUS

For a fully underwritten non-renounceable entitlement offer to Eligible Shareholders of approximately 5 million convertible notes (**Notes**) to be issued at a price of \$1.00 per Note on the basis of 1 Note for every 37.62 Shares held as at the Record Date (together with 37.62 free attaching Options for every 1 Note subscribed for and issued) to raise approximately \$5 million (**Entitlement Offer**).

**Eligible Shareholders may apply for Notes and Options
in excess of their Entitlement.**

This Entitlement Offer is fully underwritten by Ariadne Capital Pty Ltd.

The closing date of this Rights Issue is 13 December 2016.

IMPORTANT

This Prospectus provides important information about the Company and the securities being offered by the Company. You should read the entire document including the Entitlement and Acceptance Form. This Prospectus is a transaction-specific document issued in accordance with section 713 of the *Corporations Act 2001* (Cth). If you have any questions about the securities being offered under this Prospectus, or any other matter relating to an investment in the Company, you should consult your professional adviser.

If you do not lodge an Entitlement and Acceptance Form by 5pm (Adelaide time) on 13 December 2016, you will not be issued Notes and Options.

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IMPORTANT NOTICE

Prospectus

This Prospectus is issued by Hillgrove Resources Limited ABN 73 004 297 116 (**Company**) and is an invitation to Eligible Shareholders to participate in a non-renounceable entitlement offer of convertible notes (**Notes**) (with free attaching Options).

Accompanying this Prospectus is your personalised Entitlement and Acceptance Form which contains details of your Entitlement.

This Prospectus provides information for Eligible Shareholders to decide if they wish to take up their Entitlement and any Additional Notes (together with attaching Options) under the Top Up Facility.

The Entitlement Offer is non-renounceable which means that Eligible Shareholders who do not wish to take up all or any of their Entitlement are not permitted to sell their Entitlement on ASX. More detailed information in relation to how Eligible Shareholders may deal with their Entitlement is set out in Section 3.

For the purpose of section 283BH of the Corporations Act 2001 (Cth) (Corporations Act), the Notes can be described as debentures of the Company. The Notes are 'secured' in the sense that the Company and each of the Australian Subsidiaries has agreed to grant security to the Trustee in favour of Noteholders under the terms of the General Security Deeds in order to secure the Company's obligations to the Noteholders. However, as this security will not be a first ranking security, the Corporations Act specifies that the Notes cannot be described as "secured notes".

The information given in this Prospectus does not constitute investment advice or financial product advice. This Prospectus is of a general nature and has been prepared without taking into account your individual investment objectives, financial situation, tax position or particular investment needs. You should seek your own investment and/or financial advice.

Before deciding to participate in the Entitlement Offer, Shareholders should read the entire Prospectus. The information contained in individual sections is not intended to and does not provide a comprehensive review of the business or the financial affairs of the Company or the Notes and Options offered under this Prospectus. The Entitlement Offer does not take into account the investment objectives, financial situation or particular needs of the Shareholder. You should carefully consider the risks that impact on the Company in the context of your personal requirements (including your financial and taxation position) and seek professional guidance from your relevant professional adviser prior to deciding whether to invest in the Company. Some of the risks that you should consider are set out in Section 6 of this Prospectus.

Date of this Prospectus

This Prospectus is dated 22 November 2016. A copy of this Prospectus has been lodged with ASIC and has been provided to ASX Limited (**ASX**) in connection with an application to be made by the Company for the Notes and Options to be listed on ASX.

Neither ASIC nor ASX nor any of their respective officers or employees takes any responsibility for the content of this Prospectus. The fact that ASX has admitted the Company to the official list of ASX and may decide to grant official quotation in respect of the Notes and Options issued under this Prospectus is not to be taken in any way as an indication of the merits of the Company, the Entitlement Offer or the Notes and Options.

The expiry date of this Prospectus is 22 December 2017. No securities will be issued on the basis of this Prospectus later than the expiry date.

Transaction Specific Prospectus

This Prospectus is a transaction specific prospectus for an entitlement offer of Notes which are convertible into continuously quoted securities and Options to acquire continuously quoted securities (as defined in the Corporations Act). It has been prepared in accordance with section 713 of the Corporations Act and ASIC Corporations (Offers of Convertibles) Instrument 2016/83. The disclosure in this Prospectus is less than the disclosure required in an initial public offering prospectus or a prospectus prepared in accordance with section 710 of the Corporations Act.

In providing information in this Prospectus, regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisors with whom potential investors may consult.

Exposure Period

The Corporations Act prohibits the acceptance of an application for, or an issue of, the Notes in the seven calendar day period after the date of this Prospectus. This period is the Exposure Period. The Exposure Period may be extended by ASIC by up to a further seven days. The Company will not accept an application for nor will it issue any Notes (or attaching Options) on the basis of this Prospectus during the Exposure Period. Entitlement and Acceptance Forms received prior to the expiration of the Exposure Period will not be processed until after the Exposure Period. No preference will be conferred on Entitlement and Acceptance Forms received during the Exposure Period and all Entitlement and Acceptance Forms received during the Exposure Period will be treated as if they were simultaneously received on the Opening Date.

ASX quotation

The Company will apply to ASX within seven days after the date of this Prospectus for the Notes and Options issued under this Prospectus to be quoted on ASX. If ASX does not grant permission for the Notes and Options issued under this Prospectus to be quoted within three months after the date of this Prospectus, the provisions of Section 724(2) of the Corporations Act will apply.

IMPORTANT NOTICE (continued)

No representations other than as set out in this Prospectus

No person is authorised to give any information or to make any representation in connection with the Entitlement Offer that is not contained in this Prospectus. Any information or representation that is not in this Prospectus may not be relied upon as having been authorised by the Company, or its associates in connection with the Entitlement Offer. Except as required by law and then only to the extent so required, none of the Company, the Trustee, the Underwriter nor any of their respective associates warrants or guarantees the future performance of the Company, the Notes and Options or any Shares issued on conversion or exercise of the Notes or any return on any investment made pursuant to this Prospectus.

To the extent that this Prospectus contains forward looking statements which may (but need not) be identified by words such as 'may', 'could', 'believe', 'estimate', 'expects', 'intends', 'anticipates', 'project', 'foresee', 'likely', 'should', 'target', 'plan', 'consider', 'aim', 'will' and other similar words that import risks and uncertainties, these forward looking statements are not guarantees of future performance and are subject to various known and unknown assumptions, uncertainties and risk factors that are beyond the control of the Company and could cause the Company's actual results to differ materially from those expressed, implied or anticipated in those statements.

These and other risk factors are set out in Section 6. The Company cannot and does not give any assurance that results, performance or achievements expressed or implied by forward looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on such forward looking statements.

In addition, the information in this Prospectus on the past performance of the Company should not be relied upon as an indication of the likely future performance of the Company.

Company's website

Any references to documents included on the Company's website are provided for convenience only and none of the documents or other information on the website is incorporated by reference as content of this Prospectus.

Offering restrictions

This Prospectus and an Entitlement and Acceptance Form do not constitute an offer in any place or country in which, or to any person to whom, it would not be lawful to make such an offer.

The Prospectus and Entitlement and Acceptance Form will be sent only to Eligible Shareholders with registered addresses in Australia and New Zealand.

The Entitlement Offer is not being extended, and Notes will not be issued, to Shareholders with a registered address which is outside Australia and New Zealand. It is not practicable for the Company to comply with the securities laws of overseas jurisdictions (other than New Zealand) having regard to the number of overseas

Shareholders, the number and value of Notes these Shareholders would be offered and the cost to the Company of complying with regulatory requirements in each relevant jurisdiction.

This Prospectus may not be distributed in any country outside Australia and New Zealand.

The distribution of this Prospectus (including an electronic copy) in jurisdictions outside of Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

The Corporations Act prohibits any person from passing an Entitlement and Acceptance Form to another person unless it accompanies or is included in a paper copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Warning to New Zealand Shareholders

This Prospectus has been prepared to comply with the requirements of Australian law. No action has been taken to register the Notes or Options or otherwise permit an offering of Notes or Options in any jurisdiction outside of Australia and New Zealand.

The offer of Notes and Options to New Zealand residents under the Entitlement Offer, and any subsequent allotment of Shares upon conversion of those Notes or exercise of those Options, will be made in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002 (NZ)*. Therefore, the Company is not required to register a New Zealand prospectus or prepare and distribute a New Zealand investment statement to New Zealand resident security holders in respect of the Entitlement Offer.

Enquiries

If you have any questions in relation to the Entitlement Offer, the Notes or the Options please call the Company on (08) 7070 1698 between 8.30am and 5.30pm (Adelaide time), Monday to Friday, or contact your professional adviser.

Defined words and expressions

Some capitalised words and expressions used in this Prospectus have defined meanings. The Glossary in Section 10 defines these words and expressions.

The definitions specific to the Notes are in clause 14 of the Note Terms in Section 8. If there is any inconsistency in definitions between the Prospectus and the Note Terms, the definitions in the Note Terms prevail.

A reference to time in this Prospectus is to Adelaide time unless otherwise stated. A reference to \$, A\$, dollars and cents is to Australian currency unless otherwise stated. Some numbers in this Prospectus have been rounded.

Trading in the Notes and Options

The Company will have no responsibility and disclaims all liability (to the maximum extent permitted by law) to persons who trade Notes and Options they believe will be issued to them before they receive their Holding Statements, whether on the basis of confirmation of the allocation provided by the Company or the Registry or otherwise, or who otherwise trade or purport to trade Notes and Options in error or which they do not hold or to which they are not entitled.

If you are in any doubt as to these matters you should first consult your stockbroker, accountant or other professional adviser.

Holding statements confirming Applicants' allocations under the Entitlement Offer are expected to be sent to successful Applicants on or around 20 December 2016.

Taxation considerations

Section 5 of this Prospectus contains a summary of the tax consequences for potential Noteholders and is based on Australian tax law and administrative practice as at the date of this Prospectus. This summary is necessarily general in nature and is not intended to be definitive tax advice to Noteholders. Accordingly, each prospective Noteholder should seek their own tax advice, which is specific to their particular circumstances, as to the tax consequences of investing in, holding and disposing of the Notes.

Trustee

The Trustee, Australian Executor Trustees Limited:

- (a) has not authorised or caused the issue, submission, dispatch or provision of this Prospectus and does not make any statement or purport to make any statement in this Prospectus or any statement on which a statement in this Prospectus is based;
- (b) nor any of its directors, employees, officers, affiliates, agents, advisors, intermediaries or related body corporate (each a "related person") assumes any responsibility for the accuracy or completeness of any information contained in this Prospectus;
- (c) to the maximum extent permitted by law expressly disclaims all liability in respect of, makes no representation or any statement regarding, and takes no responsibility for, any part of this Prospectus, or any statements in, or omissions from this Prospectus, other than the references to its name and the statement(s) and/or report(s) (if any) specified below and included in this Prospectus with its written consent;
- (d) has given, and has not, before the lodgement of this Prospectus with ASIC withdrawn, its written consent to be named in this Prospectus in the form and content in which it is named;
- (e) nor any related person makes any representation as to the truth and accuracy of the contents of this Prospectus;
- (f) has relied on the Company for the accuracy of the contents of this Prospectus; and
- (g) nor any related person makes any representation or warranty as to the performance of the Notes or the payment of interest or redemption of the Notes.

Privacy Disclosure

Refer to the information in the privacy statement in Section 7.8.

Where can I obtain further information about the Company and the Notes and Options?

The Company is a disclosing entity for the purposes of the Corporations Act and as a result is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. In addition, the Company must notify ASX immediately (subject to certain exceptions) if it becomes aware of information about it that a reasonable person would expect to have a material effect on the price or value of its securities (i.e. its Shares and, if the Entitlement Offer is successfully concluded, the Notes and Options). Copies of documents lodged with ASIC and ASX can be obtained from, or inspected at, an ASIC office and can also be obtained from www.asx.com.au.

In addition, the following information can be obtained from www.hillgroveresources.com.au:

- the Company's half-yearly and annual financial reports;
- all continuous disclosure notices lodged by the Company with ASX; and
- all other general information provided by the Company to its Shareholders and investors.

CHAIRMAN'S LETTER

22 November 2016

Dear Shareholder,

On behalf of Hillgrove Resources Limited (**Company**), I am pleased to offer you the opportunity to increase your investment in the Company by participating in a non-renounceable entitlement offer of redeemable, convertible notes with a term of 3 years and a fixed interest rate of 6% per annum (**Notes**) (**Entitlement Offer**).

Each Note will have a Face Value of \$1.00 and will be convertible into Shares at a floating conversion price, which will be set by reference to the formula set out in Section 8 but is based on a maximum share price of 3 cents per Share.

Under the Entitlement Offer, Eligible Shareholders will be entitled to subscribe for 1 Note for every 37.62 Shares held at 28 November 2016 (together with 37.62 free attaching Options exercisable at \$0.03 each on or before 20 September 2017 for every 1 Note subscribed for and issued). Eligible Shareholders are also invited to apply for Additional Notes over and above their Entitlement under the Top Up Facility.

The Entitlement Offer is fully underwritten by Ariadne Capital Pty Ltd.

The Company intends to raise \$5,000,248 by undertaking the Entitlement Offer. The Options, if exercised, would raise up to a further \$5,643,279 in additional funds.

The funds raised pursuant to this Entitlement Offer will be used:

- to fund the cutback of the Giant Pit during a period of constrained cash flow;
- to cash back the \$1.6 million performance bond issued by Macquarie Bank Ltd in favour of Electranet Pty Limited; and
- for working capital purposes.

The Company expects to be readily able to meet all financial commitments under the Notes (i.e. to pay interest and to redeem the Notes as and when required under the Note Terms). Pursuant to the Guarantee, each of the Australian Subsidiaries has agreed to guarantee to the Trustee the Company and each other Australian Subsidiary's obligations under the Trust Deed, Note Terms and Guarantee (as applicable). The Notes will also be secured by security interests granted by the Company and the Australian Subsidiaries.

It is the intention of the Company that the Notes and Options will be quoted on ASX.

The Entitlement Offer is scheduled to close on 13 December 2016.

Full details of the Entitlement Offer, including the terms of issue of the Notes and the Options, the effect of the Entitlement Offer on the Company and the risks associated with an investment in the Notes and Options, are set out in this Prospectus. I encourage you to read the entire Prospectus carefully and consider all the risks before deciding whether to participate in the Entitlement Offer.

If you are uncertain whether the Notes and Options are a suitable investment for you, please consult your professional adviser for appropriate advice.

If you have any questions about the Entitlement Offer please call the Company on (08) 7070 1698 between 8.30am and 5.30pm (Adelaide time), Monday to Friday.

Shareholders have been aware of the Company's constrained cash flow for some time. The terms of this Entitlement Offer are the best that could be negotiated in the circumstances. Shareholders should be advised that those choosing not to participate in the Entitlement Offer, may suffer a significant dilution of their interests in, and so value in, the Company as and when Notes are converted or Options are exercised. Shareholders should seek the guidance of professional advisors regarding the impact of the Entitlement Offer on their shareholding in the Company.

The Directors encourage all Eligible Shareholders to participate in the Entitlement Offer and the Directors intend to take up their Entitlements.

Yours sincerely



Dean Brown AO
Chairman
Hillgrove Resources Limited

KEY DATES

Indicative timetable of key dates

Key Dates for the Entitlement Offer	Date
Lodgement of Prospectus with ASIC	22 November 2016
Securities commence trading on 'ex' rights basis	25 November 2016
Record Date (to identify Eligible Shareholders)	28 November 2016
Prospectus and Entitlement and Acceptance Forms despatched to Shareholders	30 November 2016
Opening Date for the Entitlement Offer	30 November 2016
Closing Date for the Entitlement Offer	5.00pm (Adelaide time) on 13 December 2016
Notes and Options begin trading on ASX on a deferred settlement basis	14 December 2016
Issue Date of Notes and Options Deferred settlement trading ends	20 December 2016
Holding Statements despatched	20 December 2016
Notes and Options commence trading on ASX (normal settlement basis)	21 December 2016
Key Dates for the Notes	Date
First Interest Payment Date ¹	30 June 2017
Maturity Date	20 December 2019
Key Dates for the Options	Date
Expiry Date ²	20 September 2017

¹ Interest is scheduled to be paid in arrears at the end of each half yearly Interest Period (being 31 December and 30 June of each year during the term of the Notes). The final Interest Period will end on the earlier of the Redemption Date, the Maturity Date and the Conversion Date. If any of the scheduled Interest Payment Dates is not a Business Day, then the due date for payment of Interest will be postponed to the next Business Day. If that occurs, the Noteholder is not entitled to any additional payment in respect of that delay.

² The Options will be exercisable on or before the Expiry Date, being the date that is 9 months after the Issue Date.

Dates may change

The key dates for the Entitlement Offer are indicative only and may change without notice.

The Company, in consultation with the Underwriter, may agree (without notice to any Shareholder or other person) to vary the timetable, including by extending the Closing Date, closing the Entitlement Offer early, accepting late Applications or withdrawing the offer made under the Entitlement Offer at any time before the Notes and Options are issued. If the offer made under the Entitlement Offer is withdrawn before the issue of the Notes and Options, all Application Moneys received by the Company will be refunded (without interest) to Applicants as soon as practicable after the withdrawal. In addition, ASIC may extend the Exposure Period by up to seven calendar days in which case the Opening Date for the Entitlement Offer and other dates may be varied accordingly without notice.

1. INVESTMENT OVERVIEW

IMPORTANT NOTICE

This Section provides a summary of the key features and risks of the Entitlement Offer and the Notes and Options. This Section is not intended to provide full information for Shareholders considering whether to take up their Entitlement.

If you wish to take up your Entitlement, it is important that you first read the Prospectus in full and it is recommended that you seek professional advice which takes into account your particular investment objectives, financial situation and needs from a professional adviser who is licensed by ASIC to give such advice.

Topic	Summary	Where to find more information
1.1 Overview of the Entitlement Offer		
What is the Entitlement Offer?	<p>The Entitlement Offer is a fully underwritten non-renounceable entitlement offer to Eligible Shareholders of approximately 5,000,000 convertible notes (Notes) to be issued at an issue price of \$1.00 per Note, on the basis of 1 Note for every 37.62 Shares held on the Record Date (together with 37.62 free attaching Options for every 1 Note subscribed for and issued) to raise approximately \$5 million.</p> <p>Eligible Shareholders may apply for Notes in excess of their Entitlement.</p>	Section 2.1
Who is making the Entitlement Offer?	<p>Hillgrove Resources Limited ACN 004 297 116 (Company).</p> <p>The Company was initially listed on ASX on 22 July 1994. It is an Australian mining company with a mix of producing and exploration assets.</p> <p>The Company is primarily focused on mining and production at its Kanmantoo open pit copper mine in South Australia.</p>	Section 4.1
What is the purpose of the Entitlement Offer?	<p>The funds raised pursuant to this Entitlement Offer will be used:</p> <ul style="list-style-type: none"> ■ to fund the cutback of the Giant Pit during a period of constrained cash flow; ■ to cash back the \$1.6 million performance bond issued by Macquarie Bank Ltd in favour of Electranet Pty Limited; and ■ for working capital purposes. 	Section 4.2
What are the Notes?	<p>The securities offered by the Company under the Entitlement Offer are redeemable, convertible notes (Notes) with a 3 year term and a fixed interest rate of 6% per annum.</p> <p>The Notes are:</p> <ul style="list-style-type: none"> ■ fully paid – the Issue Price of \$1.00 per Note must be paid to the Company before the Notes are issued; ■ redeemable – the Notes are subject to early redemption by the Company at a 20% premium to the Face Value of \$1.00 (subject to a right for Noteholders to elect to convert their Notes into Shares). Any Notes not converted or redeemed prior to the maturity date will be redeemed at Face Value; ■ secured – the Notes are secured by security (ranked as described below) granted by the Company and each of the Australian Subsidiaries to the Trustee under the terms of the General Security Deeds; ■ ranked, for security purposes, after Existing Senior Debt Obligations and Permitted New Debt – although they have priority over the Company's ordinary shares and the claims of unsecured creditors, the Notes rank behind the Company's Existing Senior Debt Obligations, any Permitted New Debt and the claims of other creditors with priority at law in a winding-up; and ■ convertible – the Notes are convertible by the Noteholder at a floating conversion price, which will be set by reference to the formula set out in Section 1.2 below and in Section 8 and is based on a maximum share price of 3 cents per Share. <p>Set out below in Section 1.2 is a detailed summary of the terms of the Notes.</p> <p>A full copy of the Note Terms is set out in Section 8.</p> <p>Rights and liabilities attaching to the Notes may also arise under the Corporations Act, the ASX Listing Rules and other applicable laws.</p>	Section 1.2 Section 8
Who is the Trustee?	<p>Australian Executor Trustees Limited has agreed to act as the trustee in relation to the Notes pursuant to the terms of the Trust Deed. The Notes are issued subject to the terms and conditions contained in the Trust Deed.</p> <p>Summaries of the Trust Deed and the General Security Deeds are set out in Section 7.4.</p> <p>The interest payments on the Notes are obligations of the Company and are not guaranteed by the Trustee or any of its directors, employees, officers, affiliates, agents, advisers, intermediaries, related body corporate or any other entity.</p> <p>The obligation to redeem the Notes in accordance with the Note Terms is a direct obligation of the Company. Neither the Trustee nor any of its directors, employees, officers, affiliates, agents, advisers, intermediaries, related body corporate or any other entity guarantees the redemption of or prepayment of any principal under the Notes.</p> <p>The Trustee is not responsible for monitoring the Company's compliance with the Trust Deed nor the Company's business.</p>	Section 7.4

Topic	Summary	Where to find more information
What are the Options?	<p>The Company is offering 37.62 free attaching Options for every 1 Note subscribed for and issued under the Entitlement Offer.</p> <p>The key terms of the Options are:</p> <ul style="list-style-type: none"> the Options will be issued for no consideration to Eligible Shareholders who subscribe for and are issued with the Notes under the Entitlement Offer; each Option will have an exercise price of \$0.03; and each Option may be exercised at any time before the date that is 9 months after the Issue Date (Expiry Date). An Option not exercised, automatically expires on the Expiry Date. <p>Set out below in Section 1.3 is a detailed summary of the terms of the Options.</p> <p>A full copy of the Options Terms is set out in Section 9.</p> <p>Rights and liabilities attaching to the Options may also arise under the Corporations Act, the ASX Listing Rules and other applicable laws.</p>	<p>Section 1.3</p> <p>Section 9</p>
ASX Quotation	<p>The Company will apply to ASX within seven days after the date of this Prospectus for the Notes and Options issued under this Prospectus to be quoted on ASX.</p> <p>If ASX does not grant permission for the Notes and Options issued under this Prospectus to be quoted within three months after the date of this Prospectus, the provisions of Section 724(2) of the Corporations Act will apply.</p> <p>If the Notes and Options issued under this Prospectus are accepted for quotation on ASX, the Company expects to issue the Notes and Options on or about 20 December 2016.</p>	Section 2.9
Important matters to be aware of	You should seek professional guidance from your financial or other professional adviser before deciding whether to invest.	Section 7.11
1.2 Key Features of the Notes		
<p><i>As this Section contains a summary only of the Note Terms, it is important that you read the information in the Prospectus (including the Note Terms) in full before you decide whether to apply for Notes. If you are unclear in relation to any aspect of the Entitlement Offer or the Note Terms, or if you are uncertain whether the Notes are a suitable investment for you, you should consult your professional adviser.</i></p>		
Issue Price/Face Value	\$1.00 per Note.	
Maturity Date	Unless earlier converted or redeemed, the Company will redeem all outstanding Notes at Face Value on the Maturity Date, being the third anniversary of the Issue Date.	
Interest Rate	6% per annum, payable half yearly in arrears (30 June and 31 December) until and including the Maturity Date (or the Conversion Date or Redemption Date).	
Conversion Rights	The Noteholder has the right to convert some or all of their Notes to Shares at any time prior to 10 business days before the Maturity Date on the basis set out below.	
Conversion Basis	<p>The Noteholder has the right to convert some or all of its Notes into a number of Shares determined by application of the following formula:</p> $\frac{A}{B} \quad \text{where:}$ <p>A = the Conversion Amount, being the aggregate Face Value of the Notes the subject of the relevant conversion notice; and</p> <p>B = the Conversion Price, being the lower of \$0.03 or the VWAP during the 30 days before the date of the relevant conversion notice.</p>	
Early Redemption by the Company	<p>The Company has the right to provide an early redemption notice to all outstanding Noteholders, at any time before the Maturity Date.</p> <p>The early redemption offer must be at a 20% premium to the Face Value and payable in cash.</p> <p>The redemption must not occur until at least 30 days after the date of the early redemption notice. If a Noteholder delivers a conversion notice no later than 5 Business Days prior to the proposed redemption date, the Noteholder may convert all or some of their Notes to Shares on the basis set out above, rather than have them redeemed.</p>	
Early Redemption – Change of Control Event	<p>Where a Change of Control Event occurs, the Company must provide a change of control notice to all outstanding Noteholders.</p> <p>The Noteholders will have 15 Business Days from the date of notice to elect to either convert their Notes to Shares on the basis set out above or to retain their Notes, otherwise the Notes will be redeemed early (at a 20% premium to the Face Value).</p>	

1. INVESTMENT OVERVIEW (continued)

Topic	Summary	Where to find more information
Guarantee and Security	<p>Pursuant to the Guarantee, each of the Australian Subsidiaries has agreed to guarantee to the Trustee the Company and each other Australian Subsidiary's obligations under the Trust Deed or the Guarantee (as applicable) in respect of the Notes.</p> <p>The Notes are secured by security granted to the Trustee by the Company and each of the Australian Subsidiaries under the terms of the General Security Deeds.</p> <p>The Trustee holds the rights under the General Security Deeds on trust for the benefit of the Noteholders in accordance with the terms of the General Security Deeds and the Trust Deed.</p> <p>A summary of the Guarantee and the General Security Deeds is set out in Section 7.4.</p>	
Ranking	<p>Each Note ranks for payment in a Winding Up of the Company:</p> <ul style="list-style-type: none"> ■ behind the Company's Existing Senior Debt Obligations, any new debt of the Company not exceeding \$3 million that is in the ordinary course of business and the terms of which are commercial, arm's length terms and do not contain any unusual or onerous terms (Permitted New Debt) and other creditors with priority at law; ■ equally with each other Note; ■ ahead of the Company's unsecured creditors; and ■ ahead of the Company's ordinary shareholders. <p>The Company's Existing Senior Debt Obligations comprise:</p> <ul style="list-style-type: none"> ■ the \$4 million facility agreement between the Company and the Minister for Finance of the South Australian Government dated 28 June 2016; and ■ the \$9.18 million bond in favour of the Minister for Mineral Resources and Energy of the South Australian Government, issued by the Company for the purposes of the section 62 of the <i>Mining Act 1971</i> (SA) pursuant to a deed poll dated 23 August 2016. 	
Trustee	<p>Australian Executor Trustees Limited has agreed to act as the trustee in relation to the Notes pursuant to the terms of the Trust Deed.</p>	
Negative Covenants	<p>For so long as any of the Notes remain outstanding, the Company must not and must procure that the Australian Subsidiaries do not, without the approval of Noteholders:</p> <ul style="list-style-type: none"> ■ sell significant assets or assets worth more than 10% of the gross assets of the Company and its Australian Subsidiaries; ■ declare or pay a dividend to Shareholders; ■ issue any further notes, shares or other securities (except the permitted issues to Roc-Drill and Emeco or Andy's as detailed in section 4.1(c) or an issue of Shares upon vesting of any Performance Rights granted by the Company as at 22 November 2016); ■ other than in respect of the Notes, redeem, purchase, cancel, reduce, return capital on or otherwise acquire any share or other securities issued by the Company or its Australian Subsidiaries for repayment or return of capital in a winding-up; ■ raise any further debt (except pursuant to (or to replace, refinance or extend the maturity of) the Existing Senior Debt Obligations or any Permitted New Debt); or ■ other than in the ordinary course of business, create or permit to exist a security interest over its assets (except to secure any Existing Senior Debt Obligations, any replacement, refinancing or extension of the Existing Senior Debt Obligations, or any Permitted New Debt). 	
Events of Default	<p>If certain events of default occur (as set out in the Note Terms), the Trustee may require the Company to redeem the Notes immediately at their Face Value and may take enforcement action against the Company and/or the Australian Subsidiaries in accordance with the Trust Deed, the Guarantee and the General Security Deeds.</p>	
Voting	<p>Noteholders do not have a right to vote at meetings of Ordinary Shareholders.</p> <p>Noteholders may vote at meetings for Noteholders in accordance with the Trust Deed.</p>	
Key Benefits	<ul style="list-style-type: none"> ■ Issued by the Company. ■ Term of 3 years. ■ Fixed interest rate of 6% per annum. ■ Interest paid half-yearly in arrears (30 June and 31 December). ■ Interest paid as 100% cash. ■ Interest is not deferrable by the Company and interest payments are not discretionary. ■ As the Notes are convertible into Shares, the Noteholders will have the opportunity to participate in any increase in the market price of the Shares above the initial conversion price. ■ The Notes may be sold on ASX prior to maturity. ■ The Notes provide investors with an opportunity to diversify their investment portfolio. 	

