



31 May 2011

\$0.28

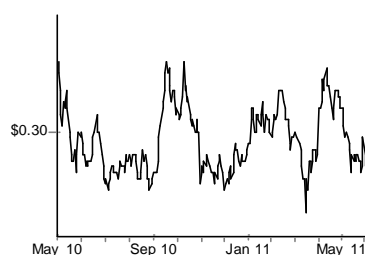
BUY

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### Price Performance



### Security/Capital Details

ASX Code	HGO
Market Cap	\$232 M
Issued Shares (dil)	827.9 M
Avg Mth T'over	39.81 M
12 Mth High – Low	\$0.36 - \$0.23

### Key Data/Ratios – FY 2011

EBITDA / Sales	-682.7%
EBIT / Sales	-696.2%
Debt / Equity	0.0%
Interest Cover	-3.7 x
ROE	-8.1%
EPS Growth	11.4%
DCF	\$0.52
12 Mth Price Target	\$0.62

### Important Disclosure

Wilson HTM Corporate Finance Ltd acted as Joint Lead Manager and Underwriter for the placement announced by Hillgrove Resources Limited in October 2010 and earned fees for acting in this capacity.

### Recommendation

Hillgrove continues to represent an exceptionally cheap copper play based on its Kanmantoo copper mine development in South Australia. We note that near mine drilling at Kanmantoo has commenced which could add to resources/reserves in 2012. High upside exploration continues at the company's Sumba Island and Bird's Head properties in Indonesia, with \$1.867m expended in the April quarter. Recent drilling results at the Pelitalira prospect proved disappointing, notwithstanding technical success. Further work looks warranted. The +1km long Karipi-Kanjilu gold in soil anomaly at Masu Prospect, Sumba Island, is planned for scout drilling. This is the strongest geochemical anomaly encountered at Masu to date although its significance will only become apparent through drilling.

### Key Points

- At the end of April, the Kanmantoo copper project in South Australia remained on schedule for commissioning in Nov 2011 and within budget.
- A recently completed pit optimisation and mine plan has resulted in marginally higher copper feed grades being brought forward. We expect that this, together with deferral of waste stripping has had a beneficial impact on early cashflow.
- Exploration drilling has commenced at Kanmantoo to convert further resources to reserves as well as expand open cut resources within the mining lease. Reprocessed magnetics data has highlighted a number of previously unknown near mine targets both within the mining lease and external to it, but within the exploration lease. One of the targets is characterised by a magnetic anomaly similar in size and intensity to that associated with the Kanmantoo resource and reserve.
- The eagerly awaited scout drillhole results from the Pelitalira prospect on Sumba Island proved disappointing against expectations with no significant mineralisation intersected. However, the drillholes were shallow (<=150m) and the drilling was early stage. Further work is warranted.
- On a more positive note, at the Masu Prospect, rock chip and trench sampling has outlined a +1km long gold in soil anomaly at the Karipi-Kanjilu target area. Rock chip samples grade commonly to 5-10g/t Au while trench sample results commonly grade 1-3g/t and over 5.0g/t in one case. Mineralised intercepts are typically 5-10m and range up to 80m. The area represents the strongest gold geochemical anomaly in the Masu area to date.
- Access to Bird's Head for drilling remains dependent on the grant of an Izin Pijam Pakai, the requisite permit for drilling in areas of protected or production forest. The application has been in progress for around six months. In the interim geological mapping and sampling continues. In our view, discovery of economic porphyry copper mineralisation at Bird's Head offers the greatest opportunity for shareholder value creation.
- Cash at 30<sup>th</sup> April was \$83.0m versus \$117.4m at 31<sup>st</sup> Jan 2011. Cash outflow was dominated by development expenditure of \$32.75m on Kanmantoo. Exploration expenditure in the quarter was \$1.87m.

