

BUY

HOLD

SELL

**ACTION & RECOMMENDATION**

HGO's revised LOM plan for Kanmantoo is targeting a mine life extension to 2023 (WHTMe: 2020) and total copper production of ~190kt (WHTMe: 139kt). Our preliminary modelling of the revised LOM plan indicates lower copper grades to be offset by increased ore volume. Financial analysis indicates the revised LOM plan is a positive for HGO's valuation, however no changes to our modelling have been made until further detail is known. HGO is due to release their January quarter production report next week. We expect improved through-put rates but grades to be softer. We maintain our SPECULATIVE BUY rating.

**Revised LOM Plan – Lower Grade Offset by Higher Volume****What's Changed**

- HGO's revised LOM plan for their Kanmantoo mine is targeting production of 30 – 32Mt of ore at a 0.7% - 0.8% copper grade containing ~190kt of recoverable copper. Based on a processing rate of 2.8Mtpa it implies a mine life from FY14 to FY23.
- Our current modelling for Kanmantoo is based on existing JORC Resources (~80% of M&I Resource). Assuming a processing rate of 2.7Mtpa the remaining mine life is from FY14 to FY20 and total recoverable copper is 139kt.
- Because HGO has included tonnes outside the existing Resource model (including two exploration targets), we have not changed our modelling assumptions. HGO expect an updated JORC Reserve and Resource statement mid-2013.
- Our preliminary modelling of HGO's revised LOM plan indicates that the copper grade is likely to reduce from the current Reserve grade of 0.85% to ~0.72%. This is offset by a higher volume of ore to be treated in the LOM plan. HGO expect 30 – 32Mt compared to our 18.6Mt.
- The financial analysis of our preliminary modelling for the revised LOM plan indicates net cash flow of \$445m, compared to our current base case model of \$337m.

**Risks & Catalysts**

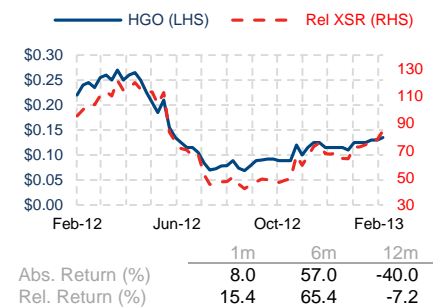
- Main risk/catalyst is operating performance at Kanmantoo. In our view, the market requires evidence that improved operating performance at Kanmantoo can be consistently achieved.
- HGO is due to report their January quarterly result next week. We expect the result to show that through-put rates have improved, but that copper grades are weaker.

Year-end January (AUD)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (\$m)	4.2	12.9	111.5	140.7	161.8
EBITDA Margin (%)	-498	-91	19	36	37
NPAT Norm (\$m)	-13.3	-11.6	-9.0	12.7	17.9
Consensus NPAT (\$m)			-10.5	18.1	18.7
EPS Norm (cps)	-2.1	-1.5	-0.9	1.2	1.7
EPS Growth (%)	38	30	37	234	38
P/E Norm (x)	-6.5	-9.2	-14.6	10.9	7.9
EV / EBITDA (x)	-7.4	-13.2	7.3	3.1	2.6
CFM (x)	-1.6	-1.0	23.0	3.5	2.5
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0
<b>Mkt Cap: \$138m</b>	<b>Enterprise Value: \$156m</b>	<b>Shares: 1,023m</b>	<b>Sold Short: 0.3%</b>	<b>ASX 300 wgt: 0.0%</b>	<b>Median T'over/Day: \$0.1m</b>

<b>12m Target Price (AUD)</b>	<b>\$0.24</b>
Share Price @ 20-Feb-13 (AUD)	\$0.14
Fcst 12m Capital Return	74.7%
Fcst 12m Dividend Yield	0.0%
<b>12m Total S'holder Return</b>	<b>74.7%</b>

Cameron Judd

cameron.judd@wilsonhtm.com.au  
Tel. +61 3 9640 3864

**12m Share Price Performance****WHTM Return Re-investment Matrix**

Return	Re-Investment	
	Low	High
High	Cash Generator	Champion
Low	Challenged	Potential