Topic	Summary	Where to find more information
1.3 Key Features of the Options		
<i>As this Section contains a summary only of the Options Terms, it is important that you read the information in the Prospectus (including the Option Terms) in full before you decide whether to apply for Notes. If you are unclear in relation to any aspect of the Options Terms, or if you are uncertain whether the Options are a suitable investment for you, you should consult your professional adviser.</i>		
Issue Price	The Options are issued as part of the Entitlement Offer on the basis of 37.62 Options for every 1 Note issued. No further consideration other than the payment of the Issue Price will be payable for the Options.	
Exercise Price	\$0.03 (subject to adjustment under the Option Terms in certain circumstances)	
Option Period	Each Option may be exercised at any time before the date that is 9 months after the Issue Date (Expiry Date).	
Expiry Date	An Option not exercised, automatically expires on the Expiry Date, which will be 9 months after the Issue Date.	
1.4 Effect of the Entitlement Offer		
Effect on capital structure	The Company currently has 188,109,342 Existing Shares and 9,410,500 Performance Rights on issue. Under the Entitlement Offer, the Company intends to issue 5,000,248 Notes and 188,109,329 Options. The effect of the Entitlement Offer on the capital structure of the Company is set out in a table in Section 4.2(c).	Section 4.2(c)
Effect on financial position	To illustrate the effect of the Entitlement Offer on the Company, a pro-forma statement of financial position has been prepared based on the financial position as at 30 June 2016 and is included in Section 4.2(d). The significant effect of the Entitlement Offer (assuming the Entitlement Offer is fully subscribed) will be to increase cash reserves and non-current liabilities by approximately \$5 million (before cash expenses of the Entitlement Offer which are estimated to be \$622,000) assuming a \$1.00 per Note subscription price.	Section 4.2(d)
Effect on control	If some Eligible Shareholders do not take up all or any of their Entitlements, they will have their shareholdings diluted if any Notes are converted or Options exercised. Furthermore, Shareholders who do not reside in Australia and New Zealand will be diluted by the Entitlement Offer. In the event no other Eligible Shareholders take up their Entitlements, the Underwriter is required to take up the whole of the underwritten balance of the Entitlement Offer and the Underwriter subsequently converts the Notes into Shares and exercises the Options, the relevant interest in the Company of the Underwriter's parent company, Ariadne Australia Limited, would increase from 16.27% to 70.99%.	Section 4.2
1.5 Key Risks of the Notes and Options		
<i>There are a number of risks associated with an investment in the Notes and Options. To understand these risks, you should read Section 5 of the Prospectus before deciding whether to invest.</i>		
Key risks associated with Company's business	The risks associated with the Company's business include the following: <ul style="list-style-type: none"> ■ Ore reserves may be lower than currently expected; ■ Mining methods may be unable to deliver on required production forecasts and recovery and dilution parameters; ■ A significant operational failure may result in an unplanned or extended shut down of operations and the incurring of unbudgeted capital expenditure; ■ Pit wall failure may lead to damage to equipment and/or injuries and/or loss of production; ■ Extended poor weather conditions can limit access to the pit and reduce or delay planned production; ■ Strategies for environmental protection and monitoring and pollution controls may be inappropriate; ■ A sustained drop in copper and other metals prices or unfavourable movements in foreign exchange rates can reduce revenues as copper is sold in US Dollars; and ■ A serious and sustained breach of conditions of the mineral leases relating to the Kanmantoo Copper Mine. ■ The Proposed Emeco Transaction does not proceed. 	Section 6.3
Key risks associated with the Entitlement Offer	The key risks associated with the Entitlement Offer include the following: <ul style="list-style-type: none"> ■ If you are an Eligible Shareholder and you allow your Entitlement to lapse, then you will not realise any value for your Entitlement. You should also note that if you do not take up your Entitlement and other Eligible Shareholders take up their Entitlements, your percentage shareholding in the Company may be diluted. ■ Where there is a Shortfall following the Closing Date, there may be a change to the balance of control of the Company as a result of the Underwriting Agreement. If the Underwriter is issued with 5,000,248 Notes and 188,109,329 Options, the Underwriter may be able to obtain control of the Company without paying a takeover premium. ■ If the Underwriting Agreement is terminated, this would have an adverse impact on the proceeds raised under the Entitlement Offer and the Company's sources of funding for its intended purpose. 	Section 6.4

1. INVESTMENT OVERVIEW (continued)

Topic	Summary	Where to find more information
Key risks associated with Notes	<p>The key risks associated with the Notes include the following:</p> <ul style="list-style-type: none"> the market price of Notes may fluctuate due to various factors that affect financial market conditions or factors relating to the Company. There may be volatility in the market price of Notes and this may result in a market price below the Issue Price of \$1.00 per Note. If you sell your Notes, you may not be able to do so at an acceptable price or at all (if insufficient liquidity exists in the market for Notes); the Notes rank behind the Company's Existing Senior Debt Obligations and any other creditors preferred by law on a winding-up of the Company. Therefore, notwithstanding the fact that the Notes are secured under the terms of the General Security Deeds, if there is a shortfall of funds on a winding-up, there is a risk that you will not receive a full (or any) repayment of your money invested in the Notes or payment of unpaid interest; as a Noteholder, the Note Terms provide you with specific exit rights prior to the Maturity Date. In addition, Notes can be realised before maturity by a sale on market or by private sale. As already noted, there is a risk that the sale price on market or by private sale may be less than the Issue Price; if early Redemption of the Notes occurs, you may not receive the expected returns on your investment (compared to holding the Notes to maturity), although a 20% premium to Face Value is payable where the Company gives an early redemption notice or a change of control notice; the Company may be unable to pay Interest or repay all or any of the money owed on the Notes on time or at all (however, under the Note Terms, default in payment is an Event of Default); and the Trustee has no obligation to monitor the Company's financial position, including the capacity of the Company to fulfil its obligations in relation to the Notes. 	Section 6.5
Key risks associated with Options	<p>The key risks associated with the Options include the following:</p> <ul style="list-style-type: none"> if you are an Optionholder and you do not exercise all of your Options before the Expiry Date, any Options not exercised will expire on the Expiry Date; and the market price of Options may fluctuate due to various factors that affect financial market conditions or factors relating to the Company. There may be volatility in the market price of Options. If you sell your Options, you may not be able to do so at an acceptable price or at all (if insufficient liquidity exists in the market for Options). 	Section 6.6
General risks	<p>The above risks are not an exhaustive list of the potential risks faced by Noteholders. There are a number of general commercial risk factors and general market risks that could adversely affect the Company's financial performance, position or prospects. You should carefully consider all the risk factors set out in Section 4-6 before deciding to invest in Notes and Options.</p>	Section 6.2
1.6 Details of the Entitlement Offer		
When is the Entitlement Offer Period?	The key dates, including details of the Entitlement Offer Period, are set out in the "Key Dates" section.	Key Dates
Is the Entitlement Offer underwritten?	<p>Yes. The Underwriter has agreed to fully underwrite the Entitlement Offer.</p> <p>Therefore, up to 5,000,248 Notes (and 188,109,329 Options) may be issued to the Underwriter or its nominee.</p>	Section 2.5
How will the expenses of the Rights issue be paid?	All of the expenses have been, or will be, borne by the Company.	Section 7.9
What is the structure of the Entitlement Offer?	<p>The Entitlement Offer is a pro rata non-renounceable entitlement offer made to Eligible Shareholders.</p> <p>Eligible Shareholders are entitled to subscribe for 1 Note for every 37.62 Shares held as at the Record Date (together with 37.62 free attaching options for every 1 Note subscribed for and issued).</p> <p>Eligible Shareholders can also apply for Additional Notes and Options if there are Notes and Options available because some Eligible Shareholders do not take up all of their Entitlements under the Entitlement Offer.</p> <p>Entitlements which are not taken up by the Closing Date will be taken up by the Underwriter.</p>	Section 2.1
Who is entitled to participate?	A registered holder of Shares shown on the Company's share register at 5.00pm Adelaide time on the Record Date with a registered address in Australia or New Zealand.	Section 2.2
How can I apply?	<p>Applications can be made by Eligible Shareholders by completing the Entitlement and Acceptance Form accompanying this Prospectus and sending it together with the relevant Application Moneys to the Company's Share Registry, Boardroom Pty Limited.</p> <p>For information on how to apply, see Section 5 and the Entitlement and Acceptance Form.</p>	Section 3
When to apply?	Your Entitlement and Acceptance Form must be received by the Closing Date.	Section 3. Key Dates

Topic	Summary	Where to find more information
What is my Entitlement?	The number of Entitlements that you have is set out on your Entitlement and Acceptance Form accompanying this Prospectus. If you did not receive your personalised Entitlement and Acceptance Form, you should call the Company on (08) 7070 1698 between 8.30am and 5.30pm (Adelaide time), Monday to Friday.	Section 3
Can I sell or transfer my Entitlements?	No. If you do not wish to take up your Entitlement, you will not be able to trade your Entitlement to another party and the right to take up your Entitlement will lapse on the Closing Date and your shareholding in the Company will be diluted.	Section 2.3
Can I apply for Notes in excess of my Entitlement?	Yes, pursuant to the Top Up Facility.	Section 2.4
How do I apply for Additional Notes and Options?	Eligible Shareholders can apply for Additional Notes and Options by completing Section B on the Entitlement and Acceptance Form accompanying this Prospectus. If more Additional Notes and Options are applied for than are available from the Shortfall under the Entitlement Offer, the Company, after consultation with the Underwriter, will scale back those Applications in its absolute discretion and excess Application Monies will be refunded without interest.	Section 2.4 Section 3.3
What are my choices?	You may either: <ul style="list-style-type: none"> ■ take up all your Entitlements; ■ take up all your Entitlements and apply for Additional Notes and Options; ■ take up only a portion of your Entitlements, in which case the balance of your Entitlements will lapse; or ■ do nothing, in which case your Entitlements will lapse. 	Section 3
What if I do nothing?	If you do not take up your Entitlements, your Entitlements will lapse. The Notes (and Options) representing your Entitlements may be sold to Eligible Shareholders who apply for Additional Notes and Options or to the Underwriter. Existing Shareholders' interests will be diluted on conversion of the Notes to Shares and exercise of the Options if they do not take up their Entitlements under the Entitlement Offer.	Section 3
Is brokerage, commission or stamp duty payable?	No brokerage or stamp duty is payable on your Application. You may have to pay brokerage on any subsequent trading of your Notes and Options on ASX after the Notes have been quoted on ASX.	Section 3
What are the tax implications of investing in Notes and Options?	Section 5 of this Prospectus contains a summary of the tax consequences for potential Noteholders and is based on Australian tax law and administrative practice as at the date of this Prospectus. This summary is necessarily general in nature and is not intended to be definitive tax advice to Noteholders. Accordingly, each prospective Noteholder should seek their own tax advice, which is specific to their particular circumstances, as to the tax consequences of investing in, holding and disposing of the Notes.	Section 5
When will the Notes and Options be issued?	The Company expects that the Notes and Options will be issued on 20 December 2016.	Key Dates
When will the Notes and Options begin trading?	The Company expects that the Notes and Options will begin trading on ASX on 14 December 2016 on a deferred basis and on 21 December 2016 on a normal settlement basis.	Key Dates
When will the Holding Statements be despatched?	The Company expects that the Holding Statements will be despatched on 20 December 2016.	Key Dates
1.7 What you need to do		
Action Required	See Section 3 for detailed instructions on what you need to do.	Section 3
1.8 More information		
If, after you read this Prospectus, you have any questions regarding the Entitlement Offer, the Notes or the Options, please contact your financial adviser or other professional adviser. You can also call the Company on (08) 7070 1698 between 8.30am and 5.30pm (Adelaide time), Monday to Friday.		

2. DETAILS OF THE ENTITLEMENT OFFER

2.1 Entitlement Offer details

The Company is offering for subscription approximately 5 million Notes at an issue price of \$1.00 per Note by way of a non-renounceable Entitlement Offer to raise approximately \$5 million.

Eligible Shareholders are being offered Notes on the basis of 1 Note for every 37.62 Shares held, together with 37.62 free attaching Options for every 1 Note subscribed for and issued.

The number of Notes and Options to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. Fractional entitlements will be rounded up to the nearest whole Note or Option.

Where the Company considers that holdings have been split in order to take advantage of this rounding, the Company reserves the right to aggregate holdings held by associated Eligible Shareholders for the purpose of calculating Entitlements.

Entitlement and Acceptance Forms must be returned with payment for the Notes (calculated on the basis of the Entitlement Offer Price) to the Share Registry before 5.00pm (Adelaide time) on the Closing Date.

2.2 Who is entitled to participate in the Entitlement Offer

Every shareholder registered as the holder of fully paid ordinary shares in the Company at 5.00pm Adelaide time on 28 November 2016, whose registered address is in Australia or New Zealand, is entitled to participate in the Entitlement Offer.

2.3 No trading of Entitlements

The Entitlements are non-renounceable. This means that Eligible Shareholders cannot sell their Entitlement if they do not wish to take up some or all of the Notes and Options to which they are entitled.

2.4 Top Up Facility

Eligible Shareholders may apply for Additional Notes and Options in addition to their Entitlement under the Top Up Facility. The price paid by Eligible Shareholders for each Additional Note will be \$1.00.

The Top Up Facility will operate if Eligible Shareholders do not apply to take up their Entitlement resulting in a shortfall between Applications received from Eligible Shareholders for their Entitlement and the number of Notes and Options proposed to be issued under the Entitlement Offer (**Shortfall**).

If the number of Additional Notes and Options applied for is less than that available from the Shortfall, all Eligible Shareholders will be allocated the number of Additional Notes and Options the Company determines in its absolute discretion, in consultation with the Underwriter. If more Additional Notes and Options are applied for than are available from the Shortfall under the Entitlement Offer, the Company, after consultation with the Underwriter, will scale back those Applications in its absolute discretion and excess Application Monies will be refunded without interest.

If there remains a Shortfall after the allocation of Additional Notes and Options under the Top Up Facility, the Underwriter will take up the shortfall in accordance with the Underwriting Agreement.

2.5 Underwriting

The Entitlement Offer is fully underwritten by the Underwriter to the Entitlement Offer, Ariadne Capital Pty Ltd.

Further details of the Underwriting Agreement, including the circumstances in which the Underwriter may terminate its obligations, are set out in Section 7.4.

2.6 Control

In the event no other Shareholders take up their Entitlements, the Underwriter is required to take up the whole of the underwritten balance of the Entitlement Offer and if the Underwriter subsequently converts the Notes into Shares and exercises the Options, the relevant interest in the Company of the Underwriter's parent company, Ariadne Australia Limited, would increase from 16.27% to 70.99%. This means that the Underwriter could obtain control of the Company without paying a takeover premium.

Further details of the effect of the Entitlement Offer on the Company's capital structure are set out in Section 4.2.

2.7 Commitment from Directors

The Directors (or their associated entities) intend to take up their Entitlements as follows:

Director	Entitlement to Notes offered under this Prospectus	Entitlement to Options offered under this Prospectus	Intention to take up all or part of Entitlement
The Hon Dean Brown	9,773	367,678	Yes
Mr Steven McClare	22,655	852,273	Yes
Mr John Gooding	624	23,490	Yes
Mr Maurice Loomes	27,925	1,050,569	Yes
Mr Philip Baker	2,658	100,000	Yes

2.8 Allotment of Notes and Options

The Company expects that the Notes and Options will be issued on 20 December 2016.

The Company expects that the Holding Statements will be despatched on 20 December 2016.

2.9 ASX Quotation

No later than 7 days after the date of this Prospectus, the Company will apply to ASX for the Notes to be quoted on ASX. The Company is not currently seeking quotation of its Notes on any financial market other than ASX. Trading in Notes is expected to commence on ASX, on a normal settlement basis, on or about 21 December 2016.

If ASX does not grant permission for official quotation of the Notes within three months after the date of this Prospectus, none of the Notes offered under this Prospectus will be issued, unless ASIC grants the Company an exemption permitting the issue.

If no issue is made, all Application Moneys paid for the Notes will be refunded without interest as soon as practicable.

The fact that ASX may agree to the quotation of the Notes is not to be taken in any way as an indication of the merits of the Company or the Notes offered for issue under the Entitlement Offer. ASX takes no responsibility for the contents of this Prospectus.

Normal settlement trading in the Notes, if quotation is granted, will commence as soon as practicable after the issue of Holding Statements to successful Applicants.

2.10 Termination of the Entitlement Offer

The Company reserves the right not to proceed with the Entitlement Offer (or any part of it) at any time before the issue of Notes. If the Company decides not to proceed with the Entitlement Offer, no Notes will be issued and all Application Moneys will be refunded (without interest).

2.11 Tax implications

Section 5 of this Prospectus contains a summary of the tax consequences for potential Noteholders and is based on Australian tax law and administrative practice as at the date of this Prospectus. This summary is necessarily general in nature and is not intended to be definitive tax advice to Noteholders. Accordingly, each prospective Noteholder should seek their own tax advice, which is specific to their particular circumstances, as to the tax consequences of investing in, holding and disposing of the Notes.

2.12 Non-eligible foreign Shareholders

This Prospectus and an Entitlement and Acceptance Form do not constitute an offer in any place or country in which, or to any person to whom, it would not be lawful to make such an offer.

The Prospectus and Entitlement and Acceptance Form will be sent only to Eligible Shareholders with registered addresses in Australia and New Zealand.

The offer constituted by this Prospectus is permitted under the laws of New Zealand. Accordingly, Eligible Shareholders with a registered address in New Zealand may apply for Notes and Options and Additional Notes and Options.

The Company is of the view that it is unreasonable to extend the Entitlement Offer outside Australia and New Zealand, having regard to:

- the number of Shareholders with a registered address outside of Australia and New Zealand;
- the number and value of the Notes which would be offered to those Shareholders; and
- the cost of complying with the legal and regulatory requirements in the respective overseas jurisdictions.

The Entitlements of non-eligible foreign Shareholders will form part of the Shortfall.

2.13 Notice to nominees and custodians

Eligible Shareholders holding Shares on behalf of persons who are resident overseas are responsible for ensuring that taking up their Entitlement does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Entitlement and Acceptance Form will be taken by the Company to constitute a representation that there has been no breach of such regulations. Eligible Shareholders who are nominees are therefore advised to seek independent advice as to how they should proceed.

2.14 CHESS and Issuer Sponsorship

The Company is a participant in CHESS, for those Eligible Shareholders who have, or wish to have, a sponsoring stockbroker. Eligible Shareholders who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to Eligible Shareholders. Instead, Eligible Shareholders will be provided with a statement (similar to a bank account statement) that sets out the number of Notes and Options allotted to them under this Entitlement Offer. The notice will also advise holders of their Holder Identification Number or Securityholder Reference Number and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

2.15 Enquiries

If you have any questions about the Entitlement Offer please call the Company on (08) 7070 1698 between 8.30am and 5.30pm (Adelaide time), Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether Notes and Options are a suitable investment for you, you should seek professional advice from your professional adviser.

3. ACTION REQUIRED BY ELIGIBLE SHAREHOLDERS

3.1 Options for Eligible Shareholders

The Entitlement and Acceptance Form details the number of Notes and Options to which Eligible Shareholders are entitled. Eligible Shareholders may take any of the following actions (including a combination of the options):

- take up all or part of their Entitlement (see Section 3.2);
- apply for Additional Notes under the Top Up Facility (see Section 3.3); and
- allow all or part of their Entitlement to lapse (see Section 3.4).

3.2 Take up all or part of your Entitlement

Eligible Shareholders who wish to take up all or part of their Entitlement should complete the accompanying personalised Entitlement and Acceptance Form in respect of that part of their Entitlement that they wish to take up in accordance with the instructions set out on that form and forward it, together with payment for the Notes (see Section 3.5) to:

Boardroom Pty Limited
GPO Box 3993
Sydney, New South Wales 2001

Completed Entitlement and Acceptance Forms must be received by no later than 5.00 pm (Adelaide time) on 13 December 2016, together with Application Monies.

Eligible Shareholders who intend to forward their Entitlement and Acceptance Form by post should be aware of the lengthened delivery time for mail sent with Australia Post.

3.3 Apply for Additional Notes and Options

If you are an Eligible Shareholder you may, in addition to taking up all of your Entitlement, apply for Additional Notes and Options by completing Section B on the Entitlement and Acceptance Form. Additional Notes and Options will only be available where there is a shortfall between Applications received from Eligible Shareholders and the number of Notes and Options proposed to be issued under the Entitlement Offer.

If you are applying for Additional Notes and Options, you only need to submit one completed Entitlement and Acceptance Form to the address set out in Section 3.2. Your payment of Application Monies should be for the full amount of your Application being:

- the amount payable in relation to your Entitlement; plus
- the amount payable in relation to any Additional Notes for which you have applied.

The completed Entitlement and Acceptance Form must be received by no later than 5.00 pm AEST on 13 December 2016, together with Application Monies.

While you are assured of receiving your Entitlement in full, allocations of Additional Notes and Options may be scaled back by the Company, in consultation with the Underwriter, in its absolute discretion. There is no assurance that Eligible Shareholders will be allocated any Additional Notes and Options.

If you are allocated a number of Additional Notes and Options which is less than you applied for, you will be refunded excess Application Monies without interest. Any interest earned on Application Monies will be, and will remain, the property of the Company.

3.4 Allow all or part of your Entitlement to lapse

If you do not take up all of your Entitlement before 5.00 pm (Adelaide time) on 13 December 2016 then that part of your Entitlement not taken up (**Unallocated Rights**) will become part of the Top Up Facility for Eligible Shareholders. You will receive no value for your Unallocated Rights.

If you do nothing and allow your Entitlement to become part of the Top Up Facility, although you will continue to own the same number of Shares, your shareholding may be diluted on Conversion of any of the Notes or exercise of the Options.

If your Unallocated Rights are not subscribed for in the Top Up Facility, then the underlying Notes and Options may be subscribed for by the Underwriter or any sub-underwriter in accordance with the Underwriting Agreement.

Rights of Non-Participating Foreign Shareholders will be offered as part of the Top Up Facility.