Year to Jan	NPAT (Rep) \$M	NPAT (PSig) \$M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2010a	55.6	-16.0	-1.9	-82.1	-14.5	-1.0	-27.2	0.0	0.0	0
2011e	-14.2	-14.2	-1.7	11.4	-16.4	-5.0	-5.6	0.0	0.0	0
2012e	-3.3	-3.3	-0.4	76.6	-70.0	-0.4	-75.7	0.0	0.0	0
2013e	57.0	57.0	6.9	1,822.5	4.1	10.1	2.8	0.0	0.0	

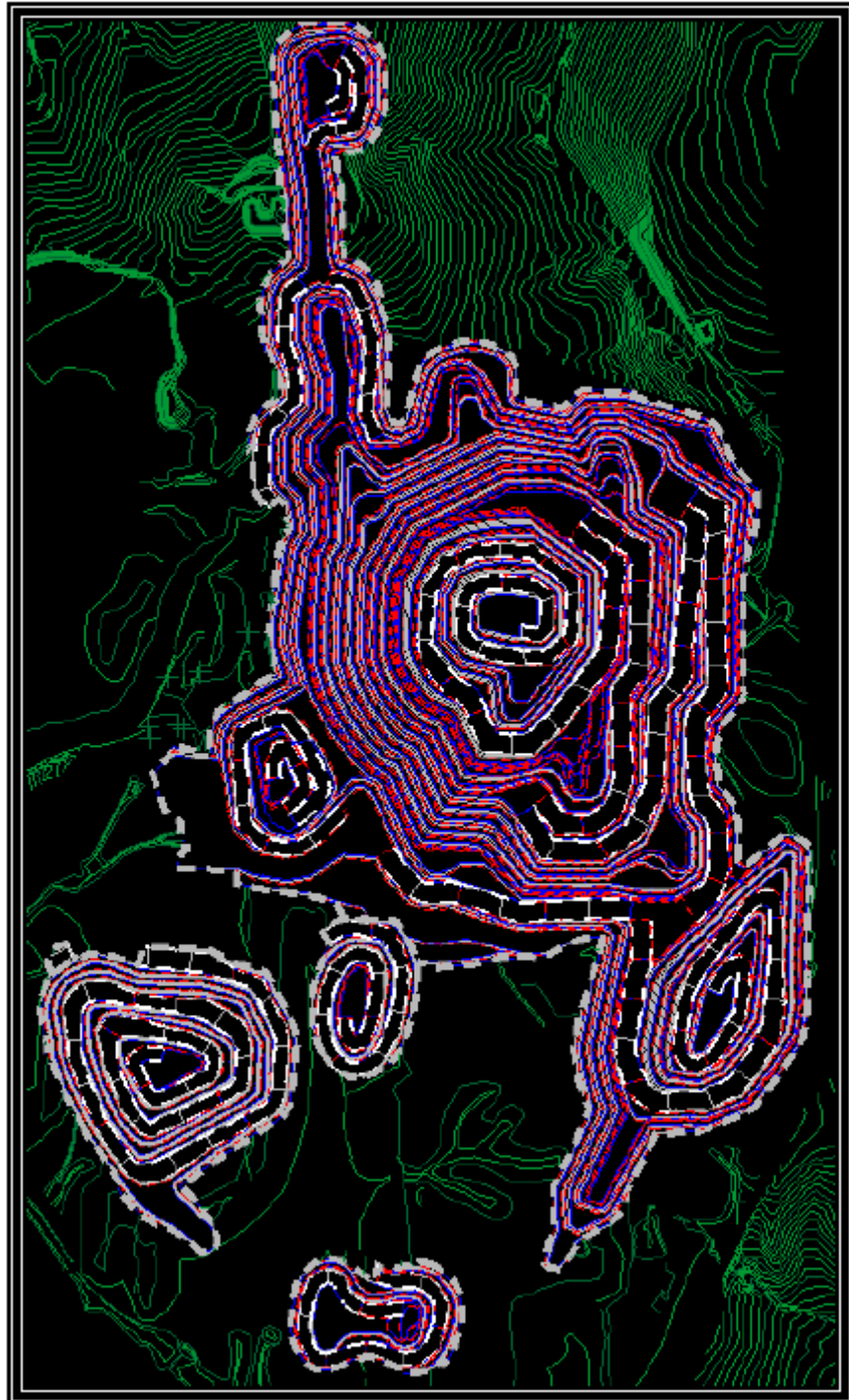


## Kanmantoo Copper Mine

- Construction 50% complete at the end of April and on schedule and within budget. Commissioning is due to occur in Nov 2011. Specific progress achieved to date includes:
  - Civil works 82% complete.
  - Plant structural 52% complete.
  - Plant mechanical and piping 52% complete.
  - Mt Barker water pipeline 97% complete, hydro testing 30% complete. Water flow to site expected end of August coinciding with District Council of Mount barker completing its water treatment plant.
  - Private access road 99% complete.
  - Power – concrete civil works complete, ETSA to install balance of electrical infrastructure in June.