**WHTM Risk Assessment**

Risk	Share Price Risk			
	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Key Changes	01-Nov	After	Var %
<b>Revenue FY13</b>	111	112	0.1%
<b>(\$m) FY14</b>	140	141	0.4%
<b>FY15</b>	159	162	1.9%
<b>EBITDA: FY13</b>	21.2	21.3	0.6%
<b>(\$m) FY14</b>	49.6	50.5	1.6%
<b>FY15</b>	57.6	59.7	3.7%
<b>EPS: FY13</b>	-0.9	-0.9	N/A
<b>Norm FY14</b>	1.2	1.2	2.1%
<b>(cps) FY15</b>	1.6	1.7	5.2%
<b>Price Target:</b>	<b>0.24</b>	<b>0.24</b>	<b>-0.8%</b>
<b>Rec:</b>	<b>BUY</b>	<b>BUY</b>	

**Wilson HTM Equities Research – Hillgrove Resources Limited**

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#### PRICE TARGET

	Valuation	Price Target
Kanmantoo	236.41	0.22
Exploration	67.12	0.06
Hedge Book	6.68	0.01
Other Equity	1.62	0.00
Corporate	-30.10	-0.03
Net (Debt)/Cash	-26.57	-0.03
<b>TOTAL</b>	<b>255.15</b>	<b>0.24</b>

**12 Month Price Target** **0.24**

#### INTERIMS (\$m)

Half Yr (AUD)	Jul 11 1H A	Jan 12 2H A	Jul 12 1H E	Jan 13 2H E
Sales	1.3	11.6	49.7	61.8
EBITDA	-2.5	-9.3	1.5	19.8
EBIT	-2.8	-14.1	-14.8	5.7
<b>Net Profit</b>	<b>-0.3</b>	<b>-11.3</b>	<b>-11.7</b>	<b>2.8</b>
<b>Norm. EPS</b>	<b>0.0</b>	<b>-1.4</b>	<b>-1.4</b>	<b>0.3</b>
EBIT/Sales	-213.6	-121.8	-29.7	9.3
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

#### FINANCIAL STABILITY

Year-end January	FY12A	FY13E	FY14E
Net Debt	30.5	17.6	-18.5
Net Debt / Equity (%)	14.5	8.1	<0
<b>Net Debt / EV (%)</b>	<b>19.6</b>	<b>11.3</b>	<b>&lt;0</b>
Current Ratio (x)	9.4	4.6	5.7
Interest Cover (x)	10.4	<0	8.9
<b>Adj. Cash Int. Cover (x)</b>	<b>91.0</b>	<b>1.2</b>	<b>20.7</b>
Debt / CashFlow (x)	0.0	2.8	1.2
Net Debt (cash) / share	0.0	0.0	<0
NTA / share (\$)	0.3	0.2	0.2
Book Value / share (\$)	0.3	0.2	0.2
Payout Ratio (%)	0	0	0
Adj. Payout Ratio (%)	0	0	0

#### EPS RECONCILIATION (\$m)

	FY12A		FY13E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	13	13	112	112
EBIT	-17.0	-17.0	-9.0	-9.0
<b>Net Profit</b>	<b>-11.6</b>	<b>-11.6</b>	<b>-11.9</b>	<b>-9.0</b>
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>-11.6</b>	<b>-11.6</b>	<b>-11.9</b>	<b>-9.0</b>
Diluted Shrs(m)	794	794	968	968
<b>Diluted EPS (c)</b>	<b>-1.5</b>	<b>-1.5</b>	<b>-1.2</b>	<b>-0.9</b>

#### RETURNS

	FY12A	FY13E	FY14E	FY15E
ROE (%)	-5.9	-4.2	5.7	7.4
ROIC (%)	-7.7	-2.7	6.4	9.2
Incremental ROE	7.3	17.1	226.2	27.6
Incremental ROIC	3.0	6.7	-138.2	-12.8

#### KEY ASSUMPTIONS

Year-end January (AUD)	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E
Copper Price (US\$/lb)	3.94	4.00	3.58	3.73	3.69	3.54	3.37	
A\$/US\$	0.99	1.03	1.03	1.03	1.00	0.93	0.89	
Copper Production (kt)	0.0	1.3	14.4	17.7	20.2	20.2	20.2	
Gold Produced (koz)	0.0	0.4	6.3	7.9	8.9	8.9	8.9	
EBITDA Margin (%)	-497.6	-91.1	19.1	35.9	36.9	35.8	33.4	
EBIT Margin (%)		-173.4	-8.4	14.5	15.8	15.3	20.3	
ROA (%)	-5.2	-3.9	-3.7	4.2	5.6	5.9	7.3	
Earnings Sensitivity (% Chg)								
+/- 10% A\$/US\$			0.0	9.7	5.5	18.2	39.2	49.3
+/- 10% Copper Price			0.0	11.5	26.6	30.7	51.9	53.3