3.5 Payment for Notes

Payment should be made using BPAY® if possible. Eligible Shareholders who do not have an Australian bank account and other Eligible Shareholders who are unable to pay by BPAY®, will be able to pay by cheque, bank draft or money order (see below at Section 3.5(b)).

Cash payments will not be accepted. Receipts for payment will not be issued.

The Company will treat you as applying for as many Notes as your payment will pay for in full up to your Entitlement and any Additional Notes applied for under the Top Up Facility.

Any Application Monies received for more than your final allocation of Notes will be refunded as soon as practicable after the close of the Entitlement Offer. No interest will be paid to Applicants on any Application Monies received or refunded.

(a) Payment by BPAY®

For payment by BPAY®, please follow the instructions on your personalised Entitlement and Acceptance Form. You can only make payment via BPAY® if you are the holder of an account with an Australian financial institution that supports BPAY® transactions.

Eligible Shareholders considering using BPAY® should consult directly with their financial institution to confirm there are no restrictions on their account which may impact their ability to use BPAY® to participate in the Entitlement Offer.

If you are paying by BPAY®, please make sure you use the specific Biller Code and your unique Customer Reference Number (CRN) on your personalised Entitlement and Acceptance Form.

If you have multiple holdings and consequently receive more than one personalised Entitlement and Acceptance Form, when taking up your Entitlement in respect of one of those holdings only use the CRN specific to that holding. If you do not use the correct CRN specific to that holding your Application will not be recognised as valid.

Please note that by paying by BPAY®:

- you do not need to submit your personalised Entitlement and Acceptance Form but are taken to make the declarations, representations and warranties on that Entitlement and Acceptance Form; and
- if you do not pay for your full Entitlement, you are deemed to have taken up your Entitlement in respect of such whole number of Notes which is covered in full by your Application Monies.

It is your responsibility to ensure that your BPAY® payment is received by the Share Registry by no later than 5.00pm (Adelaide time) on 13 December 2016. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when you make payment.

(b) If you are unable to pay by BPAY®

If you are unable to pay by BPAY®, you are able to pay by cheque, bank draft or money order. The Company encourages payments by BPAY® if possible.

For payment by cheque, bank draft or money order, you should complete your personalised Entitlement and Acceptance Form in accordance with the instructions on the form and return it accompanied by the cheque, bank draft or money order in Australian currency for the amount of the Application Monies, payable to 'Hillgrove Resources Limited - Entitlement Offer' and crossed 'Not Negotiable'.

Your completed Entitlement and Acceptance Form and cheque, bank draft or money order must reach the Company's share registry at the address set out on the Entitlement and Acceptance Form by no later than 5:00pm (Adelaide time) on 13 December 2016.

Your cheque, bank draft or money order must be:

- for an amount equal to \$1.00 multiplied by the number of Notes for which you are applying; and
- in Australian currency drawn on an Australian branch of a financial institution.

Payment cannot be made in New Zealand dollars. New Zealand resident Shareholders must arrange for payment to be made in Australian dollars.

If paying by cheque, you should ensure that sufficient funds are held in relevant account(s) to cover the Application Monies as your cheque will be processed on the day of receipt. If the amount of your cheque, bank draft or money order for Application Monies (or the amount for which the cheque, bank draft or money order clears in time for allocation) is insufficient to pay in full for the number of Notes for which you have applied on your personalised Entitlement and Acceptance Form, you will be taken to have applied for such lower whole number of Notes as your cleared Application Monies will pay for (and to have specified that number of Notes on your personalised Entitlement and Acceptance Form). Alternatively, your Application will not be accepted.

Application Monies will be held on trust for Applicants until issue of the Notes. Interest earned on Application Monies will be for the benefit of the Company and will be retained by it whether or not Notes are issued.

4. THE COMPANY, THE PURPOSE OF THE ENTITLEMENT OFFER AND THE EFFECT OF THE ENTITLEMENT OFFER ON THE COMPANY

4.1 Business of the Company

(a) Background

Hillgrove Resources Limited is an Australian mining company listed on ASX focused on developing its flagship Kanmantoo Copper Mine and associated regional exploration targets, located less than 55km from Adelaide in South Australia.

The Company has approximately 245 site based employees and contractors at Kanmantoo and at head office.

Presently the Company is mining at the rate of approximately 20 million tonnes per annum and produces up to 20,000 tonnes of copper per annum.

Annual export earnings are in a range of \$140 million to \$170 million per annum.

With over \$60 million invested in the cutback of the Giant Pit, the Company expects to complete the final stripping in the next seven months and it then has the potential to generate significant free cash-flows at very low stripping ratios.

The Company's goal is to become a mid-tier gold and copper/gold resources group. The Company's growth will come from the Kanmantoo Copper Mine operation in South Australia and exploration discoveries from its highly prospective near mine and greenfield exploration projects.

(b) Who are the Directors?

The Hon. Dean Brown, AO (Chairman)

Dean is a former Premier and Minister of the South Australian Government and was a Member of the South Australian Parliament from 1973 to 1985 and from 1992 to 2006. Dean was also Deputy Premier and Leader of the Opposition during that time. He was a Director of AACM International Pty Ltd (from 1986 to 1992), a Senior Agricultural Scientist, the Premier's Special Advisor on Drought (between 2007 and 2011), a Director of the National Youth Mental Health Advisory Board (Headspace) (between 2006 and 2009) and Chairman of InterMet Resources Limited (between 2008 and 2013).

Dean undertakes corporate advisory consulting to a variety of companies and has also been a Director of Scantech Limited since 2007, Chairman of the Playford Memorial Trust (member since 2008 and Chairman since 2011), a Director of Foodbank SA since 2006, a Director of Mission Australia since 2012, Chairman of Skills IQ and is also a member of several advisory Boards.

Steven McClare (Chief Executive Officer & Managing Director)

Steve joined the Company in September 2012 as the General Manager Operations at the Kanmantoo Copper Mine and in May 2015 he was promoted to Chief Executive Officer and Managing Director. Previously the Deputy General Manager, then Head of Mining Operations for Newcrest Mining's Cadia Valley Operations, Steve has spent a significant portion of his career constructing, ramping up and optimising mining operations, including Telfer, Cadia Hill, Ridgeway Deeps and Cadia East for Newcrest, and Callie for Newmont. With a background that includes management

of Normandy's White Devil Mine, and also various roles within Mount Isa Mines and a work/study Mining Engineering Cadetship with Western Collieries he joined the industry in 1989. Steve has significant experience within industry ranging from underground operations of 150ktpa to 26mtpa, and to open pit operations of 2mtpa to 24mtpa.

John Gooding (Non-Executive Director)

John is a Mining Engineer with over 40 years' experience in the resources industry. He has held executive management positions with CRA, Normandy Mining, MIM, Xstrata (CEO Xstrata Copper Australia), Ok Tedi Mining and Roche Mining. John has extensive experience in gold and base metal mining (both open-cut and underground) through the management and operation of mines in Australia and internationally. He has been a Board member of the PNG Chamber of Mines and Petroleum since 2009 and has previously held directorships in a number of companies within the resources industry. John is Managing Director and CEO at Highlands Pacific Limited (since 2007).

Maurice Loomes (Non-Executive Director)

Maurice joined the Board in 2013. Maurice has a Bachelor of Commerce (Econ Hons) and over 40 years experience in investment analysis and strategy gained across many industries, including roles at Bain and Company, Industrial Equity Limited, Westmex Limited, Guinness Peat Group PLC and many others. He has also held numerous directorships of public companies including CIC Australia Limited (between 1994 and 2013), Guinness Peat Group PLC (between 1996 and 2000), Tower Limited (between 2003 and 2005) and Calliden Group Ltd (between 2000 and 2014). Maurice has been a Non-Executive Director of Ariadne Australia Limited (a significant shareholder of the Company and the parent company of the Underwriter) since 2004.

Philip Baker (Non-Executive Director)

Phil is a Certified Practising Accountant with over 30 years in the mining industry. He started with MIM Holdings in 1980 undertaking various roles before leading the development and construction of the Ernest Henry copper/gold mine from 1995 to 1997, and then was responsible for the copper refinery and other operations in north Queensland. He became Group Treasurer and later EGM - Strategy, Planning and Development, before leaving MIM in 2003. Phil was then CFO and Company Secretary at Peplin Limited and later QMAG Limited before joining Lihir Gold Limited in 2007 as CFO, serving as CEO for three months in 2010 before the takeover by Newcrest Ltd. After a period consulting to the resources industry, Phil joined Rio Tinto in 2012 as CFO of Pacific Aluminium to help prepare it for divestment, leaving in late 2013 when it was reintegrated into Rio Tinto Alcan.

(c) Further information concerning the Company

This Prospectus is issued by the Company in accordance with the provisions of the Corporations Act applicable to a prospectus for continuously quoted securities. It has been prepared in accordance with section 713 of the Corporations Act and ASIC Corporations (Offers of Convertibles) Instrument 2016/83. It is a transaction specific prospectus and, as such, it does not contain the same level of disclosure as an initial public offering prospectus.

As a disclosing entity, the Company is subject to regular reporting and disclosure obligations. As a listed company, the Company is subject to the ASX Listing Rules which require, subject to certain exceptions, immediate disclosure to the market of any information of which the Company is aware which a reasonable person might expect to have a material impact on the price or value of the Shares.

The Company wishes to disclose the following information that, as at the date of this Prospectus, has not been included on a continuous disclosure notice issued by the Company:

i. Cash flow constraints

In its half-year financial report for 30 June 2016, the Company advised that it needed to raise additional debt and equity funding of \$15 million to bridge forecast cash-flow gaps for the period from October 2016 to February 2017.

In its 30 September 2016 Quarterly report the Company announced that an updated Mineral Resource and Ore Reserve estimate (MRE) had been released which increased the ore reserve estimate by 5,400t copper metal (10%) and the updated long term mine plan and cash flow forecasts based on the new MRE resulted in:

- The \$15.0 million cashflow gap had been reduced to between \$5.0 million and \$10.0 million, subject to copper prices; and
- The peak deficit period has been deferred from March 2017 to June 2017.

Since the quarterly was released the Company has been able to take advantage of the increased copper prices and has put A\$ copper hedges in place to cover 90% of all production from December 2016 to mid-January 2017, at a minimum average price of A\$6,900 per tonne.

Based on this hedging and the current spot copper and foreign exchange rates (US\$5,400 per tonne and A\$/US\$ 0.733 as at 21 November 2016), the cashflow gap has been reduced to below \$5.0 million. The discounted contract mining rates which will apply from November 2016 (subject to the Proposed Emeco Transaction proceeding – detailed below) will further reduce the cashflow gap during the critical period until June 2017.

ii. Arrangements with Andy's and Emeco

The Company's subsidiary, Hillgrove Copper Pty Ltd (**Hillgrove Copper**), is party to a Supply Agreement for fully maintained mining equipment with Andy's Earthmovers (Asia Pacific) Pty Ltd (**Andy's**) (**Rental Agreement**), the term of which extends until 16 September 2019.

Pursuant to a proposed transaction announced by Emeco Holdings Limited (**EHL**) on 23 September 2016 (**Proposed Emeco Transaction**), Andy's will become a wholly owned subsidiary of EHL, with completion of the Proposed Emeco Transaction expected to occur in early January 2017.

As announced on 22 November 2016, the Company has entered into an agreement with EHL to vary the Rental Agreement (**Rental Agreement Variation**). The Rental Agreement Variation is conditional upon the Proposed Emeco Transaction completing.

At the scheduled completion date for the Proposed Emeco Transaction, Hillgrove Copper is expected to owe approximately \$10.2 million in outstanding payables to Andy's.

Pursuant to the Rental Agreement Variation, the parties have agreed to a payment plan in respect of the outstanding payables and to recognise a deferred future premium charge of approximately \$5 million as owing by Hillgrove Copper to Andy's, which will be payable by Hillgrove Copper in monthly instalments commencing on 1 November 2017 and ending on 1 June 2018.

The parties have agreed that the interest payable on those instalments will be payable by the Company by the issue of 9,405,467 Shares in the Company (approximately 5% of the current issued capital of the Company).

The parties have also agreed to a substantial discount in the charge rates under the Rental Agreement, until September 2019.

iii. Alternative Andy's Agreement

The Company is in the process of finalising alternative arrangements with Andy's that would apply in the event the Proposed Emeco Transaction does not proceed. The alternative arrangements with Andy's would:

- amend the payment terms on its \$10.2 million creditor balance;
- defer \$3.2 million of its outstanding creditor balance until 1 July 2017, with the amount to be paid determined by the copper price; and
- require the Company to issue up to 18,058,496 Shares to Andy's in return for a \$1.8 million debt for equity swap. The Shares would not be issued until January 2017, which is after the Record Date and therefore Andy's would not be eligible to participate in the Entitlement Offer.

iv. Roc-Drill Agreement

Hillgrove Copper and Roc-Drill Pty Ltd (Roc-Drill) entered into a Supply Agreement for Drilling Services dated 16 September 2013.

As announced on 22 November 2016, the Company has reached agreement with Roc-Drill to amend the payment terms on its creditor balance of approximately \$4.47 million. Under the agreement:

- the parties have agreed to a payment plan for weekly payments to be made by Hillgrove Copper to Roc-Drill during the period to 31 January 2017;
- Roc-Drill has agreed to defer payment of \$1.35 million of its outstanding creditor balance until 1 July 2017, when Hillgrove Copper will pay an amount based on a sliding scale copper price with less than the full amount payable below a copper price of A\$7,400 per tonne and more than the full amount payable above that price;
- the Company will issue 10,157,905 Shares to Roc-Drill (or its nominee) on or before 16 December 2016 in return for a \$1,015,790 debt for equity swap;
- the Company will pay out the remaining balance in the normal course of business on agreed payment terms; and

4. THE COMPANY, THE PURPOSES OF THE ENTITLEMENT OFFER AND THE EFFECT OF THE ENTITLEMENT OFFER ON THE COMPANY (continued)

- any invoices rendered after 1 July 2017 that are not paid within 10 business days of their due date will become secured by a general security in favour of Roc-Drill that will rank behind the security for the Existing Senior Debt Obligations, and the security granted to the Trustee in respect of the Notes.

The Company will make further announcements in respect of any such matters in accordance with its disclosure obligations as and when material developments occur.

Investors requiring further information about the Company or who may wish to view a record of the Company's announcements to ASX may do so by visiting the Company's website – www.hillgroveresources.com.au or from the ASX website – www.asx.com.au. This Prospectus is intended to be read in conjunction with all information concerning the Company which has been previously publicly disclosed by the Company.

For further information on the announcements made by the Company to ASX, refer to Section 7.2.

4.2 Purpose of the Entitlement Offer and Effect of the Entitlement Offer on the Company

Under the Entitlement Offer made in this Prospectus, the Company is seeking to raise up to \$5,000,248 by the issue of Notes, each for an Issue Price of \$1.00 per Note. The Options, if exercised, would raise up to \$5,643,279 in additional funds.

In this Section, details are provided on the use of the funds raised under the Entitlement Offer, the costs of the Entitlement Offer and, more particularly, the effect of the Entitlement Offer on the capital structure and financial position of the Company.

(a) Use of funds

The Company is undertaking the Entitlement Offer in order to bridge the Company's anticipated constrained cash flow in the period between November 2016 and June 2017 (as previously disclosed by the Company). The constrained cash flow has arisen from a change in the life of mine plan which has had the effect of deferring copper production during this period, which in turn will reduce the cash available to complete the cutback of the Giant Pit,

The funds raised from the issue of Notes under the Entitlement Offer will be used:

- to fund the cutback of the Giant Pit during a period of constrained cash flow;
- to cash back the \$1.6 million performance bond issued by Macquarie Bank Ltd in favour of Electranet Pty Limited. Under the bond agreement with Macquarie, \$0.8 million of the bond must be cash backed in December 2016, and the remaining \$0.8 million cash backed in March 2017, but the full amount must be cash backed in the event of a debt raising under the agreement with Macquarie; and
- for working capital purposes.

Following the completion of the Giant Pit cutback, the Company's operations should generate cash to repay the Company's debt and enhance the Company's balance sheet. The Company will then be in a position to review the most suitable pathway to return value to its Shareholders.

(b) Costs of the Entitlement Offer

The total estimated expenses of the Entitlement Offer (payable by the Company if the Entitlement Offer is successfully completed), including legal fees, lodgement fees, listing fees, Registry expenses and administrative and miscellaneous expenses are approximately \$622,000 (excluding GST). The following table shows a breakdown of the estimated costs of the Entitlement Offer (excluding GST):

Type of cost / expense	
Underwriter	\$300,000
Legal	\$110,000
Administrative costs*	\$164,000
Registry	\$25,000
Trustee	\$23,000
Total	\$622,000

* including lodgement fees, listing fees, accounting fees, underwriter's costs and other administrative and miscellaneous expenses such as printing.

(c) Effect of the Entitlement Offer on the Capital Structure

The effect of the Entitlement Offer (and the conversion of the Notes and exercise of the Options) on the capital structure of the Company is set out in the table below. The table excludes any Shares that may be issued to Emeco, Andy's or Roc-Drill (as detailed above in Section 4.1(c)(ii), (iii) and (iv)). For the purpose of the following table, it is assumed that:

- 5,000,248 Notes and 188,109,329 Options are subscribed for under this Prospectus;
- all of the Notes are converted into Shares and all of the Options are exercised;
- no Notes are repurchased and/or cancelled prior to the Maturity Date;
- the Conversion Price for the Notes is \$0.03; and
- no other issues of Shares or securities convertible into Shares take place in the period prior to the Maturity Date (and, as a result, no adjustment in the Conversion Price is required or made under the Note Terms).

	Shares	Performance Rights ¹	Notes	Options
Existing securities as at date of Prospectus	188,109,342	9,410,500	-	-
New securities issued under Entitlement Offer	-	-	5,000,248 ²	188,109,329 ³
Shares on conversion of Notes ⁴	166,674,933	-	-	-
Shares on exercise of Options ⁵	188,109,329	-	-	-
Total securities on issue following completion of the Entitlement Offer, conversion of the Notes and exercise of the Options	542,893,604	9,410,500	-	-

¹ The Company has an ownership-based compensation plan for executives and key employees. In accordance with the provisions of the Hillgrove Resources Option and Performance Rights Plan, Directors may issue performance rights to the company executives and key employees. The performance rights are granted for no consideration and entitle the holder to be issued one Share per performance right upon vesting, as long as the holder remains employed by the Company and specified performance hurdles are met. The performance rights are not listed, carry no rights to dividends and no voting rights.

² Based on 1 Note being issued for every 37.62 Shares held as at the Record Date.

³ Based on 37.62 Options being issued for every 1 Note subscribed for and issued under the Entitlement Offer.

⁴ Notes are able to be converted into Shares in accordance with the Note Terms at specific times up to the Maturity Date. The number of Shares issued on conversion is determined by dividing the aggregate Face Value of the Notes to be converted by the Conversion Price (refer to the Note Terms in Section 8).

⁵ Options are able to be exercised in accordance with the Option Terms. Each Option entitles the Optionholder to be issued with 1 Share upon exercise of the Option (refer to the Option Terms in Section 9).

(d) Effect on the financial position of the Company

To illustrate the effect of the Entitlement Offer on the Company, a pro-forma statement of financial position has been prepared based on the financial position as at 30 June 2016.

The Company's half-year financial report for 30 June 2016 was reviewed by Deloitte in accordance with Australian Auditing Standards relating to Review engagements. The auditors did not express a conclusion on the financial statements as there was no certainty the Company could raise capital in the following 12 months.

The pro-forma statement of financial position shows the effect of the Entitlement Offer as if the Notes and Options offered under this Prospectus had been issued on 30 June 2016 and assumes that the Entitlement Offer is fully subscribed.

The accounting policies adopted in preparation of the pro-forma statement of financial position are consistent with the policies adopted and as described in the Company's financial statements for the full year ended 31 December 2015.

The significant effect of the Entitlement Offer (assuming the Entitlement Offer is fully subscribed) will be to increase cash reserves and non-current liabilities by approximately \$5 million (before cash expenses of the Entitlement Offer which are estimated to be \$622,000) assuming a \$1.00 per Note subscription price.

The pro-forma statement of financial position has not been subject to an audit or review.

Balance Sheet Extract for Prospectus

	Half year Reviewed 30/06/2016	Debt Restructure ¹ 30/06/2016	Note Issue ²	Pro-forma Post-notes 30/06/2016
Current Assets	27,596	(18,381)	4,378	13,593
Cash & receivables	9,296	(4,025)	4,378	9,649
Inventories	3,944			3,944
Derivatives	14,356	(14,356)		-
Non-current Assets	67,056	0	0	67,056
PP&E	61,385			61,385
Exploration	815			815
DTA	4,856			4,856
Current Liabilities	51,307	(17,423)	0	33,884
Payables	28,352			28,352
Borrowings - USD Loan	17,423	(17,423)		-
Borrowings - other	877			877
Provisions	4,655			4,655
Non-current Liabilities	14,790	0	4,378	19,168
Notes - debt component ³	0		3,525	3,525
Notes - embedded derivative	0		1,475	1,475
			5,000	5,000
Notes - costs capitalised	0		(622)	(622)
Borrowings - other	6,707			6,707
Provisions	8,083			8,083
Net Assets / Equity	28,555	(958)	4,378	27,597

¹ The hedge book was closed and USD debt repaid in August 2016

² Based on gross proceeds of \$5.0m less costs assumed of \$0.622m

³ Accounting standards require the debt component of a compound financial instrument to be valued separately from the conversion feature of the instrument which is called an embedded derivative. The debt component will be amortised to future P&L according to the unwinding of present value whilst the embedded derivative will be measured periodically at fair value as affected by future changes in Hillgrove share price.

4. THE COMPANY, THE PURPOSES OF THE ENTITLEMENT OFFER AND THE EFFECT OF THE ENTITLEMENT OFFER ON THE COMPANY (continued)

4.3 Effect of Entitlement Offer and Underwriting Agreement on control

The exact effect on control depends upon the extent to which Eligible Shareholders participate in the Entitlement Offer.

If some Eligible Shareholders do not take up all or any of their Entitlements, they will have their shareholdings diluted. Furthermore, Shareholders who do not have a registered address in Australia and New Zealand and are therefore not Eligible Shareholders, will be diluted by the Entitlement Offer.

Depending on the extent to which Eligible Shareholders take up their Entitlements under the Entitlement Offer, the dilutive effects of the Underwriting Agreement will differ.

Ariadne Australia Ltd (the parent company of the Underwriter) currently has a relevant interest in 16.27% of the Company's issued share capital.

In the event no other Eligible Shareholders take up their Entitlements, the Underwriter is required to take up the whole of the underwritten balance of the Entitlement Offer and if the Underwriter subsequently converts the Notes into Shares and exercises the Options, Ariadne Australia Limited's relevant interest in the Company would increase to 70.99%. This means that Ariadne Australia Limited could obtain control of the Company without paying a takeover premium.

5. AUSTRALIAN TAXATION IMPLICATIONS

IMPORTANT NOTICE

The following is a summary of the Australian tax consequences for certain Noteholders who subscribe for the Notes and Options under the Entitlement Offer.

This summary is not intended to be exhaustive and you should seek advice from your own financial adviser or other professional adviser before deciding to invest in the Notes and Options. In particular, this summary does not consider the tax consequences for Noteholders who:

- acquire the Notes otherwise than under the Entitlement Offer;
- hold the Notes and Options in their business of share trading or dealing in securities, or who otherwise hold their Notes and Options on revenue account or as trading stock; or
- are subject to the “taxation of financial arrangements” provisions in Division 230 of the Income Tax Assessment Act 1997 Act (**1997 Act**).

This summary is not intended to be, nor should it be constituted as being, investment, legal or tax advice to any particular Noteholder. This summary is based on Australian tax laws and regulations, interpretations of such laws and regulations, and administrative practices as at the date of this Prospectus. Accordingly, each prospective Noteholder should seek their own tax advice, which is specific to their particular circumstances, as to the tax consequences of investing in, holding and disposing of the Notes and Options.

5.1 Entitlement Offer

The value of the non-renounceable right received by a Shareholder pursuant to the Entitlement Offer should not be required to be included in the assessable income of the Shareholder. The right received should not be considered income from the Shareholder's existing shareholding on the basis that the right cannot be traded, assigned, or otherwise dealt with by the Shareholder.

5.2 Tax treatment of Notes and Options

The Notes and Options should both be classified as debt interests for the purposes of the Income Tax Assessment Act 1936 (**1936 Act**) and the 1997 Act as they should be considered ‘related schemes’ for the purposes of Division 974 of the 1936 Act.

Where the Options have value on being issued the Application Moneys should be apportioned between the Notes and Options to determine their respective tax cost bases. This apportionment would need to be done on a reasonable basis. As both the Notes and Options will be listed, a reasonable apportionment is likely to be at least significantly influenced by the initial trading prices of the Notes and Options. Consequently, Holders are unlikely to be able to apportion the Application Moneys between the Notes and Options until after the Notes and Options commence trading on the ASX which is expected to be on or around 14 December 2016.

The tax implications outlined in this Section assume the Options will have a value on being issued resulting in both Notes and Options having an apportioned issue price for tax purposes.

5.3 Notes

(a) Interest Payable on Notes

Australian resident Noteholders

The Notes should be classified as debt interests for the purposes of the 1936 Act and the 1997 Act. On this basis, Noteholders should include the interest received on the Notes in their assessable income in the year of income in which the interest is derived by them.

Non-resident Noteholders

Interest payable to non-residents is generally subject to Australian interest withholding tax. The Notes issued under this Entitlement Offer should however be exempt from Australian interest withholding tax pursuant to Section 128F of the 1936 Act, except where the issue is to a Noteholder that is an associate of the Company. Accordingly, there should be no Australian interest withholding tax payable on interest received by non-resident Noteholders on the Notes, except where the Noteholder is an associate of the Company.

