

18 June 2013

Kyrgyzstan Acquisition To Fast-Track Growth

- Near term production potential to provide cash flow to strengthen balance sheet.
- Infrastructure easily accessible to unlock value.
- Staged vendor payments on new asset to minimise dilution.

Hodges Resources Ltd (“Hodges” or “the Company”) is pleased to announce that it has reached a heads of agreement with a Kyrgyzstan based, Australian owned and registered, company to obtain 100% of the issued share capital in return for the rights to a 50% interest in an operational thermal coal mine and an additional coal prospect in Kyrgyzstan.

The open cut mine has been mined historically for domestic consumption and internal energy markets. Historical reporting indicates the mine has been sporadically operational since 1986 and currently mines around 100,000 tonnes within less than 6 months of the year. A historical resource report was previously completed under the Russian classification system using data from around 160 holes. Estimates are currently in Russian resource categories A, B and C levels and support an exploration target* of 120-160 million tonne resource of coal quality (air dried basis) ranging from 5,500-6,900 Kcal/kg CV; ash 6-18% and total moisture 8-24%.

The first priority of the company will be to undertake a technical review of these estimates with the aim to convert it to JORC standards during the due diligence period. This process can be fast-tracked subject to accessibility of all required data and should be available in the near term, followed by a full expansion review to expedite near term production and cash flow potential.

The second project has had coal exploration and surface exploitation work. Coal has been mapped at surface and sporadically drilled. No resource has been calculated at this project.

**This exploration target is not a mineral resource. The potential quality and grade is conceptual in nature and there has been insufficient exploration to define a Mineral Resource under the JORC code. It is uncertain if further exploration will result in the determination of a Mineral Resource.*



Managing Director Mark Major said the “This previously mined asset will play an important part of Hodges development. It is our belief that we could see rapid development at this mine for minimal capital expenditure given the existing infrastructure of the open pit with coal already at surface, roads, power and labour all available”

“Our initial review suggests the mine can be scaled up in the short term and provide substantial free cash flow. The location project also works in our favour. With neighbouring China being the major consumer of thermal coal we see our growth in line with this demand as well as the regional and domestic demands.” Major added.

This current acquisition coincides with Kyrgyzstan’s push to become a major supplier to China in the near term. In April, China Road and Bridge Corporation was completing a feasibility study on a railway that would link China and the Kyrgyz-Uzbek border. The proposed line would allow large scale production from Kyrgyzstan’s mineral resource assets.

COUNTRY OUTLINE

Kyrgyzstan is now a stable democracy encouraging foreign investment to help exploit its vast mineral resources. The country provides many advantages for coal mining operations as it is close to four possible markets, both internal and external, with road and rail access. Power infrastructure runs adjacent to the license and given the abundance of hydro power in country electricity is low cost. Labour costs are also highly competitive. These factors combined set the scene for high margin and economic bulk mining operations in Kyrgyzstan.

Soviet geologists have estimated Kyrgyzstan's coal reserves at about 27 billion tons, of which the majority remained entirely unexploited in the mid-1990s. About 3 billion tons of that amount are judged to be of highest quality.



HEADS OF AGREEMENT – ACQUISITION TERMS

Under the terms of the heads of agreement, Hodges will issue shares in the company to the vendors shareholders. The total consideration is:

- 65,000,000 fully paid ordinary shares in the capital of HDG on completion of successful due diligence and shareholder approval. These shares will be escrowed for 18 months from issue.
- 35,000,000 fully paid ordinary shares in HDG which shall only be issued upon delineation and ASX announcement by HDG of a JORC compliant reserve tonnage at the historical mine project of at least 50,000,000 tonnes of minable coal;
- 50,000,000 fully paid ordinary shares in HDG which shall only be issued upon achievement of coal production and sales rates from the Historical mine such that the sum of any four consecutive months of production is at least 167,000 tonnes (equivalent to an annualised production rate of 500,000 tonnes or more) at an operating cost of equal to or less than:
 - I. if the required production rate is achieved in the first two years following Completion, USD45 per tonne (FOB at the proposed China border destination); or
 - II. if the required production rate is achieved after first two years following Completion, USD40 per tonne (FOB at the proposed China border destination),
- 30,000,000 fully paid ordinary shares in HDG which shall only be issued upon delineation and ASX announcement by HDG of a JORC compliant indicated resource at the Exploration Deposit of at least 100,000,000 tonnes of coal with minimum coal characteristics of no less than 6,000CV (Calorific Value) and no more than 20% ash and 1% sulphur on an air dried basis, as certified by an independent qualified laboratory; and
- 30,000,000 fully paid ordinary shares in HDG which shall only be issued upon a decision to mine being made in relation to the exploration Deposit,

Shares pertaining to b), c), d) and e) will be deferred shares and will expire on the 5th anniversary if the milestones are not achieved. These shares will also be escrowed for 12 months from the date the milestones are awarded. The deferred consideration is subject to shareholder approval and a waiver from 7.1.