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

Year-end January (AUD)	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E
Sales Revenue	1.4	4.2	12.9	111.5	140.7	161.8	166.8	163.7
EBITDA	-9.9	-20.9	-11.8	21.3	50.5	59.7	59.7	54.7
Depn & Amort	0.3	0.4	5.2	30.3	30.0	34.2	34.2	21.4
<b>EBIT</b>	<b>-10.2</b>	<b>-21.3</b>	<b>-17.0</b>	<b>-9.0</b>	<b>20.4</b>	<b>25.5</b>	<b>25.5</b>	<b>33.3</b>
Net Interest Expense	12.2	1.2	-1.6	4.8	2.3	-0.1	-2.9	-4.6
Tax	-6.4	-9.2	-3.9	-4.9	5.4	7.7	8.5	11.4
Minorities / pref divs	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit pre Sig. Items</b>	<b>-16.0</b>	<b>-13.3</b>	<b>-11.6</b>	<b>-9.0</b>	<b>12.7</b>	<b>17.9</b>	<b>19.9</b>	<b>26.5</b>
Abn's / Ext's / Signif.	71.5	0.0	0.0	-2.9	0.0	0.0	0.0	0.0
<b>Reported Net Profit</b>	<b>55.5</b>	<b>-13.3</b>	<b>-11.6</b>	<b>-11.9</b>	<b>12.7</b>	<b>17.9</b>	<b>19.9</b>	<b>26.5</b>

#### CASHFLOW (\$m)

Year-end January (AUD)	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E
EBITDA	-9.9	-20.9	-11.8	21.3	50.5	59.7	59.7	54.7
Interest & Tax	-37.3	-8.7	2.4	-5.7	-8.8	-9.3	-8.8	-11.4
Working Cap / Other	38.7	-11.1	-12.8	3.0	-0.1	5.7	3.4	6.0
<b>Operating Cash Flow</b>	<b>-8.6</b>	<b>-40.7</b>	<b>-22.2</b>	<b>18.6</b>	<b>41.6</b>	<b>56.2</b>	<b>54.3</b>	<b>49.3</b>
Maintenance Capex	-7.2	-44.2	-121.4	-12.6	-2.0	-2.0	-2.0	-2.0
<b>Free Cash Flow</b>	<b>-15.8</b>	<b>-84.9</b>	<b>-143.6</b>	<b>6.0</b>	<b>39.6</b>	<b>54.2</b>	<b>52.3</b>	<b>47.3</b>
Dividends Paid	-8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Capex	-4.4	-8.2	-10.7	-10.8	-3.6	-3.7	-3.7	-3.7
Invest. / Disposals	165.6	3.2	0.2	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	4.5	5.9	0.3	0.0	0.0	0.0	0.0
<b>Cash Flow Pre Financing</b>	<b>137.2</b>	<b>-85.4</b>	<b>-148.2</b>	<b>-4.6</b>	<b>36.0</b>	<b>50.5</b>	<b>48.6</b>	<b>43.6</b>
Funded by Equity	32.8	75.5	0.0	18.2	0.0	7.3	0.0	0.0
Funded by Debt	-47.3	-2.5	51.1	-1.1	-30.0	-13.3	-7.5	0.0
Funded by Cash	-122.7	12.4	97.1	-12.5	-6.1	-44.4	-41.1	-43.6