5. AUSTRALIAN TAXATION IMPLICATIONS (continued)

(b) Disposal of Notes prior to Conversion or Redemption

Australian resident Noteholders

The Notes are likely to be considered “traditional securities” for the purposes of Sections 26BB and 70B of the 1936 Act.

Where a Noteholder disposes of a Note prior to the conversion or redemption of that Note, any gain over the apportioned issue price should be included in the Noteholder’s assessable income under Section 26BB of the 1936 Act. Section 26BB will operate to reduce any capital gain otherwise made under the capital gains tax (CGT) provisions such that individual, trust and complying superannuation fund Noteholders will not be eligible for the CGT discount on any gains made in these circumstances.

Where a Noteholder disposes of a Note prior to the conversion or redemption of that Note for less than its issue price, the loss should ordinarily be deductible under Section 70B of the 1936 Act. Whether the loss is on revenue or capital account will depend on the circumstances of the Noteholder.

Non-resident Noteholders

Non-resident Noteholders should not be subject to Australian tax on the disposal of the Notes provided the source of the income is not in Australia. Non-resident Noteholders may be subject to tax on the disposal of the Notes in their respective tax jurisdictions. Non-resident Noteholders should obtain their own independent advice as to the taxation consequences in their country of residence.

(c) Conversion to Shares

Australian resident Noteholders

Where a Noteholder elects to convert Notes that are considered to be “traditional securities” to Shares, no capital gain or loss should arise at the time of conversion, nor should the conversion result in a gain or loss for income tax purposes.

Non-resident Noteholders

Non-resident Noteholders should not be subject to Australian tax on the conversion of the Notes to Shares. Non-resident Noteholders may be subject to tax on the conversion of the Notes to Shares in their respective tax jurisdictions. Non-resident Noteholders should obtain their own independent advice as to the taxation consequences in their country of residence.

(d) Cost Base and Disposal of the Shares Resulting from the Conversion of Notes

Australian resident Noteholders

Noteholders should be deemed to have acquired the Shares at the time of conversion with a cost base and reduced cost base in the Shares for CGT purposes equal to the Noteholder’s cost base in the Notes (the apportioned issue price) plus the amount (if any) included in their assessable income as a result of the conversion (where that amount reduced a capital gain from the conversion) plus any incidental costs incurred in relation to the conversion.

The subsequent disposal of a Share should give rise to a capital gain or capital loss. Broadly, a capital gain should arise if the capital proceeds from the disposal of the Shares by the Noteholder exceed the cost base of the Shares.

An individual, complying superannuation entity or trustee Noteholder may be entitled to discount the amount of the taxable capital gain (after application of any capital losses) arising from the disposal of Shares if certain conditions are satisfied. A resident corporate tax entity would not be able to obtain the CGT discount concession.

A capital loss should arise if the capital proceeds received on disposal are less than the reduced cost base of the Shares to the Noteholder.

Non-resident Noteholders

Non-resident Noteholders should generally only be subject to Australian CGT provisions on the disposal of Shares where they hold 10% or more of the issued capital of the Company and the Shares are considered to be an “indirect Australian real property interest”. The determination of whether a Share is an indirect Australian real property interest is made at the time of the relevant CGT event.

Accordingly, if a non-resident Noteholder holds 10% or more of the issued capital of the Company as a result of the conversion (or at any subsequent time) and the Shares are considered to be an indirect Australian real property interest they should be subject to Australian CGT upon disposal in broadly the same manner outlined above for resident Noteholders, subject to the operation of any relevant double tax agreement, with the exception that the CGT discount concession would not be available.

Non-resident Noteholders may be subject to tax on the disposal of a Share in their respective tax jurisdictions and they should obtain their own independent advice as to the taxation consequences in their country of residence.

(e) Redemption of Notes by the Company (at Maturity or Early)

Australian resident Noteholders

Where the Company redeems the Notes and the redemption proceeds (Face Value plus the Early Redemption Premium if applicable) exceed the apportioned issue price, the Noteholder should realise an assessable gain on the redemption. The gain should be included in the Noteholder’s assessable income under Section 26BB of the 1936 Act.

Non-resident Noteholders

Non-resident Noteholders should not be subject to Australian tax on the redemption of the Notes provided the source of income is not in Australia. Non-resident Noteholders may be subject to tax on the redemption of the Notes in their respective tax jurisdictions. Non-resident Noteholders should obtain their own independent advice as to the taxation consequences in their country of residence.

5.4 Options

Australian resident Optionholders

The tax implications for Australian resident Optionholders are outlined below.

(a) Issue of Options

The value of the Options issued to Optionholders should not be included in the assessable income of the Optionholders as this value is used in determining the apportioned issue price of the Options.

Optionholders should be considered to have acquired the Options on the listing date of 20 December 2016 with a cost base and reduced cost base in the Options for CGT purposes equal to the apportioned issue price plus any incidental costs incurred in relation to the issue.

(b) Disposal of Options prior to exercising

The disposal of Options (for example, by sale on the ASX) should give rise to a capital gain or capital loss for Optionholders. Broadly, a capital gain should arise if the capital proceeds from the disposal of the Options by the Noteholder exceed the cost base of the Options.

Optionholders would not be able to obtain the CGT discount concession as the Options would not have been held for 12 months as they have a nine month exercise period.

A capital loss should arise if the capital proceeds received on disposal are less than the reduced cost base of the Options to the Optionholder.

(c) Exercise of Options

Where an Optionholder exercises the Options, no taxable gain or loss should arise at the time of exercise.

(d) Cost Base and Disposal of the Shares Resulting from the Exercise of Options

An Optionholder should be deemed to have acquired the Shares at the time of exercising the Options with a cost base and reduced cost base in the Shares for CGT purposes equal to the Optionholder's cost base in the Options plus the exercise price plus any incidental costs incurred in relation to exercising the Options.

On the subsequent disposal of a Share, a CGT event should occur which should give rise to a capital gain or capital loss. Broadly, a capital gain should arise if the capital proceeds from the disposal of the Shares by the Optionholder exceed the cost base of the Shares.

An individual, complying superannuation entity or trustee Optionholder may be entitled to discount the amount of the taxable capital gain (after application of any capital losses) arising from the disposal of Shares if certain conditions are satisfied. A resident corporate tax entity would not be able to obtain the CGT discount concession.

A capital loss should arise if the capital proceeds received on disposal are less than the reduced cost base of the Shares to the Optionholder.

(e) Expiry of options

If Optionholders do not exercise the Options and the Options expire after nine months, a capital loss should arise equal to the reduced cost base of the Options to the Optionholder.

Non-resident Optionholders

Non-resident Optionholders should generally only be subject to Australian CGT provisions on the disposal of Options (or Shares acquired by exercising the Options) where they hold 10% or more of the issued capital of the Company and the Options (or Shares) are considered to be an "indirect Australian real property interest". The determination of whether an Option (or Share) is an indirect Australian real property interest is made at the time of the relevant CGT event.

Accordingly, if a non-resident Optionholder holds 10% or more of the issued capital of the Company and the Options (or Shares) are considered to be an indirect Australian real property interest they should be subject to Australian CGT upon disposal in broadly the same manner outlined below for Australian residents, subject to the operation of any relevant double tax agreement, with the exception that the CGT discount concession would not be available.

Non-resident Optionholders may be subject to tax on the Option in their respective tax jurisdictions. Non-resident Noteholders should obtain their own independent advice as to the taxation consequences in their country of residence.

6. KEY RISKS

6.1 Key risks

By investing in the Notes you will be lending money to the Company and, therefore, you will be exposed to a number of risks which can be broadly classified as risks associated with the Notes and Options and risks associated with the Company's business which may affect the Notes and the Options. There are also risks associated with the Entitlement Offer itself.

This Section describes the potential risks associated with the Company's business and the risks associated with an investment in the Notes, the Options and the Shares. It does not purport to list every risk that may be associated with an investment in the Notes and Options now or in the future. Some of the risks can be mitigated by appropriate commercial action, but many of the risks (and the occurrence or consequences of those risks) described in this Section of the Prospectus are partially or completely outside the control of the Company and its Directors.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. This assessment is based on the knowledge of the Directors as at the date of this Prospectus but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Neither the Company nor any of its Directors or any other party associated with the preparation of this Prospectus guarantees that any specific objectives of the Company will be achieved or that any particular performance of the Company or of the Notes and Options offered by this Prospectus will be achieved.

In particular, there can be no guarantee that any forward looking statements contained in this Prospectus will be realised or will otherwise eventuate. **Investors should note that past performance is frequently not a reliable indicator of future performance.**

Before applying for Notes and Options, you must satisfy yourself that you have a sufficient understanding of the risks noted in this Section and have fully considered whether the Notes and Options are a suitable investment for you, having regard to your own investment objectives, financial circumstances and taxation position. Potential investors should read this Prospectus in full and, if appropriate, seek professional advice if they require further information and advice before deciding to subscribe for Notes and Options.

6.2 General risks

General risk factors outside the control of the Company which may have a significant impact on the future performance of the Company include but are not limited to the following:

- economic conditions in Australia and internationally;
- many developed economies face major structural issues, particularly those countries with high sovereign debt levels;
- market volatility, especially given the present uncertainties in international trade, financial and political conditions;
- changes in the earnings of companies in Australia (whether as a result of general weakness in economic conditions or otherwise);

- a slowdown in emerging markets, including China, which may impact economic growth in Australia;
- changes in investor sentiment and perceptions in local and international stock markets;
- changes in interest, exchange and inflation rates;
- changes in commodity prices;
- changes in domestic or international fiscal, monetary, regulatory and other government policies, including changes to the taxation of company income and gains and the dividend imputation system in Australia, changes in other general world, economic and political factors may also adversely affect the Company, its future earnings and capital appreciation of the Company's investments; and
- geo-political conditions such as acts or threats of terrorism, military conflicts or international hostilities.

In addition, investors should be aware that there are risks associated with any investment in securities. Prospective investors should recognise that the trading price of the Notes, Options and Shares may fall as well as rise with movements in the equity capital markets in Australia and internationally.

It should be noted that there is no guarantee that the Notes will trade at or above their Face Value or that the Shares will trade at or above the Conversion Price. It should also be noted that the historic share price performance of the Shares provides no guidance as to the future market price of the Shares or the likely trading price of the Notes or the Options.

6.3 Specific Company risks

Key risks relating to the Company are set out below. It is not, however, possible to describe all the risks to which the Company may become subject and which may impact adversely on the Company's prospects and performance. Specific risk factors which may have a significant impact on the future performance of the Company include the following:

Specific risks of the Kanmantoo Mine

The mining and processing operations present a range of complex, inherently higher-risk working environments which are closely regulated by existing mining, environmental and occupational health and safety legislation. The Company ensures a risk based approach is applied to enable effective development and implementation of appropriate, practical engineering controls and safe systems of work to minimise workplace risks as far as reasonably practicable, or to find alternate approaches to essential tasks with lower inherent risks.

The Company's resources are directly focused on the development of the Kanmantoo Mine. Certain specific risks could affect the viability and success of the project, including:

- Resource estimates at Kanmantoo may not be robust;
- The resource classification basis may not be appropriate;
- The conversion ratio of resources to reserves may be inaccurate or inappropriate;

- Mining methods may be unable to deliver on required production forecasts and recovery and dilution parameters;
- Strategies for environmental protection and monitoring and pollution controls may be inappropriate;
- Ore reserves may be lower than currently expected;
- Mineralisation yields may be lower than currently expected;
- There may be limited or no availability of skilled labour or necessary contractor services;
- Significant cash flows may not materialise from the project within the expected timeframe;
- A significant operational failure requiring unplanned capital expenditure or a level of required capital expenditure which is higher or is needed sooner than anticipated;
- Pit wall failure may lead to damage to equipment and/or injuries and/or loss of production;
- Operational risks such as mechanical difficulties, human error, incorrect technical assumptions, unanticipated conditions, equipment failures, weather conditions, civil unrest, wars and natural disasters, blowouts, cratering, explosions, pollution, seepage or leaks, fire and earthquake, unexpected shortages, delays or increases in costs of fuel or other consumables, spare parts or plant and equipment, and other accidents which may result in injury or loss of human life and consequential employee compensation claims; and
- There may be an unexpected increase in operating or production costs, the majority of which are not fixed.

Any materially adverse development in relation to Kanmantoo, such as any of those referred to above, would be likely to have a materially adverse effect on the success of the Company.

Copper and other metals prices

The Company's potential revenue will primarily be derived from the sale of copper and other metals. The price for copper and other metals fluctuate and are affected by many factors beyond the Company's control. Relevant factors include supply and demand fluctuations, technical advancements, forward selling activities and other macro-economic factors.

Foreign exchange

The Company is subject to the risk of unfavourable movements in exchange rates. To the extent that the Company has exposure to foreign currency denominated earnings that are not hedged, fluctuations in the Australian Dollar relative to the US Dollar may materially affect the cash flow and earnings which the Company will realise from its operations in Australian Dollar terms.

Dependence on key employees

The Company's success and growth strategy depends heavily upon its managing director and a relatively small number of other senior executive employees. The loss of the services of any of them could have a material and adverse effect on the Company's business, operating results and financial condition.

Proposed Emeco Transaction

If the Proposed Emeco Transaction does not proceed and the deferred payment terms and reduced mining base rates are not realised, this would reduce the Company's available cashflow during the critical period up to June 2017.

Government

Government approvals and permits may be required in the future in connection with the operations of the Company. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from continuing its operations or from proceeding with planned exploration or development of mineral properties. Government policies are subject to review and change from time to time and the Company relies upon government agencies promptly and favourably dealing with applications and consents. Such matters are likely to be beyond the control of the Company. Changes in community attitudes on matters such as taxation, environment and landholder issues may bring about reviews and possible changes in government policies and regulations. Any such government action or inaction may limit or prohibit operations or require increased capital or operating expenditure and could adversely impact the Company's financial position and performance. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs, or reduction in levels of production, or delays in development.

Licences and Permits

Interests in permits are governed by the granting of licences or leases by the appropriate government authorities. The conduct of operations and steps involved in acquiring all licences and permits involve compliance with numerous procedures and formalities. It is not always possible to correctly interpret, or comply with, or obtain waivers from, all such requirements and it is not always clear whether requirements have been properly completed, or that it is possible or practical to obtain evidence of compliance. In some cases, failure to follow such requirements or obtain relevant evidence may call into question the validity of the titles. Failure to obtain any necessary licences or permits, any material non-compliance with such licences or permits or the revocation or non-renewal of such licences or permits could adversely impact the Company's financial position and performance.

Taxation

The Company is subject to various forms of taxation in Australia and other jurisdictions. There is an ongoing risk that changes to taxation legislation or the interpretation or enforcement of taxation laws or regulations could adversely impact the Company's financial position and performance.

6. KEY RISKS (continued)

Environmental risks

The Company's operations are subject to extensive Federal, State and local environmental laws and regulations. These laws and regulations set various standards regulating certain aspects of health and environmental quality and provide for penalties and other liabilities for violation of such standards. Significant liability could be imposed on the Company for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage or non-compliance with environmental laws or regulations. Compliance or non-compliance with environmental laws or regulations may require the Company to incur significant costs and may have a significant material impact on the Company's financial performance.

Insurance

Insurance of risks associated with mining operations is sometimes unavailable and sometimes attracts large premiums. If the Company incurs uninsured losses or liabilities, its assets, profit and prospects will be adversely affected.

Contractual risks

The Company is a party to various contracts. The Company's ability to achieve its objectives will depend on the counterparties to those contracts performing their obligations. All contracts entered into by the Company are subject to interpretation. There is no guarantee that the Company will be able to enforce all of its presumed rights under its contracts. Any default or dispute under those contracts may adversely affect the Company's financial position or performance.

Reserve and resource estimates

Reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, reserve and resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and drilling plans which may, in turn, adversely affect the Company's operations.

6.4 Risks associated with the Entitlement Offer

Lapse of Entitlements

If you are an Eligible Shareholder and you allow your Entitlement to lapse, then you will not realise any value for your Entitlement. You should also note that if you do not take up your Entitlement, your percentage shareholding in the Company may be diluted.

Change to control of Company

Where there is a Shortfall following the Closing Date, there may be a change to the balance of control of the Company as a result of the Underwriting Agreement.

In the event no other Shareholders take up their Entitlements, the Underwriter is required to take up the whole of the underwritten balance of the Entitlement Offer and if the Underwriter subsequently converts the Notes into Shares and exercises the Options, the relevant interest of the Underwriter's parent company (Ariadne Australia Ltd) would increase from 16.27% to 70.99%. This means that Ariadne Australia Limited could obtain control of the Company without paying a takeover premium.

Termination of the Underwriting Agreement

The Underwriting Agreement contains customary termination rights for capital raisings, including (but not limited to) the occurrence of a material adverse change, ASX not granting or refusing to grant approval for quotation of the Notes and Options, a breach by the Company of any laws or significant contracts, and the occurrence of a significant drop in the level of the ASX All Ordinaries Share Price Index.

Termination of the Underwriting Agreement may have an adverse impact on the proceeds raised under the Entitlement Offer and the Company's sources of funding for its intended purpose. Termination could also materially adversely affect the Company's business, cash flow and financial condition.

Further details of the Underwriting Agreement are set out in Section 7.4.

6.5 Risks associated with investing in Notes

Interest payments

The Company expects to make interest payments using available cash balances and cash flow from its operations. The Company's ability to generate cash flows from its operations will depend substantially on its ability to perform to its current life of mine plan, that is, to produce the estimated amount of copper metal at the estimated costs and in the estimated timeframes of that plan and to achieve the estimated copper price.

Redemption risk

The Company expects to be able to redeem the Notes using the proceeds from future debt or equity raisings, cash flows from operations or proceeds from the sale of investments. There is a risk that the Company may be unable to procure or raise sufficient cash resources from its operations, future debt or equity raisings and may, in that case, have insufficient cash to redeem the Notes at the Maturity Date (or any earlier date as otherwise required under the Note Terms).

If the Company fails to make interest payments or redeem the Notes when due, the Trustee has certain rights under the Trust Deed, Note Terms, Guarantee and the General Security Deeds to take enforcement action against the Company and/or the Australian Subsidiaries. The rights of each Noteholder to enforce the obligations of the Company under the Notes are limited to the exercise of its rights to enforce and seek due administration by the Trustee of the Trust Deed, the Guarantee and the General Security Deeds.

Interest rate risk

Interest on the Notes is fixed at 6% per annum (payable half-yearly in arrears). No adjustment will be made to the rate of interest paid to Noteholders as other market based interest rates rise or fall.

The market price of the Notes on ASX may fluctuate due to changes in interest rates generally, credit spreads on other corporate securities or investor sentiment towards the Company.

Inflation rate risk

An increase in the inflation rate may erode in real terms the value of the capital invested in the Notes.

Financial market conditions

The market price of the Notes will fluctuate due to various factors, including copper prices, worldwide economic conditions, interest rates, credit spreads on other corporate securities, general movements in the Australian and international equity markets, movements in the market price of Shares, factors which may affect the Company's financial position and earnings and investor sentiment.

The market price of Notes may be more sensitive than that of the Shares to changes in interest rates and, therefore, the Notes could trade on ASX at a price below the Issue Price.

The Shares issued as a result of conversion of any Notes will, following conversion, rank equally with the existing Shares. Accordingly, their value after issue will depend upon the market price of the Shares (which price, compared to the Conversion Price, may rise or fall).

Market price of Shares

The market price of the Shares may be volatile. The volatility of the market price of the Shares may cause volatility in the price of the Notes and affect the ability of Noteholders to sell their Notes either at all or at an acceptable price. Additionally, this may result in greater volatility in the market price of the Notes than would be expected for non-convertible debt securities.

Liquidity

While the Company will seek quotation of the Notes on ASX in order to facilitate on market trading of the Notes, the market for Notes may be less liquid than the market for Shares and, as such, there can be no assurance that Noteholders will be able to buy or sell Notes on ASX.

Early Redemption

Notes may be redeemed early by the Company in certain circumstances. The amount payable on redemption may be less than the previously prevailing market value of Notes. Additionally, in the event of an early redemption of Notes, you may not receive the returns you expected to achieve on your Notes (if the Notes had been held until maturity).

Ranking

If the Company is wound-up, Noteholders will rank behind the Company's Existing Senior Debt Obligations and those mandatorily preferred at law, but ahead of unsecured creditors of the Company and Shareholders.

If there is a shortfall of funds on winding-up, there is a risk that Noteholders will not receive a full (or any) repayment of their money invested in the Notes or payment of unpaid interest.

Conversion

The Shares held by Noteholders following conversion of their Notes will have the same rights as other existing Shares, which are different from the rights attached to the Notes.

The market price of the Shares may fluctuate over time as a result of a number of factors.

Dividends on Shares

Under the Note Terms, there are restrictions on the Company's ability to pay dividends to Shareholders for so long as any of the Notes remain outstanding.

Once all of the Notes have been redeemed, any future determination as to the payout of dividends will be at the discretion of the Directors and will depend on the availability of distributable earnings, operating results and the financial position of the Company, its future capital requirements and other relevant factors. No assurance in relation to the future payment or franking of dividends can be given by the Company.

Further issues of securities and dilution

Under the Note Terms, there are restrictions on the Company's ability to issue further securities.

If the Company undertakes additional offerings of securities in the future with the approval of Noteholders, the increase in the number of issued Shares or securities convertible into Shares and the potential for the sale of such securities may depress the price of Shares already on issue and of the Notes. In addition, as a result of the issue of Shares, the voting power and proportionate economic interest of the Company's existing Shareholders (and, indirectly, of holders of Notes) will be diluted. The Note Terms may not adequately protect the Noteholders in the event the Company does undertake additional offerings of securities in the future.

Change in the Australian tax system

Prospective investors should be aware that any future changes in Australian tax law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect the taxation treatment of the acquisition, holding and disposal of Notes and the market price of the Notes.

6. KEY RISKS (continued)

Enforcement risk

The Note Terms provide that rights under the Note Terms, the Trust Deed and the General Security Deeds may generally only be enforced by the Trustee and not by the Noteholders directly. Noteholders must therefore notify their claims to the Trustee and rely on enforcement by the Trustee, except in certain circumstances where the Trustee has failed to take action after being directed by the Noteholders to do so.

Noteholders may, by ordinary or special resolution, waive breaches or amend the Trust Deed. A large Noteholder may influence the outcome of any such vote.

6.6 Risks associated with the Options

Expiry of Options

If you are an Optionholder and you do not exercise all of your Options before the Expiry Date, any Options not exercised will expire on the Expiry Date.

Financial market conditions

The market price of the Options will fluctuate due to various factors, including copper prices, worldwide economic conditions, interest rates, credit spreads on other corporate securities, general movements in the Australian and international equity markets, movements in the market price of Shares, factors which may affect the Company's financial position and earnings and investor sentiment.

The market price of Options may be more sensitive than that of the Shares to changes in interest rates.

The Shares issued as a result of exercise of any Options will, following conversion, rank equally with the existing Shares. Accordingly, their value after issue will depend upon the market price of the Shares (which price, compared to the Exercise Price, may rise or fall).

Market price of Shares

The market price of the Shares may be volatile. The volatility of the market price of the Shares may cause volatility in the price of the Options and affect the ability of Optionholders to sell their Options either at all or at an acceptable price. Additionally, this may result in greater volatility in the market price of the Options than would be expected for non-convertible debt securities.

Liquidity

While the Company will seek quotation of the Options on ASX in order to facilitate on market trading of the Options, the market for Options may be less liquid than the market for Shares and, as such, there can be no assurance that Optionholders will be able to buy or sell Options on ASX.

Exercise of Options

The Shares held by Optionholders following exercise of their Options will have the same rights as other existing Shares, which are different from the rights attached to the Options.

The market price of the Shares may fluctuate over time as a result of a number of factors.

Dividends on Shares

Under the Note Terms, there are restrictions on the Company's ability to pay dividends to Shareholders for so long as any of the Notes remain outstanding.

Once all of the Notes have been redeemed, any future determination as to the payout of dividends will be at the discretion of the Directors and will depend on the availability of distributable earnings, operating results and the financial position of the Company, its future capital requirements and other relevant factors. No assurance in relation to the future payment or franking of dividends can be given by the Company.

Change in the Australian tax system

Prospective investors should be aware that any future changes in Australian tax law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect the taxation treatment of the acquisition, holding and disposal of Options and the market price of the Options.

Investors should carefully read the above risk factors and the other information in the Prospectus concerning the Entitlement Offer and, if they are unsure in any regard to any aspect of the Entitlement Offer or the Notes, consult their professional advisers before deciding whether to subscribe for Notes.

7. ADDITIONAL INFORMATION

7.1 Financial Year

The Financial Year of the Company ends on 31 December.

7.2 Additional available information – continuous disclosure obligations

This Prospectus is a transaction specific prospectus issued by the Company in accordance with the provisions of the Corporations Act applicable to a prospectus for continuously quoted securities. It has been prepared in accordance with section 713 of the Corporations Act and ASIC Corporations (Offers of Convertibles) Instrument 2016/83.

This Prospectus does not contain the same level of disclosure as an initial public offering prospectus or a prospectus prepared in accordance with section 710 of the Corporations Act.

As a disclosing entity, the Company is subject to regular reporting and disclosure obligations. As a listed company, the Company is subject to the ASX Listing Rules which require, subject to certain exceptions, immediate disclosure to the market of any information of which the Company is aware which a reasonable person might expect to have a material impact on the price or value of the Shares.

