

HILLGROVE RESOURCES

HILLGROVE RESOURCES LIMITED

ACN 004 297 116

SUPPLEMENTARY PROSPECTUS

This is a supplementary prospectus (**Supplementary Prospectus**) intended to be read with the prospectus dated 22 November 2016 (**Prospectus**), issued by Hillgrove Resources Limited ABN 73 004 297 116 (**Company**). This Supplementary Prospectus is dated 1 December 2016 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on 1 December 2016. ASIC and the ASX do not take any responsibility for the contents of this Supplementary Prospectus.

This document is supplementary to the Prospectus dated 22 November 2016 issued by the Company and must be read together with that Prospectus. No previous supplementary prospectus has been lodged with ASIC in relation to the Offer. Pursuant to Section 719(4) of the Corporations Act, the information set out in this Supplementary Prospectus is taken to be included in the Prospectus. Terms defined in the Prospectus have the same meaning in this Supplementary Prospectus except where otherwise defined in this Supplementary Prospectus.

Other than as set out below, all details in relation to the Prospectus remain unchanged. If there is a conflict between the Prospectus and this Supplementary Prospectus, this Supplementary Prospectus will prevail. This Supplementary Prospectus will be issued with the Prospectus and as an electronic prospectus and may be accessed on the Company's website at www.hillgroveresources.com.au and the Company will send a copy of this Supplementary Prospectus to all Eligible Shareholders of the Company.

This is an important document and should be read in its entirety. If you do not understand it you should consult your professional advisers without delay.

1. INTRODUCTION

On 22 November 2016 the Company issued the Prospectus for 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 every 37.62 Shares held on the Record Date (together with 37.62 free attaching options (**Options**) for every one Note subscribed for and issued) to raise approximately \$5 million.

In accordance with Section 719 of the Corporations Act, certain information disclosed in the Prospectus is to be amended and included.

2. CHAIRMAN'S LETTER

In the Chairman's letter (at page 4 of the Prospectus), the following paragraph is inserted after the statement that "The terms of this Entitlement Offer are the best that could be negotiated in the circumstances", to provide further background to the Entitlement Offer.

"Before deciding to proceed with the Entitlement Offer, in August 2016 the Company engaged corporate financial advisers to seek offers of debt and equity funding for the Company. The Company did not receive any funding proposal that was considered equivalent or superior to the Entitlement Offer. On that basis, the Company decided to proceed with the Entitlement Offer."

This is a Supplementary Prospectus intended to be read
with the Prospectus dated 22 November 2016 issued by Hillgrove Resources Limited.

3. KEY DATES

The table of Key Dates (at page 5 of the Prospectus) is replaced by the following:

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
Lodgement of Supplementary Prospectus with ASIC	1 December 2016
Prospectus, Supplementary Prospectus and Entitlement and Acceptance Forms despatched to Shareholders	1 December 2016
Opening Date for the Entitlement Offer	1 December 2016
Closing Date for the Entitlement Offer	5.00pm (Adelaide time) on 14 December 2016
Notes and Options begin trading on ASX on a deferred settlement basis	15 December 2016
Issue Date of Notes and Options Deferred settlement trading ends	21 December 2016
Holding Statements despatched	21 December 2016
Notes and Options commence trading on ASX (normal settlement basis)	22 December 2016
Key Dates for the Notes	Date
First Interest Payment Date ¹	30 June 2017
Maturity Date	21 December 2019
Key Dates for the Options	Date
Expiry Date ²	21 September 2017

¹ Interest is scheduled to be paid in arrears at the end of each half yearly Interest Period (being 30 June and 31 December 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 Note holder 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.

Consequential changes are also required in order to reflect the revised Key Dates throughout the Prospectus. These consequential changes appear in the following sections of the Prospectus:

- the Opening Date is changed to 1 December 2016 in the Glossary;
- the Closing Date is changed to 14 December 2016 on the cover of the Prospectus and in the Chairman's Letter, Sections 3.2 to 3.5, and the Glossary;

- the date on which Notes and Options begin trading on ASX on a deferred settlement basis is changed to 15 December 2016 in Section 1.6 ("When will the Notes and Options begin trading?");
- the Issue Date is changed to 21 December 2016 – Section 1.1 ("ASX Quotation"), Section 1.6 ("When will the Notes and Options be issued?"), Section 2.8 and Section 5.4(a);
- the date on which the Holding Statements are despatched is changed to 21 December 2016 – in the Important Notice section ("Trading in the Notes and Options), Section 1.6 ("When will the Holding Statements be dispatched?") and Section 2.8; and
- the date on which Notes and Options commence trading on ASX (normal settlement basis) is changed to 22 December 2016 in Section 1.6 ("When will the Notes and Options begin trading?") and Section 5.2.