#### BALANCE SHEET SUMMARY (\$m)

Year-end January (AUD)	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E
Cash	130.4	118.4	20.7	33.2	39.3	83.7	124.9	168.5
Current Receivables	1.1	1.9	6.4	8.6	9.9	11.2	11.9	11.5
Current Inventories	0.1	0.1	9.3	13.8	13.8	15.9	16.3	16.7
Net PPE	31.9	69.1	229.4	218.4	190.3	158.1	125.9	106.5
Investments	3.5	3.8	4.2	10.5	10.5	10.5	10.5	10.5
Intangibles / Capitalised	44.1	43.3	19.8	30.5	34.1	37.7		
Other	0.0	17.8	10.0	4.6	4.6	4.6	46.0	49.7
<b>Total Assets</b>	<b>211.1</b>	<b>254.4</b>	<b>299.8</b>	<b>319.6</b>	<b>302.5</b>	<b>321.8</b>	<b>335.5</b>	<b>363.5</b>
Current Payables	13.7	8.9	17.2	30.3	30.4	35.1	35.9	36.8
Total Debt	2.5	0.0	51.2	50.8	20.8	7.5	0.0	0.0
Other Liabilities	31.5	59.8	21.3	22.2	22.2	25.0	25.5	26.1
<b>Total Liabilities</b>	<b>47.7</b>	<b>68.7</b>	<b>89.7</b>	<b>103.3</b>	<b>73.5</b>	<b>67.6</b>	<b>61.4</b>	<b>62.8</b>
Minorities / Convertibles	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
<b>Shareholder Equity</b>	<b>163.4</b>	<b>185.3</b>	<b>209.9</b>	<b>216.3</b>	<b>229.0</b>	<b>254.2</b>	<b>274.1</b>	<b>300.6</b>
<b>Total Funds Employed</b>	<b>165.9</b>	<b>185.3</b>	<b>261.1</b>	<b>267.1</b>	<b>249.9</b>	<b>261.7</b>	<b>274.1</b>	<b>300.6</b>



## Revised LOM Plan for Kanmantoo Mine

- HGO have announced a revised Life of Mine (LOM) plan for its Kanmantoo copper mine in South Australia.
- The revised plan starts in FY14 and targets production of 30 – 32Mt of ore at 0.7% - 0.8% copper grade for ~190kt of recoverable copper. This assumes that the processing rate will increase to 2.8Mtpa (currently 2.4Mtpa) during Q2-C13 once the new primary crusher is installed.
- The new LOM plan is comprised of estimates of tonnage and grade from the following sources:
  - 12Mt at 0.85% copper of Proved and Probable Ore Reserves;
  - 5.0Mt at 0.7% copper in the Measured and Indicated Mineral Resource category;
  - 4Mt at 0.6% copper in the Inferred Resource category;
  - 1.6Mt at 0.4% copper of stockpiled ore;
  - Exploration Target 1: 2.0 – 3.0Mt at 0.6% - 0.8% copper identified in 2012 drilling (detailed Resource drilling currently underway);
  - Exploration Target 2: 5.0 – 7.0Mt at 0.7% - 0.8% copper in near mine exploration targets of unclassified resources.
- Further work is required to include these targets in a revised Reserve/Resource statement for Kanmantoo. HGO expect an updated JORC Resource estimate to be released Q2-2013 and an updated JORC Reserve to be released Q3-2013.
- Because the revised LOM plan includes exploration targets and a proportion of Inferred Resource, we are not prepared to change our current modelling assumptions. Our base case HGO model is based on ~80% of the current Measured and Indicated Resource being mined and treated.

### REDUCED COPPER GRADE OFFSET BY HIGHER VOLUME

- The first column in Exhibit 1 shows our current LOM (FY14 – FY20) modelling assumptions for Kanmantoo. It assumes a treatment rate of 2.7Mtpa at an average copper grade of 0.83% for a mine life to 2020. Total recoverable copper is 139kt.
- We have also modelled Kanmantoo based on the company's revised LOM guidance. The summary of this model is shown in column 2 of Exhibit 1. It assumes a processing rate of 2.8Mtpa and a mine life to 2024.
- In this scenario, the total ore processed increases to 30.4Mt (current WHTMe: 18.6Mt), but the copper grade has reduced to 0.72% (current WHTMe: 0.83%). Total copper produced in the scenario is 196kt, which compares to HGO's guidance of ~190kt.
- In the scenario analysis we have assumed the same unit cost inputs (\$/t mined or processed) as our current modelling. The net result is that the lower grade has increased the C1 unit cash cost by approximately 3% from US\$2.00/lb of copper to US\$2.06/lb of copper.
- The increased C1 cost results in a thinner EBIT margin. Our current LOM model has an EBIT margin of 19% compared to 17% in the scenario.
- The net cash flow of our current Kanmantoo model is \$337m. The scenario analysis indicates a 32% increase in net cash flow for LOM to \$445m.