Section 713 of the Corporations Act (as modified by ASIC Corporations (Offers of Convertibles) Instrument 2016/83) enables a company to issue a transaction specific prospectus where the securities offered are continuously quoted securities (within the meaning of that term in the Corporations Act) or securities convertible into continuously quoted securities. This generally means that the relevant securities are in a class of securities that were quoted enhanced disclosure securities at all times during the 3 months before the date of the prospectus and that, during the 12 months before the date of the prospectus, the issuing company was not exempted from the continuous disclosure regime and disclosing entity requirements provided for under the Corporations Act and the ASX Listing Rules.

In summary, the content rules for prospectuses involving the issue of continuously quoted securities require such prospectuses to contain information only in relation to the effect of the Entitlement Offer on the Company, the rights and liabilities attaching to the Notes and the Options and the rights and liabilities attaching to Shares (as the underlying securities). It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the Company. Accordingly, this Prospectus does not contain the same level of disclosure as a prospectus of an unlisted company or an initial public offering prospectus or a prospectus prepared in accordance with section 710 of the Corporations Act.

Having taken such precautions and having made such enquiries as are reasonable, the Company believes that it has complied fully with, and has not been exempted from, the general and specific requirements of ASX (as applicable from time to time throughout the 12 months before the date of this Prospectus) which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

For the purposes of satisfying section 713(5) of the Corporations Act, a prospectus must also incorporate such information if such information:

- has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules; and
- is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
 - the assets and liabilities, financial position and performance, profits and losses and prospects of the body; and
 - the rights and liabilities attaching to the securities being offered.

The prospectus must contain this information only to the extent to which it is reasonable for investors and their professional advisors to expect to find such information in the prospectus.

Please refer to Section 4.1(c) for the information that, as at the date of this Prospectus, has not been included on a continuous disclosure notice issued by the Company.

The Company will make further announcements in respect of any matters in accordance with its disclosure obligations as and when material developments occur.

Company announcements

Investors may view a record of the Company's ASX announcements at the Company's website – www.hillgroveresources.com.au or via the ASX website, www.asx.com.au. ASIC also maintains records in respect of documents lodged with it by the Company, and these may be obtained from or inspected at the office of ASIC. This Prospectus is intended to be read in conjunction with all information previously publicly disclosed by the Company.

The Company will provide free of charge to any person who requests it during the application period under this Prospectus:

- the Company's financial statements for the financial year ended 31 December 2015 lodged with ASIC on 1 April 2016; and
- the Company's financial statements for the half-year ended 30 June 2016 lodged with ASIC on 31 August 2016; and
- any continuous disclosure notices given by the Company since the lodgement of the Company's annual financial report referred to above and before the lodgement of this Prospectus.

The following announcements (continuous disclosure notices) have been made by the Company to ASX since the lodgement of its annual report for the year ended 31 December 2015 with ASIC (and ASX) on 1 April 2016:

7. ADDITIONAL INFORMATION (continued)

Date	Headline
14/04/2016	Change in substantial holding from IFL
15/04/2016	Changes to Mining Plan Update
22/04/2016	Notice of Annual General Meeting
02/05/2016	Activity Report for Quarter Ended 31 March 2016
05/05/2016	Change in substantial holding from IFL
12/05/2016	Change in substantial holding from CBA
16/05/2016	Change in substantial holding from IFL
25/05/2016	Change in substantial holding from IFL
26/05/2016	Chairman's Address to AGM
26/05/2016	Hillgrove Announces 2016 Mineral Resource Statement
26/05/2016	MD's Presentation to AGM
26/05/2016	Results of AGM
03/06/2016	Ceasing to be a substantial holder from CBA
03/06/2016	Change in substantial holding from IFL
08/06/2016	Change in substantial holding from IFL
09/06/2016	Ceasing to be a substantial holder from IFL
24/06/2016	Trading Halt
28/06/2016	Successful Balance Sheet Restructure
01/07/2016	Balance Sheet Restructure Update
05/07/2016	Response to ASX Price Query
14/07/2016	Becoming a substantial holder
14/07/2016	Lapse of Options
15/07/2016	Appendix 3B
18/07/2016	Amended Appendix 3B
27/07/2016	Activity Report for Quarter Ended 30 June 2016
29/07/2016	Lapse of Performance Rights
10/08/2016	Balance Sheet Restructure Update
22/08/2016	Balance Sheet Restructure Update - Container Sale
25/08/2016	Completion of Debt Restructure and Offtake Amendments
01/09/2016	Inferred Resource Infill Drilling Results
01/09/2016	Ore Reserve Estimation
01/09/2016	Results for Half Year Ended 30 June 2016
01/09/2016	Trading Halt
05/09/2016	Proposed Pro-Rata Issue
08/09/2016	Response to ASX Query
18/10/2016	Updated Mineral Resource and Ore Reserve Estimate
28/10/2016	Activity Report for Quarter Ended 30 September 2016
22/11/2016	Agreement with Drilling Contractor to amend Terms
22/11/2016	Agreement reached to defer payment and reduce mining contract charges
22/11/2016	Non-Renounceable Convertible Note Offer

7.3 Rights attaching to Notes, Options and the Shares

(a) Notes

The rights attaching to the Notes are set out in Schedule 1 of the Trust Deed. The Note Terms (including the rights of the Company, the Trustee and the Noteholders to vary, alter, amend or otherwise change the Note Terms) are set out in detail in Section 8.

(b) Options

The Option Terms are set out in detail in Section 9.

(c) Shares

The shares issued on conversion of the Notes or exercise of the Options will be ordinary shares (**Shares**) and will rank equally with all existing Shares. The rights attaching to the Shares are set out in the Constitution which is available free of charge from the Company (a copy is also accessible on the Company's website www.hillgroveresources.com.au).

The following is a broad summary of the rights which attach to the Shares. It is not intended to be an exhaustive or definitive summary of the rights attaching to the Shares.

Voting rights

Subject to restrictions on voting from time to time affecting any particular Shareholder or any class of shares and subject to any contrary provisions of the Constitution, at a meeting of Shareholders, each Shareholder entitled to vote may vote in person or by proxy or attorney or, being a corporation, by a duly authorised representative, and has one vote on a show of hands and one vote per Share on a poll.

Dividends

The Note Terms restrict the Company's ability to declare dividends for so long as any of the Notes remain outstanding.

Subject to those restrictions and the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, the Directors may determine that a dividend is payable on Shares. The Directors may fix the amount of the dividend, whether the dividend is franked, the franking percentage and the franking class, the time for determining entitlements to the dividend, the time for payment and the method of payment of a dividend. The method of payment may include any or all of the payment of cash, the issue of shares or other securities, the grant of options and the transfer of assets. The Company is not required to pay any interest on a dividend. Subject to any rights or restrictions attached to a class of shares, the person entitled to a dividend on a share is entitled to:

- (i) if the share is fully paid (whether the issue price of the share was paid or credited or both) the entire dividend; and
- (ii) if the share is partly paid, a proportion of that dividend equal to the proportion which the amount paid (excluding amounts credited) on that share is of the total amounts paid or payable (excluding amounts credited) on that share.

Transfer

Subject to the Constitution, the Corporations Act, the ASX Listing Rules and ASX Settlement Operating Rules, Shares are freely transferable. The Company may refuse to register a transfer of Shares or apply a holding lock to prevent a transfer of Shares where the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rule permits the Company to do so.

Winding-up

Subject to any rights or restrictions attaching to Shares, on a winding up of the Company:

- (i) any surplus must be divided among the Shareholders in the proportions which the amount paid (including amounts credited) on the Shares of a Shareholder is of the total amounts paid and payable (including amounts credited) on the Shares of all Shareholders; and
- (ii) the liquidator may, with the sanction of a special resolution of the Shareholders, distribute among the Shareholders the whole or any part of the property of the Company and decide how to distribute the property as between the Shareholders or different classes of Shareholders.

Variation of rights

Subject to the Corporations Act and the terms of issue of Shares in a particular class, the rights attaching to Shares can only be varied or cancelled by a special resolution of the Company, together with a special resolution passed at a meeting of the Shareholders holding Shares in that class or the written consent of Shareholders who are entitled to at least 75 per cent of the votes that may be cast in respect of Shares in that class.

7.4 Material Agreements

(a) Trust Deed

The Trust Deed governs the terms and conditions on which the Notes are to be issued and is subject to the Corporations Act and ASX Listing Rules. Schedule 1 to the Trust Deed contains the terms of issue of the Notes (Note Terms). The Note Terms are set out in Section 8 of this Prospectus.

The following is a summary of the material provisions of the Trust Deed. To obtain a complete understanding of the Trust Deed, it is necessary to read it in full. A complete copy of the Trust Deed will be available for inspection without charge during normal office hours at the registered office of the Company at 5-7 King William Road, Unley SA 5064 on and from the date of this Prospectus until the close of the Offer.

The Trust Deed will also be released to ASX and will be available from its website (www.asx.com.au).

Legal Nature of the Notes

The Trust Deed provides that the Notes:

- constitute separate and independent acknowledgements of the indebtedness of the Company;
- are subject to the terms of the Trust Deed;
- are direct, redeemable, secured obligations of the Company;
- are convertible into Shares on and in accordance with the Note Terms;
- rank equally between themselves;
- do not carry a right to vote at any general meeting or to dividends paid by the Company.

The Company's obligations in relation to the Notes, as constituted by and specified in the Trust Deed, are to the Trustee and to those persons who are registered as Noteholders. The Company may elect to issue certificates to Noteholders.

Declaration of Trust

The Trustee declares that it holds on trust for the Noteholders the Trust Fund, which includes the General Security Deeds, and:

- the right to enforce the Company's duty to pay the moneys owing on the Notes on the due date for payment in accordance with the Note Terms;
- the right to enforce any security granted by the Company and/or the Australian Subsidiaries as security for repayment of the moneys owing on the Notes (including pursuant to the General Security Deeds); and
- the right to enforce any other duties that the Company has under the Trust Deed, the General Security Deeds and the Note Terms or Chapter 2L of the Corporations Act, on the terms of this Deed.

Company's undertakings

Under the Trust Deed, the Company undertakes to the Trustee that it will among other things:

- pay to the Trustee (on behalf of the Noteholders) all moneys owing from time to time as and when due in accordance with the Note Terms or as otherwise required under the Trust Deed;
- notify the Trustee after it becomes aware that any material condition of the Trust Deed cannot be fulfilled or after it becomes aware of any Material Adverse Effect (as that term is defined in the Trust Deed) or the occurrence of an Event of Default (as defined in the Note Terms);
- comply with the terms of the Trust Deed, including the Note Terms and the meeting provisions, and any security (including the General Security Deeds);
- comply with its reporting and other obligations to the Trustee, ASIC, ASX and to the Noteholders under the Corporations Act and ASX Listing Rules;
- use all reasonable endeavours to ensure that the Notes are, within a reasonable time after their issue, quoted on ASX and that such quotation is maintained;
- comply with all laws binding on it with respect to the Notes;
- provide to the Trustee (amongst other things) a copy of the Company's audited accounts in respect of each financial year;
- carry on and conduct its business in a proper and efficient manner (and procure that each of its subsidiaries does likewise); and
- provide to the Trustee any information which the Trustee may reasonably require for the purposes of the discharge of Trust Deed or for compliance with the Corporations Act.

Trustee's undertakings

Under the Trust Deed, the Trustee makes certain undertakings including that it will:

- act as trustee of the Trust;
- act honestly and in good faith and comply with all applicable laws in performing its duties and the exercise of its discretions under the Trust Deed; and

7. ADDITIONAL INFORMATION (continued)

- act in accordance with the Trust Deed, having regard to the rights of the Noteholders as a whole and without regard to any interests arising from taxation or other circumstances of particular Noteholders; and
- keep accounting records and, to the extent it holds Trust assets, keep those assets separate from all other assets of the Trustee.

Powers of the Trustee

In addition to those powers arising under law, the Trustee has certain powers and discretions as set out in the Trust Deed, including the power:

- to waive any breach by the Company of its obligations under the Trust Deed, Note Terms or General Security Deeds, including any Event of Default (subject to a direction by special resolution of Noteholders in certain circumstances);
- to decide whether or not to take action to enforce the Trust Deed, Note Terms or the General Security Deeds as it sees fit in its absolute discretion (subject to a direction by special resolution of Noteholders in certain circumstances);
- to delegate its functions; and
- to amend the Trust Deed in certain circumstances (by agreement with the Company).

The Trustee may hold Notes and may enter into transactions with the Company or any Related Body Corporate of the Company.

Limited liability and indemnity of Trustee

The liability of the Trustee is limited in the manner set out in the Trust Deed.

The Trustee will have no liability for any loss under or in connection with the Trust Deed or the Note Terms (whether to any Noteholders, creditors or any other person) other than to the extent to which the liability is able to be satisfied out of any part of the Trust Fund from which the Trustee is entitled to be, and is in fact, indemnified for the liability, except to the extent that the liability of the Trustee is not satisfied because the Trustee is not entitled to indemnification as a result of its fraud, gross negligence, breach of trust or breach of section 283DA of the Corporations Act.

Without limiting the above, the Trustee will not be liable for loss caused by (among other things):

- the Trustee's acts, mistakes or omissions, including reliance on the Register or the opinion, advice or information of an adviser of the Trustee (assuming there is no fraud, gross negligence, breach of trust);
- any act, omission, neglect or default of the Company; or
- any loss or damage occurring as a result of exercising or failing to exercise or purporting to exercise any right or power under the Trust Deed.

The Trustee will be indemnified against and for all fees, actions, losses, costs, charges, expenses, taxes and liabilities (including solicitor and client and party and party costs) (Costs) incurred and payments made in or about the execution, administration or enforcement of the Trust Deed, among other things, except to the

extent that the Cost arises out of the Trustee's fraud, gross negligence, breach of trust or breach of section 283DA of the Corporations Act or it relates to any taxes (excluding GST) imposed on the Trustee's remuneration for its services as trustee.

(b) Guarantee

Pursuant to the Guarantee, each of the Australian Subsidiaries agrees to:

- guarantee to the Trustee the Company and each other Australian Subsidiary's obligations under the Trust Deed, Note Terms and the General Security Deeds; and
- indemnify the Trustee against any loss of the Trustee as a result of the Company or any other Australian Subsidiary's failure to perform its obligations under the Trust Deed, Note Terms and the General Security Deeds.

Each Australian Subsidiary's performance of its obligations under the Guarantee is secured under the General Security Deed between that Australian Subsidiary and the Trustee.

(c) General Security Deeds

Pursuant to the General Security Deeds, each of the Company and the Australian Subsidiaries agrees to:

- grant to the Trustee (for the benefit of the Noteholders) a security interest in all of that company's present and after-acquired property (including Personal Property (as defined in the General Security Deeds); and
- charge to the Trustee all of that company's present and future property, assets and undertaking wherever situated, but excluding any Personal Property,

to secure payment of all of the moneys owing to Noteholders under the terms of the Notes and the Trust Deed and for performance of all obligations of that company to the Trustee or a Noteholder under or in connection with the Trust Deed, Note Terms, General Security Deed or Guarantee (as applicable).

The parties intend that the Security Interest granted to the Trustee takes priority over all other Security Interests and other interests in the Secured Property, other than any Permitted Security Interest as agreed in writing by the Trustee as having priority or as mandatorily preferred by law. The Trustee has agreed that the security interests under the General Security Deeds will rank behind the security interests securing the Existing Senior Debt Obligations and any Permitted New Debt.

Under the General Security Deeds, each of the Company and the Australian Subsidiaries undertakes to (amongst other things):

- pay the moneys owing under the Note Terms and Trust Deed at the times and in the way specified in the Note Terms and Trust Deed;
- fully and punctually perform, satisfy, or procure the performance or satisfaction of, all of the Company's obligations at the times and in the way specified in the Note Terms and Trust Deed; and
- ensure that no Default occurs.

Each of the Company and the Australian Subsidiaries undertakes not to sell, assign, transfer, dispose or part with possession of, lease, licence or otherwise deal with, any of the Secured Property. The Company and the Australian Subsidiaries also give a number of other undertakings relating to the Secured Property.

A Default occurs under the General Security Deeds if an event specified as an 'Event of Default' in the Note Terms occurs. If a Default occurs:

- the Trustee may by notice to the Company or Australian Subsidiary (as applicable) declare that all or any part of the Secured Money is immediately due and payable. On receipt of that notice, the Company or Australian Subsidiary (as applicable) immediately must pay that Secured Money to the Trustee;
- the security interest created under the General Security Deed will become immediately enforceable; and
- the floating charge created under the General Security Deed will become a fixed charge in accordance with the terms of the deed.

While a Default subsists the Trustee has broad powers in relation to the secured property, including powers to seize and dispose of property. The Trustee may also appoint a receiver or receiver and manager of all or any of the secured property.

(d) Underwriting Agreement

On 22 November 2016, the Company entered into an underwriting agreement with Ariadne Capital Pty Ltd (**Underwriter**) pursuant to which the Underwriter agrees to fully underwrite the Entitlement Offer, on the terms and conditions set out below (**Underwriting Agreement**).

In consideration for the Underwriter agreeing to fully underwrite the Entitlement Offer, the Company must pay to the Underwriter an underwriting commission of \$300,000 (representing 6% of the total funds to be raised by the Entitlement Offer), to be satisfied either in cash or Shares at \$0.03 per Share, at the discretion of the Underwriter on or before 7 days prior to the Closing Date.

If there is a Shortfall, the Company must deliver a Shortfall Notice to the Underwriter before 5.00pm on the fourth Business Day after the Closing Date, or such other date as agreed by the parties (**Shortfall Notice Time**). The Underwriter must then provide applications by the Underwriter or by any person or entities nominated by the Underwriter and Application Monies for the Shortfall to the Company within 4 Business Days after the Underwriter has received the Shortfall Notice.

The Underwriter has a right to terminate the Underwriting Agreement with immediate effect if:

- (**Listing**)
 - (a) ASX makes any official statement to any person, or indicates to the Company or the Underwriter that an ASX Approval will not be given; or
 - (b) an ASX Approval has not been given before the Closing Date.
- (**Trading of Shares**) Trading in any Shares is suspended by ASX for more than 2 consecutive Business Days, or any securities of the Company quoted on the official list of ASX cease to be so quoted.

- (**Repayment**) Any circumstance arises that results in the Company either repaying the money received from applicants or offering applicants an opportunity to withdraw their acceptances for Underwritten Securities and be repaid their application money.

The Underwriter may also terminate the Underwriting Agreement if:

- the Company does not give the Underwriter a Shortfall Notice before the Shortfall Notice Time; or
- in the reasonable opinion of the Underwriter, any of the following events occur and the event has or would have a material adverse effect on the outcome of the Entitlement Offer or the event can be expected to give rise to a liability for the Underwriter under the Corporations Act:

(**ASX Indices fall**) The ASX All Ordinaries Share Price Index is, for 5 consecutive Business Days, at a level which is 10% or less than the level at the close of trading on the date of this agreement.

(**Copper price fall**) The price of copper in AUD is, for 5 consecutive trading days, below \$6,000/t.

(**Change in law**) Any of the following occurs which does or is likely to prohibit, restrict or regulate the Issue or materially reduces the level or likely level of Valid Acceptances:

- (a) the introduction of legislation into the parliament of the Commonwealth of Australia or of any State or Territory of Australia;
- (b) the public announcement of prospective legislation or policy by the Federal Government or the Government of any State or Territory; or
- (c) the adoption by ASIC or its delegates or the Reserve Bank of Australia of any regulations or policy.

(**Breach of significant contracts**) A significant or material contract referred to in the Prospectus is, without the prior consent of the Underwriter:

- (a) breached by the Company or a Related Body Corporate;
- (b) terminated (whether by breach or otherwise);
- (c) altered or amended in any way; or
- (d) found to be void or voidable.

(**Default**) The Company is in default of any of the terms and conditions of this agreement or breaches any warranty or covenant given or made by it under this agreement and that default or breach is either incapable of remedy or is not remedied within 5 Business Days after it occurs.

(**Failure to comply**) The Company or any Related Body Corporate fails to comply with any of the following:

- (a) a clause of its constitution;
- (b) a relevant statute;
- (c) any policy or guideline of ASIC or any other requirement, order or request made by or on behalf of ASIC or any governmental agency; or
- (d) any agreement entered into by it.

(**Capital structure**) The Company or a Related Body Corporate alters its capital structure without the prior written consent of the Underwriter.

7. ADDITIONAL INFORMATION (continued)

(Constitution altered) The constitution or any other constituent document of the Company or a Related Body Corporate is amended without the prior written consent of the Underwriter, which consent must not be unreasonably withheld.

(Financial assistance) The Company or a Related Body Corporate seeks the approval of Shareholders under section 260B of the Corporations Act, without the prior written consent of the Underwriter.

(Business) The Company or a Related Body Corporate:

- (a) disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property; or
- (b) ceases or threatens to cease to carry on business,
- (c) in either case without the prior written consent of the Underwriter.

(Hostilities) There is an outbreak of hostilities (whether or not war has been declared) not presently existing, or a major escalation in existing hostilities occurs, involving any one or more of the following:

- (a) Australia;
- (b) the United Kingdom;
- (c) any member of the European Union;
- (d) the United States of America;
- (e) the Peoples Republic of China; or
- (f) Japan,

or a national emergency is declared by any of those countries, or a significant terrorist act is perpetrated anywhere in the world.

(Market conditions) Any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or in the international financial markets or any material adverse change occurs in national or international political, financial or economic conditions, in each case the effect of which is that, in the reasonable opinion of the Underwriter reached in good faith, it is impracticable to market the Offer or to enforce contracts to issue and allot the Underwritten Securities or that the success of the Offer is likely to be adversely affected.

(Financial position) A materially adverse change, or development involving a prospective materially adverse change, occurs in the financial operational (including in respect of workplace health and safety matters or environmental matters) or trading position of the Company or a Related Body Corporate.

(Prospectus) Without limiting any other paragraph of this schedule:

- (a) there are one or more material omissions from the Prospectus of information required by section 711 or 713 of the Corporations Act to be included in the Prospectus;
- (b) the Prospectus contains a misleading or deceptive statement;
- (c) a statement in the Prospectus becomes misleading or deceptive;
- (d) the Prospectus does not comply with section 713 of the Corporations Act; or

(e) a matter referred to in section 719 of the Corporations Act occurs in respect of the Prospectus.

(Corporations Act) Without limiting any other paragraph of this schedule:

- (a) ASIC applies for an order under section 1324B of the Corporations Act in relation to the Prospectus and the application is not dismissed or withdrawn before the Closing Date;
- (b) a person gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
- (c) ASIC gives notice of intention to hold a hearing in relation to the Prospectus under section 739(2) of the Corporations Act or makes an interim order under section 739(3) of the Corporations Act; or
- (d) any person (other than the Underwriter) who consented to being named in the Prospectus withdraws that consent.

(Supplementary prospectus) The Underwriter reasonably forms the view that a supplementary or a replacement document must be lodged with ASIC under section 719 of the Corporations Act and the Company does not lodge a supplementary or a replacement document in the form, with the content and within the time reasonably required by the Underwriter.

(Indictable offence) A director (or, if he is not a director, the Chief Executive Officer or the Chief Financial Officer) of the Company or a Related Body Corporate is charged with an indictable offence relating to a financial or corporate matter.

(Insolvency event) An Insolvency Event occurs with respect to the Company or a Related Body Corporate.

(Charge) The Company or a Related Body Corporate charges or agrees to charge, the whole, or a substantial part of its business or property.

(Listing Rules) The Company commits a material breach of the Listing Rules.

(Board and senior management changes) There is a removal, resignation, or death of a director of the Company; an appointment or election of a person to the board of directors of the Company, or a change in the senior management of the Company to which the Underwriter does not consent within 5 Business Days of the cessation, appointment or election (as the case may be), which consent shall not be unreasonably withheld.

(Investigation) Any person is appointed under any legislation in respect of companies to investigate the affairs of the Company or a Related Body Corporate.

(Litigation) Any litigation, arbitration or other legal proceeding is commenced against any entity in the Group (other than Hillgrove Mining Pty Ltd).

(Timetable) An event specified in the Timetable is delayed for more than 5 Business Days other than as the direct result of actions taken by the Underwriter (unless those actions were requested by the Company) or the actions of the Company (where those actions were taken with the Underwriter's prior consent).

7.5 Remuneration of the Trustee

Australian Executor Trustees Limited has agreed to act as Trustee in respect of the Notes and the General Security Deeds. The Company must pay to the Trustee a fee as agreed from time to time between the parties in respect of the Trustee's services. In this regard, the parties have agreed to an establishment fee of \$10,000 (excluding GST) and reimburse the Trustee's reasonable legal costs related to the establishment and an annual fee of \$35,000 (excluding GST), based on a maximum issue size of \$5 million.

7.6 Directors' interests, benefits and related party transactions

Except as disclosed in the Prospectus:

- no Director or proposed Director has, or has had within two years of lodgement of this Prospectus with ASIC, any interest in:
 - the formation or promotion of the Company;
 - any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Entitlement Offer; or
 - the Entitlement Offer; and
- no person has paid or agreed to pay any amount, and no one has given or agreed to give any benefit, to any Director or any proposed Director or to any firm in which any Director or proposed Director is or was a partner:
 - to induce that person to become, or to qualify as, a Director of the Company; or
 - for services rendered by that person or by the firm in which that person is or was a partner in connection with the formation or promotion of the Company or the Entitlement Offer.

The following is a summary of the interests and benefits payable to the Directors and other persons connected with the Company or the Entitlement Offer, and any significant related party transactions.

Subject to the provisions of the Constitution, the ASX Listing Rules and the Corporations Act, Directors and related parties can participate in the Entitlement Offer and will have equal rights with any other Shareholder or investor.

