

Wednesday, 11 October 2017

EARLY REDEMPTION OF CONVERTIBLE NOTES

The Board of Hillgrove Resources Limited (ASX: HGO) advises that it has issued a notice (Early Redemption Notice) to all holders of its listed (ASX:HGOG) Convertible Notes (Notes), advising of its intention to redeem those Notes on 22 December 2017 (**Redemption Date**).

While the Notes were issued on 20 December 2016 and have a Maturity Date of 20 December 2019, under the Note Terms Hillgrove can redeem the Notes before the Maturity Date.

The Board has decided it is in the best interests of Hillgrove to use the proceeds raised from the recent exercise of its listed options, to simplify its capital structure and reduce a layer of administration, by redeeming the Notes and, to the extent Noteholders elect to convert their Notes to shares, strengthen its balance sheet.

Key Early Redemption Terms

1. Hillgrove may Redeem all (but not some) of the Notes in whole before their Maturity Date at their Face Value (\$1.00) plus an early redemption premium (20% of the Face Value) or \$1.20 per Note, together with any interest accrued on those Notes up to (but excluding) the applicable Redemption Date.
2. If, no later than 5 Business Days prior to Redemption of the Notes 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.
3. The Conversion Notice will allow the Noteholder to convert some or all of its \$1.00 face value Notes into a number of shares in Hillgrove at a conversion price of \$0.03, or approximately 33.33 shares for each Note, which based on the (10 October 2017) closing share price of \$0.082, would value the 33.33 shares at \$2.73.
4. Once a Conversion Notice has been given by a Noteholder, the notice cannot be withdrawn without the written consent of Hillgrove and the Noteholder must not deal with, transfer, dispose or otherwise encumber any Notes the subject of the Conversion Notice.
5. 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 early Redemption Date.

Noteholders have also been advised that while it is the intention that the Notes are redeemed on 22 December 2017, the Board has reserved the right to terminate the early redemption process if the Company suffers a material adverse event, such as a severe unexpected operational constraint at the Kanmantoo Mine and the Board considers it imprudent to proceed.

HILLGROVE RESOURCES LIMITED

The Redemption Date has been set at 22 December 2017 as it is expected that Ariadne Capital Pty Ltd ACN 125 296 157 (**Ariadne**), may request an EGM to seek Hillgrove's shareholder approval to convert all of their Notes into shares, since this would take their ownership of Hillgrove above the current 22%.

Ariadne is Hillgrove's largest shareholder and was the underwriter to the convertible note issue. Under the underwriting agreement, Hillgrove agreed to call an EGM if it was requested by Ariadne.

For more information contact:

Mr Steven McClare
CEO & Managing Director
Tel: +61 8 7070 1698

Mr Paul Kiley
CFO & Company Secretary
Tel: +61 8 7070 1698

11 October 2017

Dear Noteholder,

NOTICE OF EARLY REDEMPTION OF CONVERTIBLE NOTES

You are the registered holder of convertible notes (the **Notes**) in Hillgrove Resources Limited (ASX:HGO) (**Hillgrove**). The Notes were issued to shareholders who participated in the 20 December 2016 Convertible Notes Issue or have been acquired on market since that time. The Notes have a Maturity Date (20 December 2019), although under the Note Terms, Hillgrove has the right to redeem the Notes prior to the Maturity Date.

The Board advises that it intends to redeem the Notes on 22 December 2017 (**Redemption Date**), and accordingly is providing this letter to all Noteholders as the Early Redemption Notice, in accordance with clause 5.2 (a) of the Note Terms:

EARLY REDEMPTION PROCESS

A summary of the early redemption process is as follows:

Early Redemption Notice

1. Hillgrove may Redeem all (but not some) of the Notes in whole before their Maturity Date at their Face Value (\$1.00) plus an early redemption premium (20% of the Face Value), together with any interest accrued on those Notes to (but excluding) the applicable Redemption Date (**Redemption Offer**). Excluding the interest accrued to the Redemption Date, the Redemption Price is \$1.20 per Note.
2. Hillgrove must give not less than 30 days' written notice to the Trustee, the Noteholders and ASX of its intention to redeem the Notes before the Maturity Date (**Early Redemption Notice**).

Once Notice is Given

3. Once the Early Redemption Notice has been given by Hillgrove, the notice will be effective (and Redemption will occur) on the Redemption Date as specified in this Early Redemption Notice (which must be no less than 30 days after the date of the Early Redemption Notice). Alternatively the Notes will be converted, if before Redemption, the Noteholder has validly elected to convert the Notes into fully paid ordinary shares in Hillgrove (**Shares**) – see below.
4. If, no later than 5 Business Days prior to Redemption of the Notes, a Noteholder delivers a Conversion Notice for some or all of its Notes (and the Redemption Offer has not been withdrawn), the Conversion Notice will prevail for the Notes that are the subject of the Conversion Notice. A personalised Conversion Notice is attached with this letter.