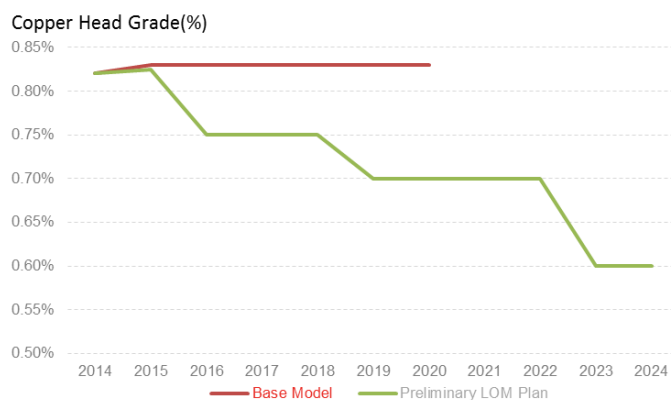


## EXHIBIT 1. COMPARISON TO WHTM'S CURRENT HGO MODELLING

<u>Kanmantoo LOM Model (31 Jan FY)</u>		Current WHTM Modelling 2014 - 2020	WHTM Scenario 2014 - 2024	HGO Revised LOM Guidance
<b>Mining</b>				
Ore	Mt	18.6	30.6	
Waste	Mt	92.2	130.1	
Strip Ratio		5.0	4.3	
Copper Grade	%	0.83%	0.72%	
Gold Grade	g/t	0.17	0.17	
<b>Processing</b>				
Milled	Mt	18.6	30.4	30 - 32
Copper Grade	%	0.83%	0.72%	0.7% - 0.8%
Gold Grade	g/t	0.17	0.17	
Copper Recovery	%	90%	90%	
Gold Recovery	%	60%	60%	
<b>Copper Produced</b>	<b>kt</b>	<b>138.7</b>	<b>196.0</b>	~190
<b>Gold Produced</b>	<b>koz</b>	<b>61.0</b>	<b>99.7</b>	
<b>Financials</b>				
Revenue	A\$m	1230	1808	
Cash Costs	A\$m	811	1249	
EBITDA	A\$m	419	559	
EBIT	A\$m	235	314	
EBIT Margin	%	19%	17%	
<b>C1 Cash Cost (excl. By-Product Credits)</b>		<b>2.36</b>	<b>2.46</b>	
<b>C1 Cash Cost (incl. By-Product Credits)</b>		<b>2.00</b>	<b>2.06</b>	
<b>Cashflow</b>				
EBITDA	A\$m	419	559	
Less Tax	A\$m	-68	-91	
Less Capex	A\$m	-14	-22	
<b>Net Cashflow</b>	<b>A\$m</b>	<b>337</b>	<b>445</b>	

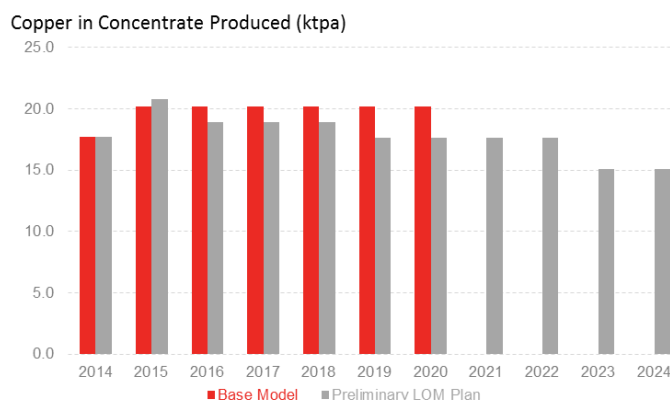
Source: WHTM

## EXHIBIT 2. COPPER HEAD GRADE IN CURRENT WHTM MODEL VS PRELIMINARY MODEL OF LOM PLAN



Source: WHTM

## EXHIBIT 3. COPPER PRODUCED IN CURRENT WHTM MODEL VS PRELIMINARY MODEL OF LOM PLAN



Source: WHTM



## JANUARY QUARTER PRODUCTION REPORT PREVIEW

- We attended a site visit at Kanmantoo's operations in South Australia towards the end of 2012.
- At this time management provided guidance for the January quarter (refer Exhibit 4).
- Whilst we understand that through put rates have been achieved, it is likely that the milled copper grade may be lower than indicated in Exhibit 2.
- HGO are due to report their January quarter production report 27/28 February.