Interests of Directors – existing security interests

As at the date of this Prospectus, the Directors' direct and indirect interests in Shares and Performance Rights of the Company are as follows:

Director	Shares	Performance Rights
The Hon Dean Brown	367,678	nil
Mr Steven McClare	852,273	2,800,000
Mr John Gooding	23,490	nil
Mr Maurice Loomes	1,050,569	nil
Mr Philip Baker	100,000	nil

Interests of Directors - remuneration

Directors are entitled to receive directors' fees and other remuneration (which may include consulting fees) from the Company in relation to services provided to the Company.

The following table sets out the total amounts paid or payable (excluding GST) to current Directors as fees and executive service remuneration in the two year period prior to the lodgement of this Prospectus:

Director	12 months ended 31 December 2014	12 months ended 31 December 2015	1 January 2016 to 30 September 2016
The Hon Dean Brown	\$150,000	\$147,500	\$90,000
Mr Steven McClare	\$430,000	\$465,095	\$319,760
Mr John Gooding	\$75,000	\$73,750	\$45,000
Mr Maurice Loomes	\$75,000	\$73,316	\$45,435
Mr Philip Baker	\$13,365	\$73,750	\$45,000

The current maximum aggregate sum per annum which may be paid to the Directors, other than executive Directors, by way of fees for services is \$450,000. Any change to that maximum aggregate sum needs to be approved by the Shareholders in general meeting. Pursuant to the Constitution, non-executive Directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or general meetings of the Company or otherwise in connection with the Company's business.

Directors – appointment and rotation

Under the Constitution, the maximum number of Directors that may comprise the Board is 10 Directors (unless the Shareholders pass an ordinary resolution in general meeting varying that number). Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that no Director (excluding the Managing Director (if there is one)) holds office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected.

Directors – voting

Questions arising at a meeting of the Board will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote.

Indemnities

The Company, to the extent permitted by law, has agreed to indemnify each Director against any liability incurred by that person as an officer of the Company or of its subsidiaries and reasonable legal costs incurred by that person in defending an action for any liability incurred as an officer of the Company.

The Company, to the extent permitted by law and subject to its right to require repayment under certain circumstances, may make a payment (whether by way of an advance, loan or otherwise) to a Director in respect of legal costs incurred by that person in

7. ADDITIONAL INFORMATION (continued)

defending an action for a liability of that person. The Company may enter into a deed with any officer of the Company to give effect to those matters outlined in this paragraph.

The Company, to the extent permitted by law, may pay a premium for a contract insuring a person who is or has been a Director against liability incurred by that person as a Director.

Interests of advisers

As at the date of this Prospectus, other than as set out below or elsewhere in this Prospectus:

- no person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus or as a promoter of the Company has, or during the last 2 years prior to the date of the Prospectus has had, an interest in:
 - (a) the formation or promotion of the Company;
 - (b) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Entitlement Offer under this Prospectus; or
 - (c) the Entitlement Offer under this Prospectus; and
- no amounts, whether in cash or shares or otherwise, have been paid or agreed to be paid and no value or benefit has been given or agreed to be given to any person named in the Prospectus as performing a function in a professional advisory or other capacity for services rendered in connection with the formation or promotion of the Company or the Entitlement Offer under this Prospectus.

Trustee

Australian Executor Trustees Limited has given, and as at the time of lodgement of this Prospectus, has not withdrawn its consent to be named in the Prospectus as Trustee, in the form and context in which it is named.

Underwriter

The Underwriter, Ariadne Capital Pty Ltd or its nominee, has agreed to fully underwrite the Entitlement Offer pursuant to the Underwriting Agreement. The Underwriter's parent company, Ariadne Australia Limited, currently has a relevant interest of 16.27% in the Company. The Company has paid or agreed to pay the Underwriter estimated fees of approximately \$300,000 and reimbursement of costs and expenses incurred by the Underwriter.

Legal Adviser

Minter Ellison has acted for the Company as its legal adviser in respect of the Company and the Entitlement Offer. The Company has paid or agreed to pay Minter Ellison estimated fees of approximately \$110,000 in respect of services performed in relation to the Prospectus. Further amounts may be paid to Minter Ellison for other legal services provided in accordance with its usual time based charge out rates.

Share & Note Registry

Boardroom Pty Limited has acted as the Share & Note Registry. The Company has paid or agreed to pay the Share & Note Registry estimated fees of \$25,000.

7.7 Consents to be named and to the inclusion of information

Each of the parties who are named below (other than as specified in this section):

- has not made any statement in this Prospectus or any statement on which a statement made in this Prospectus is based;
- has not authorised or caused the issue of any part of this Prospectus;
- makes no representation or warranty, express or implied, as to the fairness, accuracy or completeness of information contained in this Prospectus; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements made in, or omissions from, this Prospectus, other than as specified in this section, and excludes and disclaims all liability for any damage, loss (including direct, indirect or consequential loss), cost or expense that may be incurred by any investor as a result of this Prospectus being inaccurate or incomplete in any way or for any reason.

Legal Adviser

Minter Ellison has given, and as at the time of lodgement of this Prospectus, has not withdrawn its consent to be named in the Prospectus as the legal advisers to the Company and the Entitlement Offer, in the form and context in which it is named.

Underwriter

Ariadne Capital Pty Ltd has given, and as at the time of lodgement of this Prospectus, has not withdrawn its consent to be named in the Prospectus as the Underwriter, in the form and context in which it is named.

Trustee

Australian Executor Trustees Limited has given, and as at the time of lodgement of this Prospectus, has not withdrawn its consent to be named in the Prospectus as the Trustee, in the form and context in which it is named.

Share & Note Registry

Boardroom Pty Limited has given, and as at the time of lodgement of this Prospectus, has not withdrawn its consent to be named in the Prospectus as the Share Registry and Note Registry of the Company, in the form and context in which it is named.

7.8 Privacy Disclosure Statement

(a) Company

The Company holds certain personal information regarding investors that has been provided to the Company (directly or via the Share Registry) in connection with their investment in the Company. The Privacy Act 1988 (Cth) governs the use of a person's personal information and sets out principles governing the ways in which organisations should treat personal information. The personal information that the Company holds is used to provide services and

appropriate administration including communications with members. If the Company is obliged to do so by law, investors' personal information will be passed on to other parties strictly in accordance with legal requirements. Once personal information is no longer needed for its records, the Company will destroy or de-identify it.

The Corporations Act requires that the Company include information about security holders (including name, address and details of the securities held) in its public register. The information contained in the Company's public register must remain there for 7 years after that person ceases to be a security holder. Information contained in the Company's registers is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual report and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

An investor has a right to gain access to the information that the Company holds about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

An investor who would like details of their personal information held by the Company or the Share Registry (or Note Registry), or who would like to correct information that is incorrect or out of date, should contact the Share Registry (or Note Registry) by telephoning (02) 9290 9600 or at the address shown in the Corporate Directory.

(b) Trustee

Information provided to the Trustee is primarily used for the purpose of providing trustee services to the Company and for ancillary purposes detailed in the Trustee's Privacy Policy. The Trustee may disclose your personal information, such as, your name and contact details, along with your account information to its related bodies corporate, the Company, professional advisers, the land titles office and/or as otherwise instructed by the Company. The Trustee is not likely to disclose your personal information to overseas recipients. Your personal information will be used in accordance with the Trustee's Privacy Policy. The Trustee's Privacy Policy contains information about how you may access or correct your personal information held by the Trustee and how you may complain about a breach of the Australian Privacy Principles. You may obtain a copy of the Trustee's Privacy Policy at www.aetlimited.com.au/privacy.

7.9 Expenses of the Entitlement Offer

The total estimated expenses of the Entitlement Offer payable by the Company (including the Underwriter's fees, accounting and tax fees, legal fees, lodgement fees, ASX quotation fees, fees for other advisers, prospectus design, printing, advertising and other miscellaneous expenses (including taxes and other government charges) will be approximately \$622,000. These costs are payable by the Company.

7.10 Legal proceedings

To the knowledge of the Directors, there is no material current, pending or threatened litigation with which the Company is directly or indirectly involved, other than as disclosed in this section.

There is presently a claim for less than \$500,000 from Aspect Consulting which is in the process of being settled.

7.11 Investor considerations

Before deciding to participate in this Entitlement Offer, you should consider whether the Notes and Options to be issued are a suitable investment for you. There are general risks associated with any investment in the stock market. The value of Notes and Options listed on ASX may rise or fall depending on a range of factors beyond the control of the Company.

If you are in doubt as to the course you should follow, you should seek advice on the matters contained in this Prospectus from a stockbroker, solicitor, accountant or other professional adviser.

The potential tax effects relating to the Entitlement Offer will vary between investors. Investors are urged to consider the possible tax consequences of participating in the Entitlement Offer by consulting a professional tax adviser.

7.12 Directors' statement

The Directors' report that, in their opinion, after having made relevant inquiries:

- except as disclosed in this Prospectus, they are not aware of any circumstances that have materially affected or will materially affect the assets and liabilities, the financial position, the profits and losses, or the prospects of the Company on completion of the Entitlement Offer; and
- they have reasonable grounds to, and do, believe that this Prospectus contains no statements that are false or misleading and that there are no material omissions from this Prospectus.

The Directors of the Company have authorised the lodgement of this Prospectus with ASIC.

7.13 Governing law

This Prospectus is governed by the law of South Australia.

7.14 Approval

This Prospectus has been approved by unanimous resolution of the Directors of the Company.

Each Director of the Company has given and has not, before the lodgement of this Prospectus, withdrawn his consent to the lodgement of this Prospectus with ASIC.

Dated: 22 November 2016

Mr Steven McClare
CEO & Managing Director

8. CONVERTIBLE NOTES – TERMS OF ISSUE

1 FORM OF NOTES

1.1 Form

The Notes are redeemable, convertible notes of the Issuer issued under the Trust Deed. Noteholders are entitled to the benefit of and are bound by the provisions of the Transaction Documents and these Note Terms.

1.2 Face Value and Issue Price

- (a) The Notes are each issued fully paid with a Face Value of \$1.00 (Face Value).
- (b) Each Note will be issued by the Issuer at an issue price of \$1.00 (Issue Price). The Issue Price must be paid in full on application.

1.3 Currency

The Notes are denominated in Australian dollars.

1.4 Clearing System

For such time as the Notes are quoted on ASX, the rights of a person holding an interest in the Notes are subject to the rules and regulations of the Clearing System.

1.5 No certificates

No certificates will be issued to Noteholders unless the Issuer determines that certificates should be available or are required by any applicable law.

1.6 ASX quotation of Notes

The Issuer must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure that the Notes are, and until Redeemed or Converted remain, quoted on ASX.

1.7 No other rights

The Notes confer no rights on a Noteholder:

- (a) to vote at any meeting of members of the Issuer;
- (b) to subscribe for or participate in any new issue of securities by the Issuer; or
- (c) to otherwise participate in the profits or property of the Issuer, except as set out in these Note Terms or the Transaction Documents.

2 INTEREST

2.1 Interest

- (a) Each Note bears interest on its Face Value from (and including) its Issue Date to (but excluding) its Maturity Date, Conversion Date or Redemption Date at the Interest Rate.
- (b) Interest is payable in arrears on each Interest Payment Date.

3 GENERAL PROVISIONS APPLICABLE TO INTEREST

3.1 Calculation of Interest Rate and Interest payable

- (a) The Issuer must, as soon as practicable in each Interest Period, calculate the amount of interest payable for that Interest Period in respect of the Face Value of each Note.
- (b) The amount of interest payable on each Note for an Interest Period is calculated according to the following formula:

$$\text{Interest payable} = \frac{\text{Interest Rate} \times \$1.00 \times N}{365}$$

Where:

N means, in respect of:

- (i) the first Interest Payment Date in respect of a Note, the number of days from (and including) its Issue Date to (but excluding) that first Interest Payment Date; and
- (ii) each subsequent Interest Payment Date, the number of days from (and including) the preceding Interest Payment Date to (but excluding) that Interest Payment Date or, in the case of the last Interest Period, the Maturity Date, Conversion Date or Redemption Date.

3.2 Notification of Interest Rate, Interest payable and other items

- (a) The Issuer must notify the Trustee and ASX (and any other stock exchange or other relevant authority on which the Notes are quoted) of:
 - (i) for each Interest Period, the amount of interest payable; and
 - (ii) any amendment to the amount referred to in subparagraph (i) arising from any extension or reduction in any Interest Period or calculation period.
- (b) The Issuer must give notice under this clause 3.2 of the amount of interest on each Note for the Interest Period by no later than the fifth Business Day of that Interest Period.
- (c) The Issuer may amend its calculation or determination of any amount, item or date (or make appropriate alternative arrangements by way of adjustment) as a result of the extension or reduction of the Interest Period or calculation period without prior notice but must notify the Trustee and ASX (and any other stock exchange or other relevant authority on which the Notes are quoted) promptly after doing so.

3.3 Default Interest

If an amount is not paid under these Note Terms on or before the due date, interest accrues on the unpaid amount at 8% per annum from (and including) the due date to (but excluding) the date on which payment is made to the Noteholder of the full unpaid amount.

3.4 Determination final

The determination by the Issuer of all amounts, rates and dates falling to be calculated or determined by it under these Note Terms is, in the absence of manifest or proven error, final and binding on the Issuer, the Trustee and each Noteholder.

3.5 Calculations

For the purposes of any calculations required under these Note Terms:

- (a) all figures must be rounded to three decimal places (with 0.0005 being rounded up to 0.001); and
- (b) all amounts that are due and payable must be rounded to the nearest one Australian cent (with 0.5 of a cent being rounded up to 1 cent).

4 CONVERSION

4.1 Notes are Convertible

Subject to these Note Terms, the Noteholder has the right (**Conversion Right**), in accordance with this clause 4, to convert some or all of its Notes into a number of Shares determined by application of the following formula:

$$\frac{A}{B} \quad \text{where:}$$

- A = the Conversion Amount; and
- B = the Conversion Price.

4.2 Conversion at the Noteholder's election

- (a) Subject to paragraphs 4.2(b) and 4.3, a Noteholder may elect in its absolute discretion to convert some or all of its Notes into Shares by giving the Registrar notice in writing of its intention to convert some or all of its Notes (**Conversion Notice**).
- (b) The Face Value of the Notes the subject of a Conversion Right must be at least the lesser of \$2,000 or the balance of the Noteholder's holding of Notes.

4.3 Conversion Notice

- (a) A Conversion Notice must:
 - (i) be in writing (in such form as the Issuer may accept or as is required by the ASX Listing Rules);
 - (ii) specify the number of Notes to be converted; and
 - (iii) be signed by the Noteholder or an authorised representative or officer of the Noteholder.
- (b) Once a Conversion Notice has been given:
 - (i) the notice cannot be withdrawn without the written consent of the Issuer;
 - (ii) the Noteholder must not deal with, transfer, dispose or otherwise encumber any Notes the subject of the Conversion Notice; and
 - (iii) the Noteholder must provide such evidence of title to the Notes the subject of the Conversion Notice as may be reasonably required by the Issuer and the Registrar.

- (c) Despite receipt by a Noteholder of an Early Redemption Notice under clause 5.2 or Change of Control Notice under clause 5.3, a Noteholder may still give a Conversion Notice (for some or all of its Notes) provided the notice is given not less than 5 Business Days before the Redemption Date specified in the Early Redemption Notice or Change of Control Notice (as applicable).
- (d) A Conversion Notice given to the Issuer 10 or more Business Days before an Interest Payment Date will be effective on such date as may be determined by the Issuer (in its absolute discretion), provided that date is not later than the next Interest Payment Date.
- (e) If a Conversion Notice is given to the Issuer less than 10 Business Days before an Interest Payment Date (**Date 1**), the Conversion Notice will be effective on such date as may be determined by the Issuer (in its absolute discretion), provided that date is not later than the next Interest Payment Date following Date 1.
- (f) A Conversion Notice will not be effective if it is given less than 10 Business Days before the Maturity Date.

4.4 Effect of Conversion

On the Conversion Date:

- (a) the Noteholder's Note will be taken to have been Redeemed, and the Noteholder will be taken to have agreed to pay the Conversion Amount to the Issuer by way of subscription for new Shares (**Conversion Shares**) at an issue price per Conversion Share that is equal to the Conversion Price;
- (b) the Issuer will be taken to have issued to the Noteholder, and must register the Noteholder as the holder of, the Conversion Shares;
- (c) the Noteholder agrees to be registered as the holder of the Conversion Shares in the register of Members;
- (d) a holding notice in respect of the Conversion Shares is to be sent to the Noteholder at its registered address in respect of the relevant Notes;
- (e) the Issuer must use all reasonable endeavours to procure and maintain quotation of Conversion Shares on ASX; and
- (f) upon issue of the Conversion Shares, all other rights conferred or restrictions imposed by the Note under these Note Terms will no longer have effect.

4.5 Ranking of Shares

Shares issued on conversion of the Notes will be fully paid and will in all respects rank *pari passu* with all other fully paid Shares on issue on the relevant Conversion Date, except that they will not be entitled to any dividend or any other distribution or entitlement that has not been paid as at the Conversion Date but for which the record date was prior to the Conversion Date.

4.6 No fractional shares

No fractional Shares will be issued on conversion of a Note. If the calculation under this clause results in an entitlement to a number of Shares which includes a fraction of a Share, the fraction will be disregarded.

8. CONVERTIBLE NOTES – TERMS OF ISSUE (continued)

4.7 Adjustments for reorganisation of capital

Subject to the ASX Listing Rules, if there is a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Issuer, the basis for conversion of the Notes will be reconstructed in the same proportion as the issued capital of the Issuer is reconstructed and in a manner which will not result in any additional benefits being conferred on the Noteholders which are not conferred on Shareholders (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of Shareholders approving the reconstruction of capital) but in all other respects the terms for conversion of the Notes will remain unchanged.

5 REDEMPTION

5.1 Scheduled redemption on Maturity Date

Each Note is Redeemable by the Issuer on the Maturity Date at its Face Value unless:

- (a) the Note has been previously Converted;
- (b) the Note has been previously Redeemed; or
- (c) the Note has been purchased by the Issuer and cancelled.

5.2 Early Redemption by the Issuer

- (a) Subject to clause 5.3(c), compliance with any applicable law and the ASX Listing Rules, the Issuer may Redeem all (but not some) of the Notes in whole before their Maturity Date at their Face Value plus the Early Redemption Premium, together with any Interest accrued on those Notes to (but excluding) the applicable Redemption Date, provided that the Issuer has given not less than 30 days' notice in writing to the Trustee, the Noteholders and ASX (and any other stock exchange or other relevant authority on which the Notes are quoted) of the intention of the Issuer to Redeem the Notes (**Early Redemption Notice**).
- (b) Subject to clause 5.3(c), if an Early Redemption Notice is given by the Issuer under clause 5.2(a), the notice will be effective (and Redemption will occur) on the Redemption Date as specified by the Issuer in the Early Redemption Notice (which must be no less than 30 days after the date of the Early Redemption Notice).
- (c) If, no later than 5 Business Days prior to Redemption of the Notes taking place pursuant to an Early Redemption Notice, a Noteholder delivers a Conversion Notice for some or all of its Notes, the Conversion Notice will prevail for the Notes that are the subject of the Conversion Notice.

5.3 Early Redemption – Change of Control Event

- (a) As soon as practicable after the occurrence of a Change of Control Event, the Issuer must give notice in writing to the Trustee, the Noteholders and ASX (and any other stock exchange or other relevant authority on which the Notes are quoted) (**Change of Control Notice**):

- (i) specifying the occurrence of a Change of Control Event;
- (ii) specifying the date on which the Change of Control Event occurred;
- (iii) notifying each Noteholder that the Issuer will Redeem all of the Noteholder's Notes on the Redemption Date specified in the Change of Control Notice (which date must be at least 20 Business Days after the date of the Change of Control Notice), at the Face Value of those Notes plus the Early Redemption Premium, together with any Interest accrued on those Notes to (but excluding) the specified Redemption Date, unless within 15 Business Days after the date of the Change of Control Notice, the Noteholder:
 - (A) exercises its Conversion Right by delivering a Conversion Notice for some or all of its Notes in accordance with clause 4.2; or
 - (B) notifies the Issuer that it does not wish to have its Notes redeemed on the Redemption Date specified in the Change of Control Notice; and
 - (iv) enclosing the form of the notice required to be given by a Noteholder if it elects to notify the Issuer that it does not wish to have its Notes redeemed on the Redemption Date specified in the Change of Control Notice (**Retention Notice**); and
 - (v) such other information relating to the Change of Control Event as the Trustee may reasonably require be given to the Noteholders.
- (b) Subject to clause 5.3(c), if a Change of Control Notice is given by the Issuer under clause 5.3(a), the notice will be effective (and Redemption will occur) on the Redemption Date as specified by the Issuer in the Change of Control Notice (which must be no less than 20 Business Days after the date of the Change of Control Notice) in respect of any Notes that are not the subject of a Conversion Notice given under clause 5.3(a)(iii)(A) or a Retention Notice given under clause 5.3(a)(iii)(B).
- (c) If, no later than 5 Business Days prior to the Redemption Date specified in the Change of Control Notice, a Noteholder delivers:
 - (i) a Conversion Notice for some or all of its Notes, the Conversion Notice will prevail for the Notes that are the subject of the Conversion Notice; or
 - (ii) a Retention Notice for some or all of its Notes, the Retention Notice will prevail for the Notes that are the subject of the Retention Notice and those Notes will not be redeemed by the Issuer on the Redemption Date.

5.4 Effect of Noteholder Redemption Notice

- (a) Once given by a Noteholder, a Noteholder Redemption Notice cannot be withdrawn without the written consent of the Issuer.
- (b) A Noteholder Redemption Notice must be accompanied by evidence of title for the Notes the subject of the Notice as may reasonably be required by the Issuer and the Registrar.
- (c) A Noteholder must not deal with, transfer, dispose of or encumber any Notes the subject of a Noteholder Redemption Notice once that Notice has been given.

5.5 Purchase

Subject to compliance with any applicable law or requirement of ASX (and any stock exchange or other relevant authority on which the Notes are quoted):

- (a) the Issuer and any of its Related Bodies Corporate (or any third party nominated by the Issuer) may, at any time, purchase Notes in the open market or otherwise and at any price;
- (b) if purchases are made by tender for the Notes by the Issuer or any of its Related Bodies Corporate, tenders must be available to all Noteholders alike; and
- (c) Notes purchased under this clause 5.5 may be held, resold or cancelled at the discretion of the purchaser (and, if the Notes are to be cancelled, the Issuer).

6 STATUS, SECURITY AND RANKING

6.1 Status

- (a) The Notes at all times constitute direct and secured debt obligations of the Issuer.
- (b) Pursuant to the Guarantee, each of the Australian Subsidiaries has agreed to guarantee to the Trustee the Issuer's obligations under the Trust Deed and the Note Terms in respect of the Notes.

6.2 Security

- (a) The Notes are secured by the security interests granted by the Issuer and its Australian Subsidiaries to the Trustee under the General Security Deeds.
- (b) The Trustee holds the rights under the General Security Deeds on trust for the benefit of the Noteholders in accordance with the terms of the Transaction Documents.

6.3 Ranking of Notes

- (a) Each Note ranks for payment in a Winding Up of the Issuer:
 - (i) after all Existing Senior Debt Obligations and any Permitted New Debt;
 - (ii) equally with each other Note;
 - (iii) ahead of all present and future unsubordinated and unsecured debt obligations of the Issuer (subject to the laws and principles of equity affecting creditor rights or obligations preferred by mandatory provisions of applicable law); and
 - (iv) ahead of all Shares.
- (b) In order to give effect to the ranking specified in clause 6.3(a), in any Winding Up of the Issuer, the claims of Noteholders are limited to the extent necessary to ensure that:
 - (i) all holders of Existing Senior Debt Obligations of the Issuer receive payment in full before any payment is made to Noteholders; and
 - (ii) Noteholders of the Notes receive payments on a pro-rata basis.

- (c) Neither the Trustee nor any Noteholder has any right to prove in a Winding Up of the Issuer in respect of the Notes, except on the basis set out in clauses 6.3(a) and 6.3(b).
- (d) Neither the Trustee nor any Noteholder may exercise voting rights as a creditor in respect of the Notes in a Winding Up of the Issuer to defeat the subordination in this clause.
- (e) The ranking of Notes is not affected by the date of registration of any Noteholder in the Register.

7 NEGATIVE COVENANTS

For so long as any of the Notes remain outstanding, the Issuer must not and must procure that the Australian Subsidiaries must not, without the approval of a Noteholders Resolution:

- (a) **(sale of assets)** conduct or agree to conduct (including by entering into an indicative term sheet) any transaction or series of related transactions in which an entity in the Group sells significant assets or assets worth more than 10% of the Group's gross assets;
- (b) **(dividends)** declare or pay any dividends to Shareholders;
- (c) **(issue securities)** issue any further notes, shares or any other form or type of securities, other than the Permitted Issues;
- (d) **(capital reduction)** other than in respect of the Notes, redeem, purchase, cancel, reduce, return capital on or otherwise acquire any share or other securities issued by a member of the Group for repayment or return of capital in a winding-up;
- (e) **(new debt)** incur any indebtedness for moneys borrowed or raised pursuant to any financial accommodation or agree to do so (including by entering into an indicative term sheet), except:
 - (i) pursuant to the Existing Senior Debt Obligations;
 - (ii) any indebtedness incurred or guaranteed after the Issue Date for the purpose of replacing, refinancing or extending the maturity of the Existing Senior Debt Obligations; or
 - (iii) any Permitted New Debt;
- (f) **(Security Interests)** other than in the ordinary course of business:
 - (i) create or permit to exist a Security Interest over any of its assets or attempt or agree to do so (including by entering into an indicative term sheet), except:
 - (A) to secure the Existing Senior Debt Obligations;
 - (B) to secure any indebtedness incurred after the Issue Date for the purpose of replacing, refinancing or extending the maturity of the Existing Senior Debt Obligations; or
 - (C) to secure any Permitted New Debt; or
 - (ii) if the creation of a Security Interest cannot by law be restricted, create such a Security Interest over any of its assets without the holder of the Security Interest first entering into a deed of priority in form and substance acceptable to the Trustee.