4. SECTION 1.1 – WHO IS THE TRUSTEE?

In Section 1.1, Topic "Who is the Trustee?" (at page 6 of the Prospectus), the last paragraph is deleted and replaced with the following:

"Subject to the requirements of Section 283DA of the Corporations Act, the Trustee is not responsible for monitoring the Company's compliance with the Trust Deed nor the Company's performance on a day to day basis."

5. SECTION 2.6 – CONTROL

In Section 2.6 (**Control**) (at page 12 of the Prospectus), the following further information is included immediately prior to the last paragraph:

"Ariadne Australia Limited (the parent company of the Underwriter) has indicated to the Company that at this stage, it intends to take up its Entitlement, but does not intend to participate in the Top Up Facility. If Ariadne Australia Limited's intentions change, and Ariadne Australia Limited does not take up its Entitlement, then its Entitlement will form part of the Shortfall.

Section 606 of the Corporations Act prohibits the acquisition of a relevant interest in voting shares if, because of that transaction, a person's voting power in the company:

- increases from under 20% to over 20% or
- increases from a starting point that is above 20% and below 90%.

However, there are a number of exceptions to the prohibition in Section 606 including acquisitions approved by shareholders (section 611 Item 7) and acquisitions resulting from an issue under a disclosure document if the issue is to a person as underwriter and the disclosure document disclosed the effect that the acquisition would have on the person's voting power in the company (Section 611 (Item 13)).

If considered by the Underwriter as being necessary or desirable to convert the Notes or exercise the Options in accordance with the Corporations Act, the Company has agreed that if requested by the Underwriter, it will convene a meeting of shareholders for the purpose of seeking shareholder approval in accordance with section 611 (Item 7). If shareholder approval is not provided then the Underwriter will consider all options available to it, including the transfer of the Notes and Options.”

6. SECTION 4.2(C) - EFFECT OF THE ENTITLEMENT OFFER ON THE CAPITAL STRUCTURE

In Section 4.2(c) (at pages 18 and 19 of the Prospectus), the following is inserted after the table showing the effect of the Entitlement Offer (and the conversion of Notes and exercise of Options on the capital structure of the Company:

“If all of the Notes are converted into Shares and all of the Options exercised, the new shares resulting from those issues would represent approximately 65% of the Company’s issued shares and the existing Shares would represent approximately 35%.

Dilutive impact of conversion of Notes and exercise of Options

Set out below is the theoretical ex rights price (**TERP**) of Company’s Shares on the assumption that all Notes are converted and all Options are exercised.

	TERP
Options only exercised	\$0.054
Notes only converted	\$0.055
Both Options and Notes	\$0.047

The TERP calculations have been based on the 5 day volume weighted average price (**5 day VWAP**) of the Company’s Shares in the 5 trading days prior to the date the Prospectus was lodged with ASIC on 22 November 2016, namely \$0.078 per Share.

These are theoretical calculations and the actual price of the Shares could be more or less due to various factors that affect financial market conditions or factors relating to the Company.

However, these calculations do indicate that the Entitlement Offer is dilutive because the Notes and Options are already “in the money” from the Issue Date.

The exercise price for the Options of \$0.03 is considerably below the recent trading price of the Company’s Shares. The issue of Shares on exercise of the Options will therefore have a dilutive effect because the amount raised as a result of the exercise of the Options (being \$5,643,279) is less than the value of the Shares issued based on the current market price of the Shares.

However, there is no guarantee that the Share price will remain at current levels. Therefore, the Options may not remain “in the money”.

7. SECTION 7.4(D) - UNDERWRITING AGREEMENT

In Section 7.4(d) (at page 33 of the Prospectus), the following is inserted immediately after the second paragraph:

“The trading price of the Company’s Shares is currently and has historically been higher than the \$0.03 deemed price in the Underwriting Agreement. On this basis, the value of the consideration payable to the Underwriter may be higher than \$300,000 if the Underwriter elects to be paid in Shares.

In order to avoid contravening Section 610(1) of the Corporations Act, the Underwriter can only take up 8,770,000 additional Shares in satisfaction of \$263,100 of the underwriting commission, with the balance of \$36,900 to be paid in cash. This will take the Underwriter’s relevant interest in the Company’s voting shares to 20%, without contravening Section 610(1) of the Corporations Act. The value of these 8,770,000 Shares (based on the 5 day VWAP of \$0.078 as at 21 November 2016) would be \$684,550. Therefore, together with the cash payment of \$36,900, the total value of the underwriting commission may be \$721,450.”

In Section 7.6, under the heading “Underwriter” (at page 36 of the Prospectus), the last sentence of that paragraph is deleted and replaced with the above.

8. CONSENTS

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors. In accordance with Section 720 of the Corporations Act, each Director of the Company has consented in writing to the lodgement of this Supplementary Prospectus with the ASIC.

Dated: 1 December 2016

Signed for and on behalf of Hillgrove Resources Limited



Mr Steven McClare

CEO & Managing Director

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