  - Port access – preferred concentrate transport, storage and shipping arrangements well advanced and preferred option expected to be settled by July 2011 end.
  - Hillgrove personnel recruitment on track (80 people in total, 40 currently employed).
- Completion of pit optimisation and revised mine plan resulting in marginally higher initial head grades. We expect some reduction increase in early cashflow due to deferral of some waste stripping. The pit will be developed in the South and South-East first, followed by push backs to the North. The final pit design in the current life-of-mine plan is depicted below:



### Final Pit Design – Kanmantoo

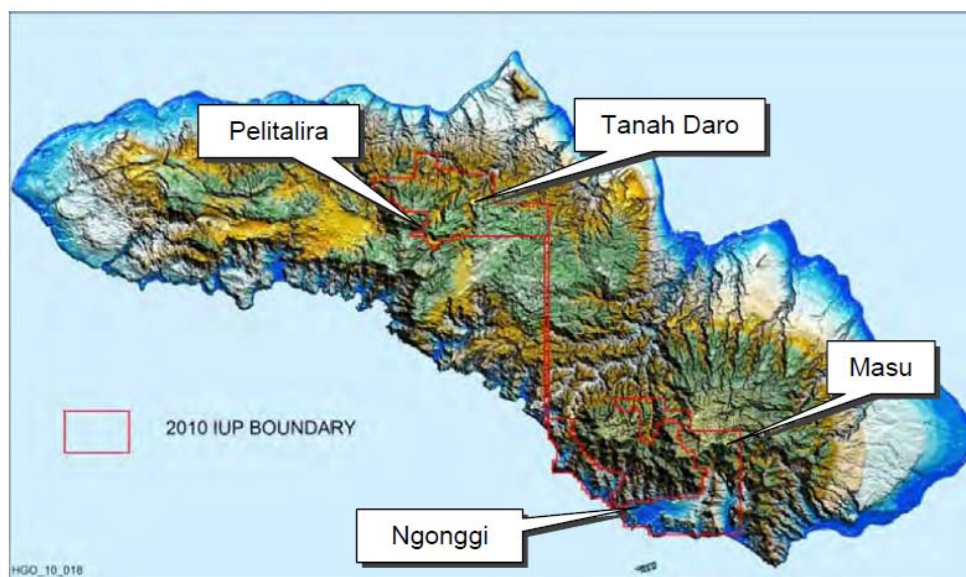


Source: Hillgrove Resources Ltd

- Kanmantoo near mine exploration program is underway and drilling has commenced. Board has approved a 7,500m drilling program to be completed on the mine lease by Dec 2011 targeting resource and reserve extension.
- Updated resource and reserve statements are expected in the first quarter of 2012.