Conversion Notice

1. The Conversion Notice will allow a Noteholder to convert some or all of its Notes into a number of Shares determined by the following formula:

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

A = Conversion Amount, being the aggregate Face Value of the total number of Notes to be converted (and at the option of Hillgrove, such amount of the interest accrued and unpaid on those Notes, as determined by Hillgrove, on the Conversion Date); and

B = Conversion Price, being the lower of \$0.03 or the VWAP (Volume Weighted Average Share Price, as specified in the Note Terms) during the 30 days before the date of the relevant Conversion Notice.

2. **Worked example** - based on the (10 October 2017) closing share price of \$0.082 and ignoring any interest, the Conversion Price will be \$0.03 and Noteholders will receive 33.33 Shares for each Note (calculated as A = \$1.00 and B = \$0.03). The 33.33 Shares would be valued at \$2.73 in total, based the (10 October 2017) closing share price of \$0.082.
3. Once a Conversion Notice has been given by a Noteholder, the notice cannot be withdrawn without the written consent of Hillgrove and the Noteholder must not deal with, transfer, dispose or otherwise encumber any Notes the subject of the Conversion Notice.
4. The Conversion Notice must be lodged on or before 15 December 2017, be duly signed by the Noteholder and comply with the Note Terms.

Effect of Conversion

On the Redemption Date:

- a) the Noteholder's Notes will be taken to have been Redeemed, and the Noteholder will be taken to have agreed to pay the Conversion Amount to Hillgrove by way of subscription for new Shares (Conversion Shares) at an issue price per Conversion Share that is equal to the Conversion Price;
 - b) Hillgrove 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 statement in respect of the Conversion Shares is to be sent to the Noteholder at its registered address in respect of the relevant Notes;
 - e) Hillgrove 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 the Note Terms will no longer have effect.
5. Shares issued on conversion of the Notes will be fully paid and will in all respects rank pari passu with all other Shares on issue on the Redemption Date.
 6. No fractional Shares will be issued on the conversion of a Note. If the applicable calculation results in an entitlement to a number of Shares which includes a fraction of a Share, the fraction will be disregarded.

7. In accordance with the Note Terms the Board has determined that the Conversion Date will be same as the Redemption Date, so the Conversion Shares will be issued on 22 December 2017.

Effect of Early Redemption

On the Redemption Date any Notes which have not been converted (see above) will be Redeemed in accordance with the Note Terms.

Possible change to Redemption Offer

Please note that there is a lengthy period between the date of this Early Redemption Notice and the Redemption Date, and a circumstance may arise after the date of this Notice that would mean that proceeding with the Redemption Offer might have a material adverse effect on Hillgrove.

Accordingly while it is the intention of Hillgrove that the Notes are Redeemed on 22 December 2017, the Board has reserved the right to terminate the early redemption process and withdraw the Redemption Offer set out in this Notice, if Hillgrove suffers a material adverse event, such as a severe operational restraint at the Kanmantoo Mine, and the Board considers it imprudent to proceed.

Early Redemption Date

The Redemption Date has been set at 22 December 2017 as it is expected that Ariadne Capital Pty Ltd ACN 125 296 157 (**Ariadne**), may request a shareholders meeting to seek Hillgrove's shareholder approval to convert all of their Notes into Shares. This would increase their ownership in Hillgrove above the current 22%, and require prior shareholder approval.

Ariadne is Hillgrove's largest shareholder and was the underwriter of the convertible note issue. Under the underwriting agreement, Hillgrove agreed to call a shareholders meeting if it was requested by Ariadne.

Information about the Notes

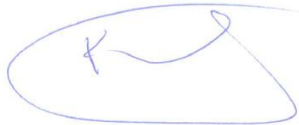
The following information is provided to assist you:

- a) The number of Notes held by you will be set out in the personalised Noteholder Conversion Notice attached to this notice.
- b) The number of Shares to be issued if you elect to convert the Notes will be calculated in accordance with the formula set out above under the heading 'Conversion Notice', which will determine the exact conversion price.
- c) If you don't elect to convert the Notes, the Notes will be Redeemed, on the terms and conditions set out above.
- d) The date that quotation of the Notes will end is 18 December 2017.
- e) Deferred settlement trading will commence on 19 December 2017 and end on 22 December 2017.
- f) The closing price of the Shares on 10 October 2017, was \$0.082.
- g) The highest and lowest market price of the Shares during the 3 months immediately before the date of this Notice, and the dates of those sales, were \$0.078 on 10 July 2017 and \$0.099 on 11 August 2017.