## EXHIBIT 4. HGO QUARTER PRODUCTION HISTORY

		April Qtr	July Qtr	Oct Qtr	Indicative Jan Qtr
Total Tonnes Mined	(kt)	3,481	3,417	3,562	+5,000
Ore to Long Term Stockpiles	(kt)	298	248	205	
Ore to ROM	(kt)	544	486	552	
ROM Grade	Cu (%)	0.83	0.71	0.81	
Mined Waste	(kt)	2,639	2,683	2,805	
Ore Milled	(kt)	488	572	595	>600
Milled Grade	(%)	0.63	0.67	0.74	+0.75
	Au (%)	0.14	0.13	0.17	
	Ag (%)	2.89	3.43	3.08	
Recovery	Cu (%)	86.80	90.50	91.30	~92.00
	Au (%)	58.00	50.40	56.70	
	Ag (%)	49.70	48.00	61.50	
Cu Concentrate Produced	(t)	10,316	13,280	17,007	
Concentrate Grade	Cu (%)	26.00	26.20	23.50	
	Au (%)	3.90	2.80	3.30	
	Ag (%)	67.80	71.10	66.20	
Contained Metal in Conc.	Cu (t)	2,681	3,473	3,994	4,125 - 4,500
	Au (oz)	1,275	1,216	1,852	
	Ag (oz)	22,507	30,351	36,222	
Annualised Cu Production	Cu(t)	10,724	13,892	15,976	16,500 - 18,000
Total Concentrate Sold	(dry metric t)	8,590	15,462	16,292	

Source: HGO & WHTM



## APPENDIX I. CURRENT WHTM BASE CASE MODEL FOR KANMANTOO COPPER MINE

<b>Kanmantoo Summary Model (31 Jan FY)</b>		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>FY14 - FY20</b>
<b>Pricing (Nominal)</b>											
Copper	US\$/lb	4.0	3.6	3.7	3.7	3.5	3.4	3.3	3.0	3.1	
Gold	US\$/oz	1572.0	1676.0	1804.5	1696.5	1558.0	1385.0	1315.0	1207.5	1237.5	
Silver	US\$/oz	35.3	31.2	34.0	30.8	28.3	25.2	23.9	22.0	22.5	
A\$/US\$		1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.8	
<b>Mining</b>											
Ore	Mt	0.5	2.2	2.4	2.7	2.7	2.7	2.7	2.7	2.7	18.6
Waste	Mt	4.2	11.9	13.2	14.9	14.9	14.9	14.9	12.8	6.8	92.2
Copper Grade	%	0.80%	0.64%	0.82%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%
Gold Grade	g/t	0.20	0.14	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
<b>Processing</b>											
Milled	Mt	0.2	2.3	2.4	2.7	2.7	2.7	2.7	2.7	2.7	18.6
Copper Grade	%	0.80%	0.71%	0.82%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%
Gold Grade	g/t	0.20	0.15	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Copper Recovery	%	70%	89%	90%	90%	90%	90%	90%	90%	90%	90%
Gold Recovery	%	30%	57%	60%	60%	60%	60%	60%	60%	60%	60%
<b>Copper Produced</b>	<b>kt</b>	<b>1.3</b>	<b>14.4</b>	<b>17.7</b>	<b>20.2</b>	<b>20.2</b>	<b>20.2</b>	<b>20.2</b>	<b>20.2</b>	<b>20.2</b>	<b>138.7</b>
<b>Gold Produced</b>	<b>koz</b>	<b>0.4</b>	<b>6.3</b>	<b>7.9</b>	<b>8.9</b>	<b>8.9</b>	<b>8.9</b>	<b>8.9</b>	<b>8.9</b>	<b>8.9</b>	<b>61.0</b>
<b>Financials</b>											
Revenue	A\$m		117	152	176	182	179	183	177	182	1230
Cash Costs	A\$m		92	98	109	112	115	124	126	128	811
EBITDA	A\$m		25	55	67	69	64	60	52	54	419
EBIT	A\$m		-5	25	32	35	43	38	30	32	235
EBIT Margin	%		-5%	17%	20%	21%	26%	23%	19%	19%	19%
<b>C1 Cash Cost (excl. By-Product Credits)</b>			<b>2.84</b>	<b>2.62</b>	<b>2.49</b>	<b>2.38</b>	<b>2.33</b>	<b>2.25</b>	<b>2.20</b>	<b>2.24</b>	<b>2.36</b>
<b>C1 Cash Cost (incl. By-Product Credits)</b>			<b>2.41</b>	<b>2.17</b>	<b>2.07</b>	<b>1.99</b>	<b>1.99</b>	<b>1.92</b>	<b>1.90</b>	<b>1.93</b>	<b>2.00</b>
<b>Cashflow</b>											
EBITDA	A\$m		25	55	67	69	64	60	52	54	419
Less Tax	A\$m		2	-7	-9	-10	-12	-11	-9	-9	-68
Less Capex	A\$m		-13	-2	-2	-2	-2	-2	-2	-2	-14
<b>Net Cashflow</b>	<b>A\$m</b>		<b>14</b>	<b>46</b>	<b>55</b>	<b>57</b>	<b>50</b>	<b>47</b>	<b>41</b>	<b>42</b>	<b>337</b>