## Sumba Island Exploration

### Sumba Island – Topographic Elevation Model And IUP Boundaries



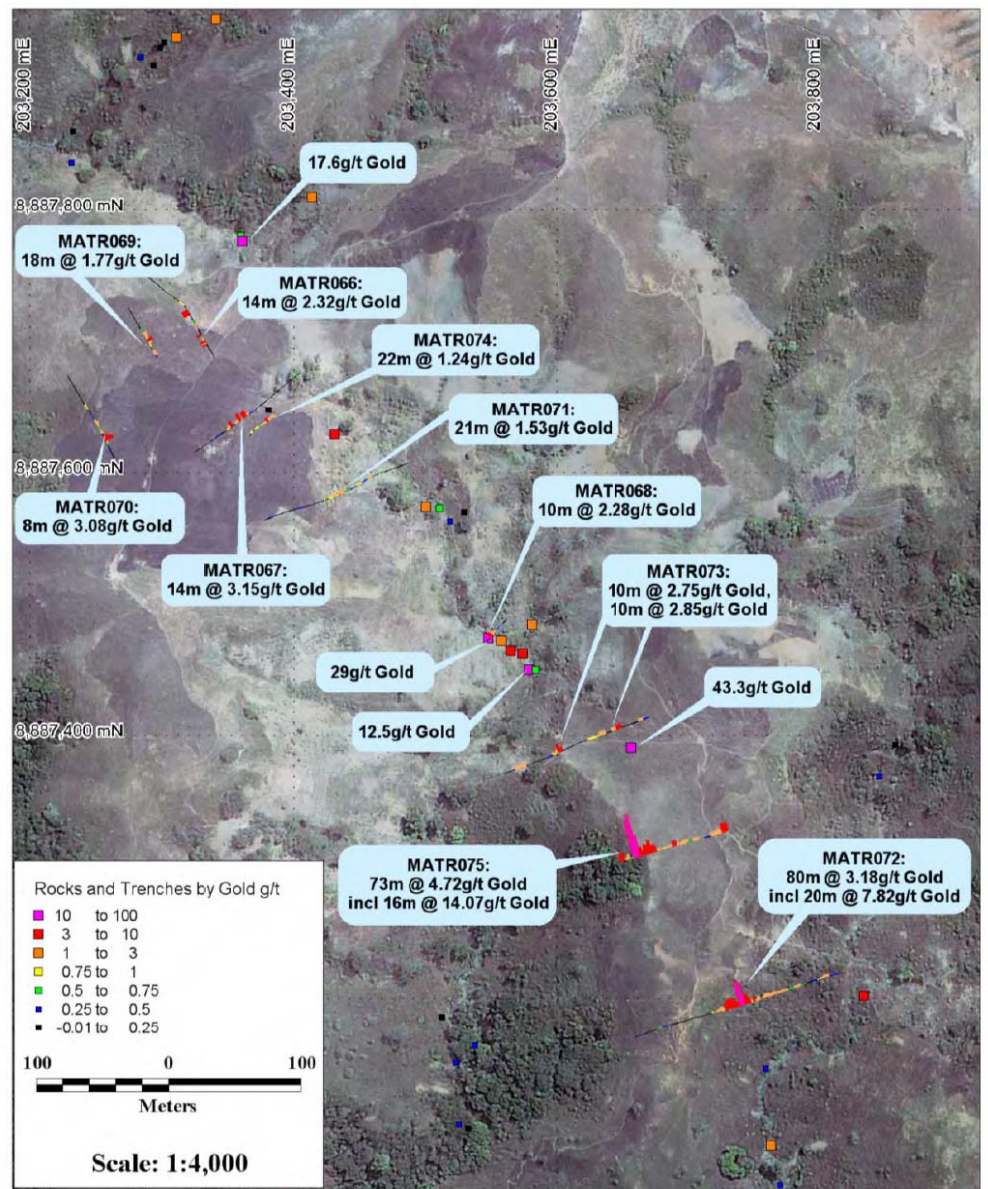
Source: Hillgrove Resources Limited

### Masu Project

- Exploration focussed on extending coverage of geological mapping over untested regions, extending geochemical soil sampling over prospective volcanic rocks, and infill soil sampling and trenching over the Karipi-Kanjilu soil gold anomalies.
- The Karipi-Kanjilu area was the main focus area in the quarter at the Masu Propsect. At Karipi a <1km gold in soil anomaly has been identified with associated high grade rock chip sample values. A total of 10 trenches covering 914m were completed over an 800m strike length. Gold bearing zones grading +1g/t delineated a NW trending zone of gold bearing veins, stockwork and brecciation over the 800m strike. Mineralisation was not closed off along strike or laterally.
- While a number of the rock chip and trench sample results demonstrate the existence of significant gold mineralisation at surface, only drilling will determine the true significance of the surface and near surface sampling. Hillgrove notes that these low temperature low sulphidation vein systems are highly susceptible to surface enrichment of gold values with subsequent dispersion of gold values.
- Notwithstanding the cautionary statements, the Karipi-Kanjilu area represents the strongest gold geochemical response delineated to date at the Masu Propsect. Plans for scout drilling are being finalised.