The heads of agreement is subject to due diligence and the company has 3 months to complete a technical and legal due diligence.

ASX has advised the company that the transaction will require shareholder approval, but the company will not be required to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

COMPANY OVERVIEW

Hodges Resources Limited is proving up multi-billion-tonne thermal coal assets in central east Botswana. The assets are strategically located next to existing coal operations, power stations & rail infrastructure & will play an integral role in catering to Southern Africa – and the world's – appetite for power. Hodges Resources Limited was incorporated in August 2005 and is listed on the Australian Securities Exchange with its head office in Perth, Western Australia. Hodges also holds substantial uranium interests in Sweden as well as finalising gold interests in Ghana.

In May 2011, Hodges signed a definitive agreement to have the option to acquire a highly prospective coal project in central east Botswana — the Morupule South Coal Project. The Company has the rights to acquire up to 99% of the project.

The Morupule South Coal Project is located within the central eastern district of Botswana, directly to the south of the Morupule Colliery (underground), the only one currently operating in Botswana. The eastern side of the property is traversed by the 400kv main transmission line interconnecting with Morupule and the regional grid. The Company currently has 75% of the project.

Highlights:

- 2.45Bt Resource (110Mt measured & 173Mt indicated)
- Morupule Main Seam represents 83% of the resource
- 1.2Bt is potentially February amenable to open cut mining with indicative insitu coal to overburden ratios ranging 1.2-2.7:1.
- Indicative wash yields for the Bottom Morupule Seam:
 - up to 51% deliver <15% ash and CV of 6,200Kcal/kg; and
 - up to 78% deliver <20% ash and CV of 5,700Kcal/kg.
- Scoping study results confirm robust economics across all Morupule South development scenarios
- Initial operation scenarios of 1.5Mtpa from open cast contract mining operations are positive, with operational cost in the order of \$11 per coal run of mine tonne.

Hodges has also undertaken a process to divest its non-core assets and has received interest from companies regarding potential Joint Venture Agreements and or Full Asset Sale opportunities and is currently providing access to it's data-room to interested parties and will keep investors updated if or when any potential activity becomes available.

Mark Major

Managing Director

For Further Information

Please contact Mark Major should you have any queries on this announcement.

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Disclaimer

This announcement has been prepared relying on the information provided by the vendor. The report on the project was completed by Hodges staff. At the time of drafting this announcement, Hodges has not independently verified the information regarding the above mentioned project. Hodges has no reason to believe the information is not accurate and intends to verify the information whilst conducting due diligence on the project. It is uncertain that the following evaluation and/or further exploration the resource or reserve will ever be able to be reported in accordance with the JORC code.

Competent Persons Statement

The information contained in the report that relates to the Kyrgyzstan projects and exploration results is based on information reviewed by Mr. Mark Major, who is a Member of AusIMM. Mr. Major has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Major has given consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to the exploration results of Morupule South project, Coal Resources or ore reserves is based on information compiled by Nico J Denner, Pr.Sci.Nat (400060/98), B.Sc Hons (Geology), who is a fellow of the GSSA and a member of the SEG, and employed as a full time geologist at Gemecs. Mr Denner is a mining geologist with 19 years' experience in the mining industry. Nico Denner has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources, and Ore Reserves'. NJ Denner consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

ASX Code: HDG

Fully paid Shares:
83,720,697

Unlisted options:
9,275,000

CORPORATE DIRECTORY
Company Secretary: Julie Hill

Stock Exchange Listing:
Australian Securities Exchange
Code: HDG

BOARD MEMBERS

Nathan McMahon – Chairman / Non-Exec
Director

Mark Major – Managing Director

Bryan Dixon – Non-Exec Director

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