8. CONVERTIBLE NOTES – TERMS OF ISSUE (continued)

8 EVENTS OF DEFAULT

8.1 Events of Default

An Event of Default occurs in relation to the Notes if:

- (a) **(non-issue of Shares)** the Issuer fails to issue Shares on Conversion in accordance with these Note Terms within 10 Business Days after the date on which such issue is to be made;
- (b) **(non-payment)** the Issuer fails to pay any amount payable by it under the Note Terms within 10 Business Days after the date on which it is due and, where the sole reason for the default is a technical or administrative difficulty within the banking system being used to effect payment, such default is not remedied within 5 Business Days;
- (c) **(breach of Negative Covenants)** a member of the Group fails to comply with clause 7 and such failure remains unremedied for a period of 10 Business Days;
- (d) **(breach of other obligations)** the Issuer fails to comply with any of its other obligations under the Note Terms or the Transaction Documents and such failure remains unremedied for a period of 10 Business Days after the earlier of (A) the Issuer receiving written notice from the Trustee in respect of the failure to comply and (B) the Issuer becoming aware of the failure to comply;
- (e) **(insolvency)** an Insolvency Event occurs in respect of a member of the Group;
- (f) **(sale of business or main undertaking)** there is a sale of the business or the main undertaking of the Issuer that would require approval of the Shareholders in accordance with ASX Listing Rule 11.2;
- (g) **(delisting)** a Delisting Event occurs in respect of the Issuer;
- (h) (Security Interest) any Security Interest over an asset of the Group member with a value greater than \$500,000 is enforced or becomes enforceable;
- (i) **(cessation of business)** a member of the Group ceases or suspends (or threatens to cease or suspend) the conduct of all of its business or a substantial part of its business;
- (j) **(unlawfulness)** at any time, it is unlawful for the Issuer to perform any of its payment obligations under the Notes;
- (k) **(creditor balance)** the Group's aggregate outstanding creditor liabilities exceeds \$25 million at any date after 1 March 2017, except where the deferred amount of \$5,293,046.38 payable by Hillgrove Copper Pty Ltd ACN 105 074 762 to Andy's Earthmovers under the Rental Agreement becomes due and payable, in which case, the Group's aggregate outstanding creditor liabilities exceeds \$30 million at any date after 1 March 2017;
- (l) **(Government Agency)** all or substantially all of the assets of the Group is resumed or compulsory acquired by any Government Agency; or
- (m) **(vitiating)** all or any rights or obligations of the Issuer, Noteholders or the Trustee under the Trust Deed or the Note Terms are terminated or are or become void, illegal, invalid, unenforceable or of limited force and effect.

8.2 Notification

If an Event of Default occurs, the Issuer must, promptly after becoming aware of it but in any event no later than two Business Days after the Event of Default occurs, notify the Trustee of the occurrence of the Event of Default (specifying details of it) and use its reasonable endeavours to promptly notify the Noteholders and ASX (and any other stock exchange or other relevant authority on which the Notes are quoted) of the occurrence of the Event of Default. The Trustee is taken not to have knowledge of the occurrence of an Event of Default unless the Trustee has received written notice from the Issuer or a Noteholder stating that an Event of Default has occurred and describing it. Nothing contained in the Trust Deed imposes on the Trustee an obligation to inform any Noteholder of any breach by the Issuer of any provision of the Trust Deed.

8.3 Consequences of an Event of Default

- (a) If an Event of Default occurs and is continuing in relation to the Notes, the Trustee may:
 - (i) declare by notice to the Issuer (with a copy to the Noteholders and the Registrar) that all the Notes are to be Redeemed at their Face Value (together with any accrued Interest) immediately (but not earlier than 5 Business Days after the date the Trustee gives notice under this clause) or on such other date specified in that notice; and
 - (ii) take enforcement action against the Issuer and the relevant Group member (as applicable) in relation to the Event of Default in accordance with the Transaction Documents.
- (b) The Trustee shall not be bound to take the action referred to in paragraph (a) above to enforce the obligations of the Issuer in respect of the Notes or any other proceedings or action pursuant to or in connection with the Transaction Documents unless:
 - (i) it shall have been so directed by a Special Resolution of the Noteholders of the relevant Notes;
 - (ii) it is indemnified, to its satisfaction, against all costs, charges, liabilities and expenses which may be incurred by it (including legal costs on a solicitor and own client basis) in connection with that action;
 - (iii) it is first placed in funds by the Issuer sufficient to cover the costs that it may incur as a result of doing so; and
 - (iv) it is not restricted or prohibited from taking such action by any order of any competent court or any applicable law.

If the Trustee forms the view that such action is or could be inconsistent with these Note Terms, the Transaction Documents or the Corporations Act or any applicable law, it must take steps to seek (and, if the court so determines, to obtain) as soon as reasonably practicable a court direction or order to set aside or vary the direction given by Special Resolution, and, while those steps are underway, the Trustee is not obliged to take any action or proceedings it has been directed to take by Special Resolution.

8.4 No enforcement by Noteholders

Unless the Trustee, having become obliged to take action to enforce the rights of the Noteholders under the Transaction Documents and these Note Terms, fails to do so within 20 Business Days of being obliged to do so and such failure is continuing, the rights of each Noteholder to enforce the obligations of the Issuer under the Notes are limited to the exercise of its rights to enforce and seek due administration by the Trustee of the Trust Deed. In particular, unless the Trustee, having become obliged to take action to enforce the rights of the Noteholders under the Transaction Documents and these Note Terms, fails to do so within 20 Business Days of being obliged to do so and such failure is continuing, no Noteholder may, with respect to payment of any amount due under the Notes held by it:

- (a) sue the Issuer;
- (b) obtain judgment against the Issuer; or
- (c) apply for or seek Winding Up of the Issuer.

9 TITLE AND TRANSFER OF NOTES

9.1 Title

Title to a Note passes when details of the transfer are entered in the Register.

9.2 Effect of entries in Register

Each entry in the Register in respect of a Note constitutes:

- (a) an unconditional and irrevocable undertaking by the Issuer to the Noteholder to pay principal, interest and any other amount in accordance with these Note Terms; and
- (b) an entitlement to the other benefits given to Noteholders under these Note Terms and the Transaction Documents in respect of the Note.

For the avoidance of doubt, an entry in the Register does not make the Noteholder a Member of the Issuer or confer rights on a Noteholder to attend or vote at meetings of Members of the Issuer.

9.3 Register conclusive as to ownership

Entries in the Register in relation to a Note constitute conclusive evidence that the person so entered is the absolute owner of the Note subject to correction for fraud or manifest error.

9.4 Non-recognition of interests

Except as required by law, the Issuer, the Trustee and the Registrar must treat the person whose name is entered in the Register as the holder of a Note as the absolute owner of that Note. This clause 9.4 applies whether or not a Note is overdue and despite any notice of ownership, trust or interest in the Note.

9.5 Joint holders

Where two or more persons are entered in the Register as the joint holders of a Note then they are taken to hold the Note as joint tenants with rights of survivorship, but the Registrar is not bound to register more than four persons as joint holders of any Note.

9.6 Transfers in whole

The Notes may be transferred in whole but not in part.

9.7 Transfer

A Noteholder may, subject to this clause 9.7, transfer any Notes:

- (a) by a proper ASTC transfer according to the ASX Settlement Operating Rules;
- (b) by a proper transfer under any other computerised or electronic system recognised by the Corporations Act;
- (c) under any other method of transfer which operates in relation to the trading of securities on any securities exchange outside Australia on which the Notes are quoted; or
- (d) by any proper or sufficient instrument of transfer of marketable securities under applicable law. The Issuer must not charge any fee on the transfer of a Note.

9.8 Market obligations

The Issuer must comply with all Applicable Regulations and any other relevant obligations imposed on it in relation to the transfer of a Note.

9.9 Issuer may request holding lock or refuse to register transfer

If the Notes are quoted on ASX, and if permitted to do so by the ASX Listing Rules and the Corporations Act, the Issuer may:

- (a) request the CS Facility Operator or the Registrar, as the case may be, to apply a holding lock to prevent a transfer of Notes approved by and registered on the CS Facility's electronic sub-register or Notes registered on an issuer-sponsored sub-register, as the case may be; or
- (b) refuse to register a transfer of Notes.

9.10 Issuer must request holding lock or refuse to register transfer

- (a) The Issuer must request the CS Facility Operator or the Registrar, as the case may be, to apply a holding lock to prevent a transfer of Notes approved by and registered on the CS Facility's electronic sub-register or Notes registered on an issuer-sponsored sub-register, as the case may be, if the Corporations Act, the ASX Listing Rules or the terms of a Restriction Agreement require the Issuer to do so.
- (b) The Issuer must refuse to register any transfer of Notes if the Corporations Act, the ASX Listing Rules or the terms of a Restriction Agreement require the Issuer to do so.

8. CONVERTIBLE NOTES – TERMS OF ISSUE (continued)

(c) During a breach of the ASX Listing Rules relating to Restricted Securities, or a breach of a Restriction Agreement, the Noteholder of the Restricted Securities is not entitled to any Interest (or other distribution on), or voting rights in respect of, the Restricted Securities.

9.11 Notice of holding lock and refusal to register transfer

If, in the exercise of its rights under clauses 9.9 and 9.10, the Issuer requests the application of a holding lock to prevent a transfer of Notes or refuses to register a transfer of Notes, it must, within 5 Business Days after the date the holding lock is requested or the refusal to register a transfer, give written notice of the request or refusal to the Noteholder, to the transferee and the broker lodging the transfer, if any. Failure to give such notice does not, however, invalidate the decision of the Issuer.

9.12 Delivery of instrument

If an instrument is used to transfer the Notes according to clause 9.7, it must be delivered to the Registrar, together with such evidence (if any) as the Issuer and/or the Registrar reasonably requires to prove the title of the transferor to, or right of the transferor to transfer, the Notes.

9.13 Refusal to register

- (a) The Issuer may only refuse to register a transfer of any Notes if such registration would contravene or is forbidden by Applicable Regulations or the Note Terms.
- (b) If the Issuer refuses to register a transfer, the Issuer must give the lodging party notice of the refusal and the reasons for it within five Business Days after the date on which the transfer was delivered to the Registrar.

9.14 Transferor to remain Noteholder until registration

A transferor of a Note remains the Noteholder in respect of that Note until the transfer is registered and the name of the transferee is entered in the Register.

9.15 Effect of transfer

Upon registration and entry of the transferee in the Register the transferor ceases to be entitled to future benefits under the Transaction Documents and the Note Terms in respect of the transferred Notes and the transferee becomes so entitled in accordance with clause 9.2.

9.16 Estates

A person becoming entitled to a Note as a consequence of the death or bankruptcy of a Noteholder or of a vesting order or a person administering the estate of a Noteholder may, upon producing such evidence as to that entitlement or status as the Registrar considers sufficient, transfer the Note or, if so entitled, become registered as the holder of the Note.

9.17 Transfer of unidentified Notes

Where the transferor executes a transfer of less than all the Notes registered in its name, and the specific Notes to be transferred are not identified, the Registrar may register the transfer in respect of such of the Notes registered in the name of the transferor as the Registrar thinks fit, provided the aggregate of the Face Value of all the Notes registered as having been transferred equals the aggregate of the Face Value of all the Notes expressed to be transferred in the transfer.

10 PAYMENTS

10.1 Summary of payment provisions

Payments in respect of the Notes will be made in accordance with this clause 10.

10.2 Record Date

All payments under or in respect of a Note will be made only to those persons registered as the holder of that Note at the nominated time on the relevant Record Date.

10.3 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of clause 11.

10.4 Payments on Business Days

If a payment:

- (a) is due on a Note on a day which is not a Business Day then the due date for payment will be postponed to the first following day that is a Business Day; or
- (b) is to be made to an account on a Business Day on which banks are not open for general banking business in the place in which the account is located, then the due date for payment will be the first following day on which banks are open for general banking business in that place,

and, in either case, the Noteholder is not entitled to any additional payment in respect of that delay.

10.5 Payments to accounts

Moneys payable by the Issuer to a Noteholder may be paid in any manner the Issuer decides, including by direct credit into a nominated account of the Noteholder at an Australian branch of a financial institution.

10.6 Payments by cheque

- (a) The Issuer may decide that payments in respect of the Notes will be made by cheque sent by prepaid post on the payment date to the Noteholder (or to the first named joint holder of the Notes) at its address appearing in the Register.

(b) Cheques sent to the nominated address of a Noteholder will be at the risk of the registered Noteholder and will be taken to have been received by the Noteholder on the payment date and, no further amount will be payable by the Issuer in respect of the Notes as a result of the Noteholder not receiving payment on the due date.

10.7 Unsuccessful attempts to pay

Subject to applicable law and the ASX Listing Rules, where the Issuer:

- (a) decides that an amount is to be paid to a Noteholder by a method of direct credit and the Noteholder has not nominated an account to which amounts are to be paid by that method;
- (b) attempts to pay an amount to a Noteholder by direct credit, electronic transfer of funds or any other means and the transfer is unsuccessful;
- (c) has made reasonable efforts to locate a Noteholder but is unable to do so; or
- (d) has issued a cheque which has not been presented within six months of its date and, as a consequence, the Issuer has cancelled such cheque,

then, in each case:

- (e) the amount will be taken to have been duly paid to the Noteholder and will not bear Interest; and
- (f) the amount will be held by the Issuer for the Noteholder in a non-interest bearing deposit with a bank selected by the Issuer until the Noteholder (or any legal personal representative of the Noteholder) nominates an account for payment or otherwise claims the amount or the amount is paid by the Issuer according to the legislation relating to unclaimed moneys.

10.8 Payment to joint Noteholders

A payment to any one of the joint Noteholders of a Note will discharge the Issuer's liability in respect of the payment.

11 DEDUCTIONS

11.1 No set-off, counterclaim or deductions

All payments in respect of the Notes must be made in full without set-off or counterclaim, and without any withholding or deduction for or in respect of Taxes, unless such withholding or deduction is required by law.

11.2 Withholding and other taxes

- (a) The Issuer may withhold or deduct from any amount payable to a Noteholder in respect of the Notes an amount in respect of any Tax which a qualified legal or taxation advisor advises that it is required by law to withhold or deduct from that payment.

(b) The Issuer must pay the full amount required to be withheld or deducted to the relevant revenue authority within the time allowed for such payment (without incurring penalty under the applicable law) and must, if required by a Noteholder, deliver to that Noteholder a copy of the relevant receipt issued by the relevant revenue authority without unreasonable delay after it is received by the Issuer.

- (c) If an amount is deducted or withheld under clause 11.2(a) from a payment to a Noteholder in respect of any Tax, the Issuer will have no obligation to pay any additional amount to the Noteholder such that the Noteholder, at the time the payment is due, receives the same amount it would have received if no deductions or withholdings had been required to be made.

12 AMENDMENT OF THE NOTE TERMS

12.1 Amendment without the approval of the Noteholders

At any time, and from time to time, but subject to clause 17.4 of the Trust Deed, the Note Terms (which, for the avoidance of doubt include this clause) may be modified, altered, cancelled, amended or added to (collectively Modified), without the consent of the Noteholders, if:

- (a) such modification, alteration, cancellation, amendment or addition (collectively Modification) is:
 - (i) of a formal or technical nature or made to cure any ambiguity or correct any manifest error;
 - (ii) necessary or expedient for the purpose of listing the Notes on ASX or to comply with the applicable ASX Listing Rules or the listing or quotation requirements of any other any securities exchange on which the Issuer may propose to seek a listing of the Notes;
 - (iii) necessary or expedient for the purpose of enabling the Notes to be offered for issue or for sale under the laws for the time being in force in any place;
 - (iv) necessary or expedient to comply with the provisions of any law or regulation or the requirements of any statutory authority; or
 - (v) necessary or advisable following the introduction of, or any amendment to, clarification of, or change (including any announced prospective change) in, any law or regulation of the Commonwealth of Australia or an announcement, action or decision or a proposal to introduce, amend, clarify or change any such law or regulation or any official administrative pronouncement or action or judicial decision interpreting or applying any such law or regulation which is likely to cause the Notes to cease to be treated as debt for tax or accounting purposes; and

8. CONVERTIBLE NOTES – TERMS OF ISSUE (continued)

(b) in respect of a Modification sought by a party in reliance on:

- (i) any one of clauses 12.1(a)(i) to 12.1(a)(iv) above - the Issuer and the Trustee have jointly obtained a legal opinion from legal advisers of recognised standing in New South Wales, which opinion is in a form satisfactory to the Issuer and the Trustee (each acting reasonably) and is addressed to or is otherwise able to be relied on by each of the Issuer and the Trustee, to the effect that such Modification (taken as a whole and in conjunction with all other Modifications) is:
 - (A) a Modification within the scope of any one or more of clauses 12.1(a)(i) to 12.1(a)(iv); and
 - (B) not materially prejudicial to the interests of Noteholders of the Notes (taken as a whole); or
- (ii) clause 12.1(a)(v) above - the Issuer and the Trustee have jointly obtained an opinion from an accountancy or taxation adviser of recognised standing in New South Wales, which opinion is in a form satisfactory to the Issuer and the Trustee (each acting reasonably) and is addressed to or is otherwise able to be relied on by each of the Issuer and the Trustee, to the effect that such Modification (taken as a whole and in conjunction with all other Modifications) is:
 - (A) a Modification within the scope of clause 12.1(a)(v); and
 - (B) not materially prejudicial to the interests of Noteholders of the Notes (taken as a whole).

12.2 Amendment with the approval of the Noteholders

- (a) At any time, and from time to time, but subject to clauses 12.2(b), 12.2(c) and 12.3 of the Note Terms and clause 17.4 of the Trust Deed, the Note Terms (which, for the avoidance of doubt includes this clause) may be Modified if such Modification is authorised by a Noteholders Resolution.
- (b) If the Trustee reasonably considers the Modification will materially and adversely affect the rights of all Noteholders, then the Modification must be authorised by a Special Resolution.
- (c) If a clause in the Note Terms provides for Noteholders to give a direction to the Trustee by a Special Resolution, then that clause may only be Modified if such Modification is authorised by a Special Resolution.

12.3 Amendment with the approval of the Noteholders but not the Trustee

If a Modification to the Note Terms (which, for the avoidance of doubt includes this clause) is proposed by the Issuer under clause 12.2 and the Trustee will not consent to the Modification, subject to compliance with clause 17.4 of the Trust Deed, the Note Terms may be Modified in the manner proposed by the Issuer if such Modification is authorised by a Special Resolution.

13 GENERAL

13.1 Reporting

In addition to any requirements of the Corporations Act and the ASX Listing Rules, each Noteholder (if requested by that Noteholder) will be provided with copies of all annual and half-yearly reports and financial statements provided to holders of Shares.

13.2 Time limit for claims

A claim against the Issuer for a payment under a Note is void unless made within 5 years from the date on which payment first became due.

13.3 Voting

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests including certain variations of these Note Terms which require the consent of the Noteholders.

13.4 Notices

The Trust Deed contains provisions for the giving of notices.

13.5 Further documents

The Issuer may require the Trustee to execute, on behalf of all Noteholders, such documents as the Issuer considers necessary or desirable (provided that the Trustee is indemnified to its satisfaction, acting reasonably, against any Taxes, fees, costs, charges, expenses or liabilities (including solicitor and client as well as party and party costs) which it may suffer or incur as a result of doing so, and provided that the Trustee will only be required to execute such documents if the Noteholders give a direction to the Trustee by a Special Resolution passed in favour of such execution to do so).

13.6 Governing law and jurisdiction

- (a) These Terms and the Notes are governed by the laws of New South Wales.
- (b) The Issuer and each Noteholder submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in New South Wales in connection with matters concerning the Notes or these Note Terms.
- (c) The Issuer and each Noteholder waives any right they have to object to an action being brought in those courts, or to claim that the action has been brought in an inconvenient forum, or to claim those courts do not have jurisdiction.

14 INTERPRETATION AND DEFINITIONS

14.1 Interpretation

In these Note Terms, except where the context otherwise requires:

- (a) if there is inconsistency between the Note Terms and a Transaction Document, then, to the maximum extent permitted by law, the Note Terms will prevail;
- (b) the Directors may exercise all powers of the Issuer under these Note Terms as are not, by the Corporations Act or by the Constitution of the Issuer required to be exercised by the Issuer in a general meeting;
- (c) calculations, elections and determinations made by the Issuer under these Note Terms are binding on Noteholders in the absence of manifest error;
- (d) if an event under these Note Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day;
- (e) the singular includes the plural and vice versa, and a gender includes other genders;
- (f) another grammatical form of a defined word or expression has a corresponding meaning;
- (g) a reference to a document includes all schedules or annexes to it;
- (h) a reference to a clause or paragraph is to a clause or paragraph of these Note Terms;
- (i) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
- (j) a reference to '\$', 'Australian dollars', 'A\$', 'AUS' or 'Australian cent' is a reference to the lawful currency of Australia;
- (k) a reference to time is to Adelaide, South Australia time;
- (l) a reference to a person includes a reference to the person's executors, administrators, successors and permitted assigns and substitutes;
- (m) a reference to a person includes a natural person, partnership, body corporate, association, Government Agency or other entity;
- (n) a reference to a statute, ordinance, code, rule, directive or law (however described) includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (o) the meaning of general words is not limited by specific examples introduced by including, for example or similar expressions;
- (p) an Event of Default is subsisting if it has not been remedied or waived in writing; and
- (q) headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of these Note Terms; and
- (r) terms used in the Corporations Act have the same respective meanings when used in this Deed.

14.2 Definitions

Terms defined in the Transaction Documents have the same meanings in these Note Terms. In addition, the following terms have the following meanings unless the contrary intention appears:

Andy's Earthmovers means Andy's Earthmovers (Asia Pacific) Pty Ltd ACN 146 240 511.

Applicable Regulations means such provisions of the ASX Listing Rules, the ASX Settlement Operating Rules, the Corporations Act and any regulations or rules pursuant under or pursuant to any such provisions as may be applicable to the transfer of a Note.

ASTC means the ASX Settlement Pty Ltd (ABN 49 008 504 532).

ASX Settlement Operating Rules means the settlement rules of ASTC as amended or replaced from time to time.

ASX means ASX Limited (ABN 98 003 624 691) or the securities market operated by it, as the context requires.

ASX Listing Rules means the listing rules of ASX.

Australian Subsidiaries means each of:

- (a) Kanmantoo Properties Pty Ltd ACN 123 070 646;
- (b) Hillgrove Copper Pty Ltd ACN 105 762;
- (c) Hillgrove Copper Holdings Pty Ltd ACN 146 034 988;
- (d) Hillgrove Wheel Ellen Pty Ltd ACN 117 871 093;
- (e) Hillgrove Exploration Pty Ltd ACN 111 066 267;
- (f) Hillgrove Operations Pty Ltd ACN 105 935 126;
- (g) Mt Torrens Properties Pty Ltd ACN 127 768 816;
- (h) SA Mining Resources Pty Ltd ACN 103 777 368; and
- (i) Hillgrove Indonesia Pty Ltd ACN 130 752 411.

Business Day means a day which is a business day within the meaning of the ASX Listing Rules;

Change of Control Event means each of:

- (a) a takeover bid is made to acquire all of the Shares and the offer under the takeover bid is, or becomes, unconditional and:
 - (i) the bidder has acquired at any time during the offer period a relevant interest in more than 50% of the Shares on issue; or
 - (ii) the Directors of the Issuer unanimously recommend acceptance of the offer under the takeover bid, and acceptance of that offer would result in the bidder having a relevant interest in 100% of the Shares on issue; and
- (b) a court approves a proposed scheme of arrangement which, when implemented, will result in a person having a relevant interest in 100% of the Shares on issue.

Clearing System means the Clearing House Electronic Sub-register System operated by ASTC or any other applicable securities trading and/or clearance system.

Constitution means the constitution of the Issuer, as amended from time to time.

8. CONVERTIBLE NOTES – TERMS OF ISSUE (continued)

Conversion means the conversion of a Note in accordance with clause 4 and the words **Convert, Convertible, Converting** and **Converted** bear a corresponding meaning.

Conversion Amount means the aggregate Face Value of the total number of Notes the subject of the relevant Conversion Notice plus, at the option of the Issuer, such amount of the Interest accrued but unpaid on those Notes (as determined by the Issuer) on the Conversion Date.

Conversion Date means the date (determined by the Issuer (in its absolute discretion) in accordance with the Note Terms) on which Shares will be issued to the Noteholder on conversion of the Notes under clause 4.

Conversion Notice means a notice of conversion given in accordance with clauses 4.2 and 4.3.

Conversion Price means the lower of \$0.03 or the VWAP during the 30 days before the date of the relevant Conversion Notice.

Corporations Act means the *Corporations Act 2001* (Cth).

CS Facility has the same meaning as 'prescribed CS Facility' in the Corporations Act.

CS Facility Operator means the operator of a CS Facility.

Delisting Event will occur if:

- (a) the Shares cease to be quoted on ASX;
- (b) the Notes cease to be quoted on ASX; or
- (c) trading of the Shares or Notes on the ASX is suspended for a period of more than 20 consecutive Business Days.