### Location Map – Significant Sampling Results – Rock Chips, Trenching



Source: Hillgrove Resources Limited

**Karipi – Significant Rock Chip Sample Gold Values**

Prospect	Sample No.	UTM E Z51L	UTM N Z51L	Au ppm	Ag ppm
Karipi	MARK012348	203253	8887665	1.72	5.4
Karipi	MARK012349	203286	8887707	2.92	33.1
Karipi	MARK012350	203341	8887715	1.17	6.4
Karipi	MARK012352	203254	8887648	7.95	17.3
Karipi	MARK012353	203253	8887653	7.06	8.2
Karipi	MARK012355	203377	8887650	4.96	2.5
Karipi	MARK012357	203781	8887190	4.31	11.8
Karipi	MARK012360	202892	8887620	1.41	0.2
Karipi	MARK012361	203867	8887195	3.33	65.2
Karipi	MARK012811	203657	8887391	43.65	30.7
Karipi	MARK012819	203548	8887474	20.9	29.6
Karipi	MARK012827	203361	8887776	17.8	13.2
Karipi	MARK012821	203513	8887186	12.65	24.2
Karipi	MARK012896	203834	8887202	8.99	4.3
Karipi	MARK012911	203669	8886824	8.74	2.4
Karipi	MARK012906	203574	8887462	8.04	6.6
Karipi	MARK012352	203254	8887648	7.95	17.3
Karipi	MARK012353	203253	8887653	7.06	8.2

**Note:** Gold assays determined by averaging up to 3 repeats using 50gm Fire Assay method  
Silver values calculated from multi element sweep using ICP analytical method  
East Sumba datum: WGS84 Zone 51 Southern Hemisphere  
Analyses conducted at Intertek Laboratories, Jakarta, Indonesia

Source: Hillgrove Resources Limited

**Karipi – Trench Sample Gold Values**

TRENCH	UTM E	UTM N	RL	Length	From	To	Intercept	Ag ppm
MATRFT066	203340	8887688	972	115	17	31	14.00 m @ 2.32 PPM Au	2.81
					35	45	10.00 m @ 0.88 PPM Au	0.55
					50	55	5.00 m @ 5.40 PPM Au	2.5
					60	65	5.00 m @ 0.75 PPM Au	1
MATRFT067	203325	8887615	959	102	30	52	22.00 m @ 2.66 PPM Au	2.81
MATRFT068	203547	8887471	888	25	5	15	10.00 m @ 2.28 PPM Au	35.4
MATRFT069	203275	8887725	976	45	19	43	24.00 m @ 1.67 PPM Au	6.72
MATRFT070	203229	8887674	975	72	25	30	5.00 m @ 0.85 PPM Au	0.6
					40	62	22.00 m @ 1.78 PPM Au	2.38
MATRFT071	203378	8887564	968	130	55	80	25.00 m @ 1.26 PPM Au	2.43
					85	90	5.00 m @ 0.91 PPM Au	1.3
					95	100	5.00 m @ 1.05 PPM Au	2
					105	110	5.00 m @ 0.58 PPM Au	1.2
MATRFT072	203660	8887170	909	180	20	25	5.00 m @ 0.59 PPM Au	0.3
					65	145	80.00 m @ 3.18 PPM Au	2.75
					155	165	10.00 m @ 1.27 PPM Au	1.75
MATRFT073	203560	8887371	909	127	10	20	10.00 m @ 2.35 PPM Au	1.75
					42	52	10.00 m @ 2.75 PPM Au	2.16
					72	87	15.00 m @ 1.48 PPM Au	1.1
					92	102	10.00 m @ 2.85 PPM Au	0.85
					117	122	5.00 m @ 1.48 PPM Au	2.7
MATRFT074	203367	8887628	952	28	2	28	26.00 m @ 1.28 PPM Au	2.02
MATRFT075	203649	8887304	941	93	0	73	73.00 m @ 4.72 PPM Au	1.91
					78	93	15.00 m @ 4.18 PPM Au	1.63

**Note:** Gold assays determined by averaging up to 3 repeats using 50gm Fire Assay method  
Silver values calculated from multi element sweep using ICP analytical method  
Significant intercepts calculated as weighted average, maximum of 2m internal waste at a 0.5ppmAu cut off  
East Sumba datum: WGS84 Zone 51 Southern Hemisphere  
Analyses conducted at Intertek Laboratories, Jakarta, Indonesia

Source: Hillgrove Resources Limited

**Pelitalira Prospect**

- Pelitalira Hill and in particular the drilling of nine scout holes was a focus during the quarter.
- Unfortunately, while a technical success in the sense of confirming the existence of the uppermost section of a high sulphidation epithermal gold system, the gold mineralisation intersected was largely low grade and inconsistent. Drilling was likely too shallow to intersect any higher grade mineralisation that might be present.
- The drill core which we understand includes significant lengths of silicified rock will be examined petrographically to determine where the intersected lithologies are likely located relative to the intrusive body.