Source: WHTM



## APPENDIX II. PRELIMINARY MODEL OF REVISED LOM PLAN FOR KANMANTOO COPPER MINE

Kanmantoo Summary Model (31 Jan FY)		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	FY14-FY24
<b>Pricing (Nominal)</b>															
Copper	US\$/lb	4.0	3.6	3.7	3.7	3.5	3.4	3.3	3.0	3.1	3.2	3.2	3.3	3.4	
Gold	US\$/oz	1572.0	1676.0	1804.5	1696.5	1558.0	1385.0	1315.0	1207.5	1237.5	1267.5	1297.5	1327.5	1357.5	
Silver	US\$/oz	35.3	31.2	34.0	30.8	28.3	25.2	23.9	22.0	22.5	23.0	23.6	24.1	24.7	
A\$/US\$		1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
<b>Mining</b>															
Ore	Mt	0.5	2.2	2.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	30.6
Waste	Mt	4.2	11.9	14.3	14.9	14.9	14.9	14.9	13.0	9.8	8.4	8.4	8.4	8.4	130.1
Copper Grade	%	0.80%	0.64%	0.82%	0.83%	0.75%	0.75%	0.75%	0.70%	0.70%	0.70%	0.70%	0.60%	0.60%	0.72%
Gold Grade	g/t	0.20	0.14	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
<b>Processing</b>															
Milled	Mt	0.2	2.3	2.4	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	30.4
Copper Grade	%	0.80%	0.71%	0.82%	0.83%	0.75%	0.75%	0.75%	0.70%	0.70%	0.70%	0.70%	0.60%	0.60%	0.72%
Gold Grade	g/t	0.20	0.15	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Copper Recovery	%	70%	89%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Gold Recovery	%	30%	57%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
<b>Copper Produced</b>	<b>kt</b>	<b>1.3</b>	<b>14.4</b>	<b>17.7</b>	<b>20.8</b>	<b>18.9</b>	<b>18.9</b>	<b>18.9</b>	<b>17.6</b>	<b>17.6</b>	<b>17.6</b>	<b>17.6</b>	<b>15.1</b>	<b>15.1</b>	<b>196.0</b>
<b>Gold Produced</b>	<b>koz</b>	<b>0.4</b>	<b>6.3</b>	<b>7.9</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>99.7</b>
<b>Financials</b>															
Revenue	A\$m		117	152	181	172	169	173	158	162	166	169	151	155	1808
Cash Costs	A\$m		89	95	106	106	108	117	116	118	120	123	119	121	1249
EBITDA	A\$m		29	58	75	66	61	57	42	43	45	47	32	33	559
EBIT	A\$m		-2	28	40	34	41	37	23	25	26	28	16	17	314
EBIT Margin	%		-2%	20%	24%	21%	26%	23%	16%	17%	17%	18%	11%	12%	17%
<b>C1 Cash Cost (excl. By-Product Credits)</b>			<b>2.73</b>	<b>2.54</b>	<b>2.34</b>	<b>2.39</b>	<b>2.35</b>	<b>2.26</b>	<b>2.33</b>	<b>2.37</b>	<b>2.41</b>	<b>2.45</b>	<b>2.80</b>	<b>2.85</b>	<b>2.46</b>
<b>C1 Cash Cost (incl. By-Product Credits)</b>			<b>2.29</b>	<b>2.09</b>	<b>1.92</b>	<b>1.97</b>	<b>1.98</b>	<b>1.90</b>	<b>1.97</b>	<b>2.01</b>	<b>2.04</b>	<b>2.07</b>	<b>2.35</b>	<b>2.38</b>	<b>2.06</b>
<b>Cashflow</b>															
EBITDA	A\$m		29	58	75	66	61	57	42	43	45	47	32	33	559
Less Tax	A\$m		1	-8	-12	-10	-12	-11	-7	-7	-8	-8	-5	-5	-91
Less Capex	A\$m		-13	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-22
<b>Net Cashflow</b>	<b>A\$m</b>		<b>17</b>	<b>48</b>	<b>62</b>	<b>54</b>	<b>47</b>	<b>44</b>	<b>33</b>	<b>34</b>	<b>35</b>	<b>37</b>	<b>25</b>	<b>26</b>	<b>445</b>