Directors means some or all of the directors of the Issuer acting as a board.

Early Redemption Notice means a notice given by the Issuer to the Trustee under clause 5.2(b)(i).

Early Redemption Premium means, in relation to a Note, the amount equal to 20% of the Face Value of the Note.

Emeco means Emeco International Pty Ltd ACN 078 624 281.

Event of Default means the happening of any event set out in clause 8.

Existing Senior Debt Obligations means the existing secured debt obligations of the Issuer as at the Issue Date, being:

- (a) the \$4 million facility agreement between the Issuer, the Minister for Finance and others dated 28 June 2016; and
- (b) the \$9.18 million bond in favour of the Minister for Mineral Resources and Energy, issued by the Issuer for the purposes of the section 62 of the Mining Act 1971 (SA) pursuant to a deed poll dated 23 August 2016.

Face Value means the nominal principal amount of each Note, being \$1.00.

General Security Deeds means the general security deeds, dated on or about 22 November 2016 between the Trustee and each of the Issuer and its Australian Subsidiaries.

Government Agency means the Crown, a government, a government department or a governmental, semi-governmental, statutory, administrative, parliamentary, provincial, public, municipal, local, judicial or quasi-judicial body.

Group means the Issuer and the Australian Subsidiaries together.

Guarantee means the deed of guarantee dated on or about 22 November 2016 between each of the Australian Subsidiaries and the Trustee in respect of the Issuer's obligations under the Trust Deed and these Note Terms.

Insolvency Event occurs in relation to a body corporate if:

- (a) it is (or states that it is) insolvent (as defined in the Corporations Act); or
- (b) it has a controller (as defined in the Corporations Act) appointed, or is in receivership, in receivership and management, in liquidation, in provisional liquidation, under administration or wound up or has had a receiver appointed to any part of its property; or
- (c) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute, dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the creditors); or
- (d) an Application or order has been made (and, in the case of an Application, it is not stayed, withdrawn or dismissed within 30 days), resolution passed, proposal put forward, or any other action taken, in each case in connection with that person, which is preparatory to or could result in any of (a), (b) or (c) above; or
- (e) it is taken (under section 459(F)(1) of the Corporations Act) to have failed to comply with a statutory demand; or
- (f) it is otherwise unable to pay its debts when they fall due; or
- (g) something having a substantially similar effect to (a) to (f) happens in connection with it under the law of any jurisdiction.

Interest means the interest payable from time to time in respect of a Note, including interest payable under in clause 3.1 and, as applicable, default interest payable under clause 3.3.

Interest Payment Date means, in respect of a Note:

- (a) each 30 June and 31 December during the term of the Note, with the first Interest Payment Date being 30 June 2017;
- (b) the Conversion Date (if the Issuer elects not to include the Interest accrued but unpaid on the Note in the Conversion Amount);
- (c) the Maturity Date; and
- (d) any Redemption Date.

Interest Period means, for a Note, each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date. However:

- (a) the first Interest Period commences on (and includes) its Issue Date; and
- (b) the final Interest Period ends on (but excludes) the Maturity Date, Conversion Date or the Redemption Date.

Interest Rate means, in respect of an Interest Period for a Note, 6% per annum

Issue Date means, in respect of a Note, the date on which that Note is issued.

Issuer means Hillgrove Resources Limited ACN 004 297 116.

Maturity Date means the date which is the third anniversary of the Issue Date.

Meeting Provisions means the rules relating to meetings of Noteholders contained in Schedule 2 to the Trust Deed.

Member or Shareholder means a person entered in the register of members as a member, for the time being, of the Issuer.

Note means a debt obligation denominated in Australian dollars and issued, or to be issued, by the Issuer which is constituted by, and owing under, the Trust Deed, the details of which are recorded in, and evidenced by, entry in the Register.

Note Terms means, in relation to a Note, the terms and conditions of issue of that Note (as set out in Schedule 1 to the Trust Deed).

Noteholder means, in respect of a Note, the person from time to time whose name is entered on the Register as the holder of that Note.

Noteholders Resolution means:

- (a) a resolution passed at a meeting of the Noteholders duly called and held under the Meeting Provisions:
 - (i) by at least 50% of the persons voting on a show of hands (unless paragraph (ii) below applies); or
 - (ii) if a poll is duly demanded, then by a majority consisting of at least 50% of the votes cast; or
- (b) a resolution passed by postal ballot or circular written resolution by Noteholders representing (in aggregate) at least 50% of the principal amount then outstanding of all of the Notes.

Permitted Issues means:

- (a) (a) the issue of 10,157,905 Shares to Roc-Drill pursuant to a Memorandum of Agreement dated 21 November 2016 between the Issuer and Roc-Drill
- (b) the issue of either:
 - (i) 9,405,467 Shares to Emeco pursuant to the rental variation agreement dated 21 November 2016 between the Issuer, Emeco and Emeco Holdings Limited; or
 - (ii) in the event that the issue of Shares to Emeco International Pty Ltd does not proceed, no more than 18,058,496 Shares to Andy's Earthmovers pursuant to any debt for equity swap arrangement that may be agreed between the Issuer and Andy's Earthmovers; and

- (c) the issue of Shares upon the vesting of any performance rights that have been granted by the Issuer as at 22 November 2016 in accordance with the provisions of the Hillgrove Resources Option and Performance Rights Plan.

Permitted New Debt means indebtedness for moneys borrowed or raised pursuant to any financial accommodation not exceeding an aggregate amount of \$3 million and that is in the ordinary course of business and the terms of which are commercial, arm's length terms and do not contain any unusual or onerous terms.

Record Date means, in relation to any payment to be made under or in respect of the Notes:

- (a) subject to sub-paragraphs (b) and (c), the date which is eight calendar days before the applicable due date for payment; or
- (b) such other date as is determined by the Issuer in its absolute discretion, and communicated to ASX not less than eight calendar days before the record date which would have been determined under paragraph (a) above; or
- (c) such other date as may be required by, or agreed with, ASX.

Redemption means the redemption of a Note in accordance with clause 5 and the words **Redeem**, **Redeemable** and **Redeemed** bear their corresponding meanings.

Redemption Date means, in respect of a Note, the date, other than the Maturity Date, on which the Note is Redeemed.

Register means the register of Noteholders (established and maintained under clause 15 of the Trust Deed) and, where appropriate, the term **Register** includes:

- (a) a sub-register maintained by or for the Issuer under the Corporations Act, the Listing Rules or ASX Settlement Operating Rules; and
- (b) any branch register.

Rental Agreement means the draft Rental Agreement between the Issuer, Hillgrove Copper Pty Ltd, Emeco and Emeco Holdings Limited documenting the terms agreed between Emeco and Hillgrove Copper Pty Ltd under the non-binding term sheet dated on or about 9 November 2016 in relation to the Supply Agreement for fully maintained mining equipment dated 16 September 2013 between Hillgrove Copper Pty Ltd and Andy's Earthmovers dated 16 September 2013.

Registrar means Boardroom Pty Limited ACN 003 209 836 or any other person appointed by the Issuer (with such appointment notified to the Trustee) to maintain the Register and perform any payment and other duties as specified in that agreement.

Restriction Agreement means an agreement which is required to be concluded under Chapter 9 of the ASX Listing Rules or in voluntarily concluded between the Issuer and one or more Noteholders.

Restricted Securities has the same meaning as in the ASX Listing Rules and extends to Notes which are subject to voluntary restrictions by agreement between the Issuer and one or more Noteholders.

Roc-Drill means Roc-Drill Pty Ltd (ACN 155 911 667).

Security Interest means any mortgage, pledge, lien or charge or any security or preferential interest or arrangement of any kind or any other right of, or arrangement with, any creditor to have its claims satisfied in priority to other creditors with, or from the proceeds of, any asset, including any retention of title other than in the ordinary course of business and any charge or lien arising by operation of law.

Shares means an ordinary share in the capital of the Issuer.

Special Resolution means:

- (a) a resolution passed at a meeting of the Noteholders duly called and held under the Meeting Provisions:
 - (i) by at least 75% of the persons voting on a show of hands (unless paragraph (ii) below applies); or
 - (ii) if a poll is duly demanded, then by a majority consisting of at least 75% of the votes cast; or
- (b) a resolution passed by postal ballot or circular written resolution by Noteholders representing (in aggregate) at least 75% of the principal amount then outstanding of all of the Notes.

Subsidiary has the meaning given in the Corporations Act, but an entity will also be taken to be a Subsidiary of an entity if it is controlled by that entity (as defined in section 50AA of the Corporations Act) and, without limitation:

- (a) a trust may be a Subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share; and
- (b) an entity may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation.

Tax means any tax, levy, impost, charge, rate, withholding or duty (including stamp and transaction duties) levied or imposed by any Government Agency together with any related interest, penalties, fines and expenses in connection with them. It includes GST.

Transaction Documents means:

- (a) the Trust Deed (including these Note Terms);
- (b) each Note;
- (c) the Guarantee; and
- (d) the General Security Deeds.

Trustee means the person from time to time acting as the trustee of the trust constituted by the Trust Deed (acting in that capacity), initially being Australian Executor Trustees Limited.

Trust Deed means the trust deed entitled 'Trust Deed for the Hillgrove Resources Note Trust' between the Issuer and the Trustee and dated on or about 22 November 2016.

VWAP means the average of the daily volume weighted average sale prices of the Shares sold on ASX during the period specified in these Note Terms, excluding any transaction defined in the ASX Operating Rules as 'special', crossings prior to the commencement of normal trading, crossings during the after hours adjust phase and any overseas trades or exchange traded option exercises, subject to the following adjustments:

- (a) where, on some or all of the Business Days in the relevant period, Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement which is not extended to the Noteholder, and the Notes will convert into Ordinary Shares after the date those Shares no longer carry that entitlement, then the VWAP on the Business Days on which those shares have been quoted cum dividend, or cum any other distribution or entitlement shall be reduced by an amount (**Cum Value**) equal to:
 - (i) in the case of a dividend or other distribution, the amount of that dividend or distribution (with no value included for any franking credits);
 - (ii) in the case of an entitlement which is traded on ASX on any of those Business Days, the volume weighted average price of all such entitlements sold on ASX during the relevant period on the Business Days on which those entitlements were traded; or
 - (iii) in the case of an entitlement not traded on ASX during the relevant period, the value of the entitlement as reasonably determined by the Directors; and
- (b) where, on some or all of the Business Days in the relevant period, Shares have been quoted ex dividend, ex distribution or ex entitlement, and Notes will convert into Ordinary Shares which would be entitled to receive the relevant dividend, distribution or entitlement, the VWAP on the Business Days on which those Shares have been quoted ex dividend, ex distribution or ex entitlement shall be increased by the Cum Value.

Winding Up means in respect of a person the appointment of a liquidator or provisional liquidator of that person (and where the appointment is made by a court, by a court of competent jurisdiction in Australia).

9. OPTIONS – TERMS OF ISSUE

1 ISSUE PRICE

The Options are issued as part of the Entitlement Offer on the basis of 37.62 Options for every 1 Note issued. No further consideration other than the payment of the Issue Price will be payable for the Options.

2 EXERCISE PRICE

The exercise price of each Option is \$0.03 (Exercise Price).

3 OPTION PERIOD

Each Option may be exercised at any time before the date that is 9 months after the Issue Date (**Expiry Date**). An Option not exercised, automatically expires on the Expiry Date.

4 ENTITLEMENT

Subject to and conditional upon any adjustment in accordance with the terms set out below, each Option entitles the Optionholder to subscribe for one (1) fully paid Share upon payment of the Exercise Price prior to the Expiry Date.

5 TRANSFERABILITY

The Options are transferable.

6 HOLDING STATEMENTS

The Company must give each Optionholder a Holding Statement stating:

- the number of Options issued to the Optionholder;
- the Exercise Price; and
- the Issue Date of the Options.

7 PARTICIPATION RIGHTS, BONUS ISSUES, RIGHTS ISSUES AND REORGANISATIONS

7.1 Participation

An Optionholder is not entitled to participate in any new issue to existing Shareholders of securities in the Company unless they have exercised their Options before the record date for determining entitlements to the new issue of securities and participate as a result of holding Shares.

7.2 Notice of new issue

Where required pursuant to the ASX Listing Rules, the Company will give an Optionholder notice of:

- the proposed terms of the issue or offer proposed under clause 7.1; and
- the right to exercise their Options under clause 7.1, in accordance with the requirements of the ASX Listing Rules.

7.3 Bonus issues

If the Company makes a bonus issue of Shares or other securities to Shareholders (except an issue in lieu of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the Option before the record date for determining entitlements to the issue, then the number of underlying Shares over which the Option is exercisable is increased by the number of Shares which the Optionholder would have received if the Optionholder had exercised the Option before the record date for determining entitlements to the issue.

7.4 Pro rata issues

If the Company makes a pro rata issue of Shares (except a bonus issue) to existing Shareholders (except an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the Option before the record date for determining entitlements to the issue, the exercise price of each Option is reduced in accordance with the following formula:

$$A = O - \frac{E \times [P - (S + D)]}{(N + 1)}$$

Where:

- A = the new exercise price of the Option;
- O = the old exercise price of the Option;
- E = the number of underlying securities into which one Option is exercisable;
- P = the average market price per security (weighted by reference to volume) of the underlying securities during the five trading days ending on the day before the ex right date or the ex entitlements date;
- S = the subscription price for a security under the pro rata issue;
- D = the dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);
- N = the number of securities with rights or entitlements that must be held to receive a right to one new security.

7.5 Reorganisation

If there is a reorganisation (including consolidation, sub-division, reduction or return) of the share capital of the Company, then the rights of the Optionholder (including the number of Options to which each Optionholder is entitled to and the exercise price) is changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

7.6 Calculations and adjustments

Any calculations or adjustments which are required to be made under clause 7 will be made by the Board of the Company and will, in the absence of manifest error, be final and conclusive and binding on the Company and the Optionholder.

7.7 Notice of change

The Company must within a reasonable period give to each Optionholder notice of any change under clause 7 to the exercise price of any Options held by an Optionholder or the number of shares which the Optionholder is entitled to subscribe for on exercise of an Option.

8 METHOD OF EXERCISE OF OPTIONS

Method and payment

To exercise Options, the Optionholder must give the Company and the Registry, at the same time:

- (a) a written exercise notice (in the form approved by the Board from time to time) specifying the number of Options being exercised and Shares to be issued;
- (b) payment of the exercise price for the shares the subject of the exercise notice by way of bank cheque or by other means of payment approved by the Company; and
- (c) the certificate for the options (if any),

at any time after the Issue Date and before the Expiry Date.

Exercise all or some options

- (a) An Optionholder may only exercise options in multiples of 30,000 unless the Optionholder exercises all Options held by the Optionholder.
- (b) Options will be deemed to have been exercised on the date the exercise notice is lodged with the Company.

Issue of shares

Within 10 days after receiving an exercise notice and payment by an Optionholder of the exercise price, the Company must issue the Optionholder the number of fully paid Shares specified in the application.

9 RANKING OF SHARES ISSUED ON EXERCISE OF OPTIONS

Subject to the Constitution, all Shares issued on the exercise of Options rank in all respects (including rights relating to dividends) pari passu with the existing Shares of the Company at the date of issue.

10 QUOTATION

The Company will apply to ASX for official quotation of:

- (a) the Options; and
- (b) the Shares issued on exercise of the Options.

11 GOVERNING LAW

These terms and the rights and obligations of Optionholders are governed by the laws of South Australia. Each participant irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of South Australia.

10. GLOSSARY

The following definitions apply throughout this Prospectus unless the context requires otherwise.

936 Act	Income Tax Assessment Act 1936
1997 Act	Income Tax Assessment Act 1997
ABN / ACN	Australian Business Number / Australian Company Number
Additional Notes and Options	Notes applied for in excess of an Eligible Shareholder's Entitlement
Allotment Date	the date on which the Notes and Options are allotted under the Entitlement Offer
Andy's	Andy's Earthmovers (Asia Pacific) Pty Ltd
Applicant	an Eligible Shareholder who lodges an Entitlement and Acceptance Form in accordance with this Prospectus
Application	an application for Notes and Options under this Prospectus
Application Amount	the amount required to be submitted with an Application, being the Issue Price multiplied by the number of Notes applied for
Application Moneys	the amount payable on each Application, being the Face Value multiplied by the number of Notes applied for
ASIC	Australian Securities and Investments Commission
ASX or Australian Securities Exchange	ASX Limited ABN 98 008 624 691 or the securities market it operates, as the context requires
ASX Listing Rules	means the official listing rules of ASX
ASX Settlement	means ASX Settlement Pty Limited ABN 49 008 504 532, the body which administers the CHESS system in Australia
ASX Settlement Operating Rules	means the operating rules of ASX Settlement
AUD or \$ or A\$	Australian dollars
Australian Accounting Standards	Accounting standards set by the Australian Accounting Standard Board for the purposes of section 334 of the Corporations Act
Australian Auditing Standards	auditing standards issued by the Auditing and Assurance Standards Board under section 336 of the Corporations Act
Australian Subsidiaries	each of: (a) Kanmantoo Properties Pty Ltd ACN 123 070 646; (b) Hillgrove Copper Pty Ltd ACN 105 762; (c) Hillgrove Copper Holdings Pty Ltd ACN 146 034 988; (d) Hillgrove Wheel Ellen Pty Ltd ACN 117 871 093; (e) Hillgrove Exploration Pty Ltd ACN 111 066 267; (f) Hillgrove Operations Pty Ltd ACN 105 935 126; (g) Mt Torrens Properties Pty Ltd ACN 127 768 816; (h) SA Mining Resources Pty Ltd ACN 103 777 368; and (i) Hillgrove Indonesia Pty Ltd ACN 130 752 411
Board	the board of directors of the Company
Business Day	has the meaning given to that term in the ASX Listing Rules
CGT	Capital Gains Tax
CHESS	Clearing House Electronic Sub-register System
Closing Date	the closing date for the Entitlement Offer which is expected to be 13 December 2016
Company	Hillgrove Resources Limited ACN 004 297 116
Constitution	the constitution of the Company (as amended from time to time)
Conversion Date	the date on which Shares are issued on exercise of the right to convert a Note
Corporations Act	the Corporations Act 2001 (Cth)
Director	a director of the Company
EBIT	earnings before interest and tax of the Company (as determined by reference to the published half yearly and yearly financial statements of the Company)
EHL	Emeco Holdings Limited ACN 112 188 815
Eligible Shareholders	a Shareholder with a registered address in Australia or New Zealand whose details appear on the Company's register of Shareholders as at the Record Date
Emeco	Emeco International Pty Ltd ACN 078 624 281
Entitlement	the number of Notes and Options an Eligible Shareholder is entitled to acquire on the basis of the number of Shares held as at the Record Date
Entitlement Offer	the offer of Notes to Eligible Shareholders on the basis of 1 Note for every 37.62 Shares held as at the Record Date (together with 37.62 free attaching Options for every 1 Note subscribed for and issued)
Entitlement Offer Period	the period from the Opening Date to the Closing Date

Exercise Price	the exercise price of each Option, being \$0.03
Existing Senior Debt Obligations	the existing secured debt obligations of the Company as at the Issue Date, being: (a) the \$4 million facility agreement between the Company and the Minister for Finance dated 28 June 2016; and (b) the \$9.18 million bond in favour of the Minister for Mineral Resources and Energy, issued by the Company for the purposes of the section 62 of the <i>Mining Act 1971</i> (SA) pursuant to a deed poll dated 23 August 2016.
Expiry Date	the date on which each Option will expire (if not previously exercised), being the date that is 9 months after the Issue Date
Exposure Period	the period of 7 days after the date of lodgement of this Prospectus with ASIC, which period may be extended by ASIC by not more than 7 days pursuant to section 727(3) of the Corporations Act
Face Value	\$1.00 per Note
FY or Financial Year	the 12 months commencing as 1 January and ending on the following 31 December
General Security Deeds	the general security deeds, dated on or about 22 November 2016 between the Trustee and each of the Company and its Australian Subsidiaries
Giant Pit	a cut back (expansion) of the main orebody of the Kanmantoo Copper Mine. The main orebody was previously mined from 1970 to 1976 by a third party. On the recommencement of mining in late 2011, the Company excavated a cutback of this main orebody termed Spitfire and Kavanagh. The third cut back termed Giant Pit encompasses the four smaller pits Spitfire, Kavanagh, Matthew and Valentine
GST	Goods and Services Tax
Guarantee	the deed of guarantee dated on or about 22 November 2016 between each of the Australian Subsidiaries and the Trustee in respect of the Company's obligations under the Trust Deed and the Note Terms
Hillgrove Copper	Hillgrove Copper Pty Ltd ACN 105 074 762
HIN	Noteholder Identification Number
Holding Statement	a statement issued by the Registry: (a) to Noteholders, which sets out the number of Notes issued to that Noteholder; or (b) to Optionholders which sets out the number of Options issued to that Optionholder
Interest	interest payable on each Note
Interest Payment Dates	30 June and 31 December in each year until the Maturity Date, Conversion Date or a Redemption Date (with the first Interest Payment Date being 30 June 2017). If any of these scheduled dates is not a Business Day, then the Interest Payment Date will be the next Business Day
Interest Period	each period commencing on (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date, with: (a) the first Interest Period commencing on (and including) the Allotment Date; and (b) the final Interest Period ending on (but excluding) the Maturity Date, Conversion Date or a Redemption Date
Interest Rate	6% per annum
Issue	the process of issuing Notes and Options to successful Applicants
Issue Date	the date of Issue of the Notes and Options
Issue Price	\$1.00 per Note
Maturity	the time for repayment of the Face Value (and accrued, but unpaid Interest) of each Note
Maturity Date	the third anniversary of the Issue Date (being the date on which the Notes must be redeemed (if not previously converted, redeemed or cancelled))
Note Register	the register of Notes maintained by the Registry on the Company's behalf (including any sub-register established and maintained in CHESS)
Notes	the redeemable, convertible notes (the terms of which are set out in Section 8 of this Prospectus), offered pursuant to this Prospectus
Note Terms	the terms and conditions of issue of the Notes (which terms form Schedule 1 to the Trust Deed and are set out in Section 8 of this Prospectus)
Noteholder	a registered holder of one or more Notes
Opening Date	The opening date of the Entitlement Offer which is 30 November 2016
Options	the options to acquire, by way of issue, a Share (the terms of which are set out in Section 9 of this Prospectus), offered pursuant to this Prospectus
Option Register	the register of Options maintained by the Registry on the Company's behalf (including any sub-register established and maintained in CHESS)
Option Terms	the terms and conditions of issue of the Options (which terms are set out in Section 9 of this Prospectus)
Optionholder	a registered holder of one or more Options

Permitted New Debt	indebtedness for moneys borrowed or raised pursuant to any financial accommodation not exceeding an aggregate amount of \$3 million and that is in the ordinary course of business and the terms of which are commercial, arm's length terms and do not contain any unusual or onerous terms
Prospectus	this prospectus dated 22 November 2016 and any replacement or supplementary prospectus
Record Date	the record date of the Entitlement Offer, being 5.00pm (Adelaide time) on 28 November 2016
Registry / Share Registry / Note Registry	Boardroom Pty Limited ACN 003 209 836
Related Body Corporate	has the meaning given in the Corporations Act
Roc-Drill	Roc-Drill Pty Ltd ACN 155 911 667
Share	a fully paid ordinary share in the capital of the Company
Shareholder	a holder of one or more Shares in the Company
Shortfall	the shortfall between Applications received from Eligible Shareholders for their Entitlement and the number of Notes and Options proposed to be issued under the Entitlement Offer
Subsidiary	has the meaning given to that term in Part 1.2 of Division 6 of the Corporations Act
Top Up Facility	The facility for Eligible Shareholders to apply for Notes in addition to their Entitlement as described in Section 2.4
Trust Deed	the trust deed dated 22 November 2016 made between the Company and the Trustee, summarised in Section 7.4
Trustee	Australian Executor Trustees Limited ABN 84 007 869 794
TFN	Tax File Number
Underwriter	Ariadne Capital Pty Ltd ACN 125 296 157 or its nominee
Underwriting Agreement	the underwriting agreement dated 22 November 2016 under which the Company appoints the Underwriter to underwrite the Entitlement Offer, summarised in Section 7.4
VWAP	has the meaning given in the Note Terms

CORPORATE DIRECTORY

Directors

The Hon Dean Brown
Mr Steven McClare
Mr John Gooding
Mr Maurice Loomes
Mr Philip Baker

Secretary

Mr Paul Kiley

Registered Office

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Facsimile: (08) 8538 5255
Website: www.hillgroveresources.com.au

Lawyers to the Company and the Entitlement Offer

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Level 10, 25 Grenfell Street,
Adelaide, South Australia 5000
Website: www.minterellison.com

Underwriter

Ariadne Capital Pty Ltd ACN 125 296 157 (or its nominee)
Level 27, Chifley Tower, 2 Chifley Square
Sydney, New South Wales 2000
Facsimile: (02) 8227 5511

Trustee

Australian Executor Trustees Limited ACN 007 869 794
Level 22, 207 Kent Street
Sydney, New South Wales 2000
Facsimile: (02) 9028 5942

Registry

Boardroom Pty Limited
Level 12, 225 George Street
Sydney, New South Wales 2000
General enquiries: (02) 9290 9600
Website: www.boardroomlimited.com.au

Shareholder Enquiries

Hillgrove Resources Limited
Telephone: +(08) 7070 1698
(from 9.00am-5.30pm (Adelaide time))
Website: www.hillgroveresources.com.au

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RESOURCES

PROSPECTUS

November 2016

HILLGROVE RESOURCES LIMITED

ACN 004 297 116