**Pelitalira Drillhole Intersections**

Hole ID	FROM	TO	Interval	Au ppm	Ag ppm
TDDD001				NSI	
TDDD002				NSI	
TDDD003	4	8	4m	1.62	15.35
TDDD004				NSI	
TDDD005	0	2	2m	1.63	0.5
TDDD006				NSI	
TDDD007				NSI	
TDDD008				NSI	
TDDD009				Not yet received	

**Note:** Gold assays determined by averaging up to 3 repeats using 50gm Fire Assay method  
Silver values calculated from multi element sweep using ICP analytical method  
Significant intercepts calculated as weighted average, maximum of 2m internal waste at a 0.5ppmAu cut off  
East Sumba datum: WGS84 Zone 51 Southern Hemisphere  
Analyses conducted at Intertek Laboratories, Jakarta, Indonesia  
NSI: No Significant Intersections

Source: Hillgrove Resources Limited



## Hillgrove Resources (HGO : \$0.28)

## PRODUCTION

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Copper In Conc - (kt)	0	0	0	2	18
Gold In Conc - (koz)	0	0	0	1	8
Silver In Conc (koz)	0	0	0	22	170
C1 Cash Cost - (US\$/lb)	0.00	0.00	0.00	2.25	1.85

## PRICES

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Gold (US\$/oz spot)	871	994	1250	1612	1990
Silver (US\$/oz spot)	14.58	15.02	21.61	39.68	49.32
Copper (US\$/lb)	2.99	2.46	3.52	4.72	5.12
AUDUSD (USD)	0.84	0.82	0.93	1.04	1.02

## INVESTMENT &amp; VALUATION FUNDAMENTALS

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
EPS Before Abs (c)	-1.1	-1.9	-1.7	-0.4	6.9
EPS Growth (%)	N/A	-82.1%	11.4%	76.6%	1,822.5%
PER (x)	-12.3	-14.5	-16.4	-70.0	4.1
CFPS (c)	-1.1	-1.0	-5.0	-0.4	10.1
P/CF (x)	-11.5	-27.2	-5.6	-75.7	2.8
EV/EBITDA (x)	-15.4	-10.6	-5.3	-41.8	1.4
DPS (c)	2.0	0.0	0.0	0.0	0.0
Yield (%)	15.3%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	

## DCF VALUATION

@

11.1%

10.0%

Yr Ending Jan	A\$m	A\$ps	A\$m	A\$ps
Kanmantoo - Open Cut	362.2	0.44	379.9	0.46
Corporate Items	-19.4	-0.02	-20.0	-0.02
Interests In Other Entities	3.7	0.00	3.67	0.00
Exploration/Development	19.3	0.02	19.2	0.02
Cash collateralised bond	7.5	0.01	7.5	0.01
Franking Credits	38.7	0.05	40.7	0.05
Hedge Book	-16.0	-0.02	-16.1	-0.02
Net (Debt)/Cash	28.7	0.03	28.7	0.03
Additional Capital - Dilution	5.9	0.01	5.9	0.01
Total Valuation	430.5	0.52	449.5	0.54

## PROFITABILITY RATIOS

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
EBIT / Sales (%)	-710.5%	-696.2%	-680.4%		41.4%
ROA (%)	N/A	-9.5%	-20.4%	-2.9%	32.6%
ROE (%)	N/A	-12.9%	-8.1%	-1.8%	25.8%
ROFE (%)	N/A	-13.0%	-42.8%	-4.5%	48.0%

## INTERIMS (\$m)

Half Yr	Jul 09	Jan 10	Jul 10	Jan 11	Jul 11
Yr Ending Jan	1H A	2H A	1H A	2H E	1H E
Sales Revenue	0.0	1.4	1.4	1.7	0.0
EBIT	-4.9	-5.3	-7.4	-14.7	-3.0
Net Profit	54.0	1.6	-2.7	-11.5	-1.1
EPS	-1.2	-0.9	-0.3	-1.4	-0.1

