

Friday, 28 February 2020

Hillgrove reports a loss for 2019 – a year of transition

Hillgrove Resources Limited reports its results for the financial year ended 31 December 2019.

- Net loss after tax of \$10.0 million (2018: net profit of \$29.5 million) on revenue of \$113.5 million (2018: \$180.1 million)
- Cashflow from operating activities of \$21.8 million (up 21% from \$18.0 million in 2018)
- Fully franked dividend paid during the year of 1.5 cents per share (\$8.8 million)
Closing cash position (net of debt) at \$9.1 million (up \$7.6 million) after paying down creditors by \$18 million.

Summary of results:

		2019 (A\$m)	2018 (A\$m)	Change (A\$m)	Change %
Revenue	(A\$m)	113.5	180.1	(66.6)	-37%
Cashflow from operating activities	(A\$m)	21.8	18.0	3.8	+21%
Net profit/(loss) after tax	(A\$m)	(10.0)	29.5	(39.5)	-134%
Dividend paid	(A\$m)	8.8	-	8.8	NC
Copper production	tonnes	13,783	22,584	(8,801)	-39%

NC – not able to be meaningfully calculated

The past 12 months marked the commencement of the transition from producer to explorer / developer with the completion of the open pit mining activities in May 2019 and commencement of processing of the low grade ore stockpiles which is expected to continue until the end of March 2020.

With safety the highest priority, open pit mining of copper ore was slower than, and fell short of, planned production due to rockfalls in December 2018, and in February and May 2019. In addition, costs were higher as the pit was remediated and engineering controls implemented to ensure worker safety. This shortfall in ore production, coupled with the higher costs incurred to overcome the geotechnical problems, increased unit mining costs and reduced margins.

Notwithstanding the geotechnical challenges in the pit, the 2019 copper and gold production guidance, as well as the C1 unit cost and capital cost guidance was met or bettered.

The cessation of mining resulted in the workforce downsizing from 185 employees at the beginning of the year to 55 by year end. When processing of the open pit stockpiles is completed by the end of March 2020, the workforce will downsize again. The Kanmantoo site will be placed on care and maintenance to preserve the processing assets, and a small core group retained to focus on growth through the advancement of the Kavanagh underground studies and the continuation of a measured exploration and development programme.

For the year ended 31 December 2019, the net loss after tax was \$10.0 million which includes a tax expense of \$3.7 million related to the derecognition of the deferred tax asset. The underlying EBITDA for the year was \$12.1 million, however this was not sufficient to offset higher depreciation and amortisation charges which arose when copper ore was unable to be extracted from the Giant open pit as a result of pit wall geotechnical issues. In addition to this operating loss, there was a \$3.0 million combined write-down of the Pumped Hydro Energy Storage (PHES) project and exploration licence capitalised costs. As a result, the full year net loss before interest and tax was \$5.6 million.

Hillgrove Managing Director, Lachlan Wallace commented:

“Completing the open pit significantly reduced the cash operating costs which meant cash generation remained strong notwithstanding the reported loss after tax for 2019. Cash generated from operations was \$21.8 million after paying down creditors by \$18 million in 2019 compared to \$18.0 million in 2018 and this enabled the Company to pay a dividend of \$8.8 million to shareholders while improving the closing cash balance from \$2.5 million to \$9.3 million at 31 December 2019.

After the agreed termination of the PHES agreements in February 2020, Hillgrove is no longer bound by the restrictions imposed by those agreements, and is focussed on advancing the study for the Kavanagh Underground mining project beneath the open pit.

The Kavanagh Underground aims to access the depth extensions of the Kavanagh orebodies below the pit, using the 350m deep Giant Pit as a “quasi decline”, which, coupled with the existing processing and tailings infrastructure, significantly reduces the capital investment.

A drilling programme in 2019 demonstrated that the Kavanagh orebody extends below the pit with grade and dimensions amenable to underground mining. A follow up programme will commence in early 2020 aimed at increasing inventories by following up on the dip and strike extensions of the Eastern and Central Kavanagh lodes, and drilling the Western Kavanagh lode, which was the orebody that drove the open pit optimisation to depth.

In December 2019, Hillgrove received regulatory approval to commence the underground and expand the tailings storage facility.

Hillgrove will also progress the advanced discussions it is having with multiple parties seeking a suitable funding partner in the event the Kavanagh Underground project proceeds.

The regulatory approvals, advanced nature of the underground study, and existing processing and tailings infrastructure, materially reduce the capital hurdles and provide an opportunity to return to production relatively quickly.”

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