Further Information

The Board encourages you to consider your choices as a Noteholder and to take the action that best suits your individual circumstances. If you require more information on how to convert your Notes, please contact Boardroom Pty Limited on 1300 737 760. You should also seek your own tax advice, which is specific to your particular circumstances, as to the tax consequences of converting or redeeming your Notes. If you are unsure whether to take up the Redemption Offer or to convert your Notes, please contact your stockbroker, financial advisor or other professional advisor.

Yours faithfully

A handwritten signature in blue ink, appearing to be 'P. Kiley', enclosed within a blue oval scribble.

PAUL KILEY
CHIEF FINANCIAL OFFICER & COMPANY SECRETARY



Reference Number:

Current Notes Held:

NOTEHOLDER CONVERSION NOTICE
Listed Convertible Notes

A Number of Notes to be converted

I/We the holder(s) of Listed Convertible Notes ("Notes") which were issued by Hillgrove Resources Limited ("Issuer"), hereby give notice that I/we wish to exercise my/our right to convert all/part of my/our holding of Notes as set out below (each Note having a face value of \$1.00) .

Note: Noteholders must convert at least 2,000 notes or if the total number held is less than 2,000, the number held.

I/We request you to issue such shares to me/us and agree to accept them subject to the Issuer's constitution and I/we authorise you to place my/our name on the register. I/We declare that all statements and details in this Noteholder Conversion Notice are complete and accurate and I/we agree to be bound by the Issuer's constitution.

B Contact Details – (Please provide your contact details below)

Contact Name

Telephone No – Business Hours

Email

Telephone No – After Hours

C Sign Here – (This section MUST be signed for your instructions to be executed)

Individual or Holder 1

Holder 2

Holder 3

Individual/sole director and sole company secretary

Director

Director/company secretary

Note: Notices signed under power of attorney must be accompanied by a certified copy of that document unless previously lodged for noting.

Day Month Year

 / /

IMPORTANT NOTE: Please read the conditions of these Convertible Notes from pages 38-41 of the original prospectus carefully. The terms and conditions applicable to the Notes are available on request from the Issuer.

Guide to the Notice

Please complete all sections of this form USING BLOCK LETTERS.
These instructions are cross referenced to each section of the form.

A. Number of Notes to be converted

Please enter in box A the number of Converting Notes you wish to convert. If you only wish to convert a portion of your Notes, such conversion must be for a minimum of 2,000 Notes. If you hold less than 2,000 notes your application will be treated as a request to convert your entire holding.

B. Contact Details

Enter your contact details include telephone number and email address so that the Issuer and/or the Issuer's share registry Boardroom Pty Limited may contact you should there be any queries regarding this Notice.

C. Sign Here

Please enter the signature(s) of the registered Noteholder(s).

- Individual or joint Noteholders – each joint Noteholder must sign;
- Company – either 2 directors or a director and a company secretary must sign. Alternatively, where the company has a sole director and, pursuant to the Corporations Act there is no company secretary, that director may sign alone. Delete titles as applicable;
- Power of Attorney – a person appointed by a power of attorney from the holder (if signed under power of attorney, a certified copy of the power of attorney must accompany this Noteholder Conversion Notice if it has not already been noted by the Issuer). The attorney is to declare that he/she has no notice of revocation of the power of attorney.

Lodgement Instructions

If you wish to convert all or a portion of your Converting Notes into fully paid ordinary shares in the Issuer, this completed Notice must be received **no later than 5.00pm (AEDT) on 7 December 2019** at:

BY MAIL:

Hillgrove Resources Limited
C/- Boardroom Pty Limited
GPO Box 3993
SYDNEY NSW 2001

IN PERSON:

Hillgrove Resources Limited
C/- Boardroom Pty Limited
Level 12
225 George Street
SYDNEY NSW 2000

BY FAX:

+ 61 2 9279 0664

Privacy Statement:

The personal information provided in this form is collected by Boardroom Pty Limited, as registrar for the Issuer of the securities you hold. Boardroom Pty Limited's privacy policy can be viewed on our website (www.boardroomlimited.com.au).

Your personal information is required for the administration of the register of securityholdings. Should some or all of the requested information not be provided correct administration of your securityholding may not be possible. Your personal information may be disclosed to the Issuer of the securities you hold, its or our related bodies corporate, external services companies such as print or mail service providers or otherwise as permitted by law. If in accordance with the provisions of the Corporations Act the Issuer of the securities you hold approves, you may be sent marketing material in addition to general corporate communications. You may elect not to receive marketing material by contacting Boardroom Pty Limited.