## BALANCE SHEET (\$m)

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Cash	7.7	130.4	117.4	58.2	131.5
Total Assets	140.9	211.1	253.6	304.3	380.1
Debt	44.0	2.5	0.0	43.5	41.0
Total Liabilities	56.6	47.3	68.8	112.3	131.1
Total Shareholders Equity	83.7	163.5	184.5	191.8	248.8
Total Funds Employed	120.5	35.9	67.4	177.4	158.6

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Debt / Equity (%)	52.6%	1.5%	0.0%	22.7%	16.5%
Gearing (%) <sup>1</sup>	34.3%	1.5%	0.0%	18.5%	14.1%
Interest Cover (x)	-4.7	-0.8	-18.6	2.6	-133.3
Debt / CashFlow (x)	-9.0	-0.3	0.0	-14.1	0.5
(Debt+CNNotes) / CashFlow	-5.4	-0.1	0.0	-14.1	0.4

## PROFIT &amp; LOSS (\$m)

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Sales Revenue	0.0	1.4	3.2	0.8	195.3
EBITDA	-6.7	-9.8	-21.7	-5.2	99.7
Depn and Amortisation	0.2	0.4	0.4	0.3	18.8
EBIT	-6.9	-10.2	-22.1	-5.5	80.9
Net Interest Expense	1.5	12.2	1.2	-2.1	-0.6
Pre-tax Profit	-8.4	-22.4	-23.3	-3.3	81.5
Tax	-3.7	-6.4	-9.1	0.0	24.4
Tax rate (%)	44.5%	28.5%	39.2%	0.0%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	-4.6	-16.0	-14.2	-3.3	57.0
Abnormals	15.9	71.6	0.0	0.0	0.0
Reported Net Profit	11.3	55.6	-14.2	-3.3	57.0

## CASHFLOW (\$m)

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Operating Cash Flow	-4.9	-8.5	-41.2	-3.1	83.6
Capital Expenditure	-2.5	-7.2	-43.6	-92.1	-2.4
Expln, Develop, Evaln	-12.6	-4.4	-8.4	-10.6	-5.4
Asset Sales/Acquisitions	-4.5	165.6	12.0	0.0	0.0
Other	1.0	0.0	-0.6	-7.5	0.0
Investing Cash Flow	-18.6	154.0	-40.5	-110.2	-7.8
Share Issues/(Buybacks)	42.6	32.8	83.9	10.6	0.0
Debt Drawdown (Repay)	-15.0	-47.3	-2.5	43.5	-2.5
Dividends Paid	0.0	-8.3	0.0	0.0	0.0
Other Fin. Flows	0.0	0.0	-12.7	0.0	0.0
Financing Cash Flow	27.6	-22.8	68.7	54.1	-2.5
Cash Increase (Decrease)	4.1	122.7	-13.0	-59.2	73.3

## EARNINGS SENSITIVITIES - % CHANGE

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
+/-10% US\$ Copper Price	0.0%	0.0%	0.0%	0.0%	22.5%
+/-10% US\$ Gold Price	0.0%	0.0%	0.0%	0.0%	1.5%
+/- 1c Movement US\$/A\$	0.0%	0.0%	0.0%	0.0%	2.2%
+/-10% US\$ Silver Price	0.0%	0.0%	0.0%	0.0%	0.8%

1. Gearing = (Debt + CNNotes) / (Debt + CNNotes + Equity)



## Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

## Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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## Disclosure of Interest. Hillgrove Resources

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in Hillgrove Resources. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Hillgrove Resources in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

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## Regulatory Disclosures

Wilson HTM Corporate Finance Ltd acted as Joint Lead Manager and Underwriter for the placement announced by Hillgrove Resources Limited in October 2010 and earned fees for acting in this capacity.

Wilson HTM Investment Group Ltd and its related bodies corporate trades or may trade as principal in the securities that are subject of the research report.

Wilson HTM Corporate Finance Ltd has received compensation for corporate advisory services from this company, its subsidiaries or affiliates during the previous 12 months.

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