Source: WHTM





## RETURN RE-INVESTMENT MATRIX

Return	High	Cash Generator
	Low	Challenged
		Low
		Re-investment

Currently progressing 20ktpa copper mine in South Australia towards Bank Completion test. Project largely de-risked once achieved and should provide consistent returns. We also consider ability to grow organically as likely.

## RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Share price risk - Earnings subject to copper price exposure and strength of AUD. Business Risk - Main risk is that project does not deliver forecast copper production profile. Further risk is that exploration potential in South Australia and South-East Asia is not realised.

## BUSINESS DESCRIPTION

HGO is an Australian mining company focused on the operation of the Kanmantoo Copper mine in South Australia, and exploration on its Indonesian tenements. In Indonesia, HGO is targeting the discovery of epithermal gold and porphyry copper/gold deposits. The Kanmantoo Copper mine is located less than 55km from Adelaide. Ramp-up of the open pit mine and processing circuit is progressing to an initial throughput of 2.4Mtpa producing ~80kt of concentrate per annum (~20ktpa of copper metal).

## INVESTMENT THESIS

HGO recently completed a \$19m raising to provide sufficient working capital to allow the company to address elevated grade dilution and low mining rates at its Kanmantoo mine. In our base case, we operational improvements are achieved and we value the company at \$0.22/sh. The current share price approximately reflects the replacement value of the Kanmantoo mine. Whilst we highlight the near term operating risks, we do see value should these issues be resolved. We rate a Speculative Buy.

## REVENUE DRIVERS

- Copper and gold prices
- Improved mining rates and copper feed grades to the mill
- Successful exploration at Kanmantoo and Indonesia

## BALANCE SHEET

- Equity: 793.7m FPO
- Options: 38.9m
- Cash: \$14m (31 July 2012)
- Debt: \$53m (31 July 2012)

## KEY ASSETS

- *Kanmantoo Copper Mine (South Australia): is an open-cut mine with initial throughput of 2.4Mt pa, producing approximately 80,000t of concentrate, containing about 20,000t of copper metal and 10,000oz of gold with exploration potential for further copper*

## RESERVES & RESOURCES

- Kanmantoo  
 In-situ Resource: 31.2Mt @ 0.82% Copper  
 Long term stockpile Resource: 1.6Mt @ 0.37% Copper

## BOARD

- Dean Brown (Chairman)
- John Gooding (Non-Executive Director)
- John Quirke (Non-Executive Director)
- Douglas Snedden (Non-Executive Director)
- Edwin Zemancheff (Non-Executive Director)

## KEY ISSUES / CATALYSTS

- Mill feed grades achieving 0.8% by end of 2012.
- Bank Completion Test achieved: must be completed by 30 June 2013
- Increased Resource at Kanmantoo to increase mine life towards 10 years.
- Exploration success in Indonesia provides optionality for HGO

## MANAGEMENT

- Mr Greg Hall (Managing Director)
- Russell Middleton (Chief Financial Officer)
- Shanthi Smith (Company Secretary)
- Steven McClare (General Manager (Kanmantoo Copper Mine))

## RISK TO VIEW

- Inability to achieve and maintain full production capacity at Kanmantoo.

## MISCELLANEOUS AND OTHER

## CONTACT DETAILS

Hillgrove Resources Limited; Suite 4103, Level 41 Australia Square Tower, 264-278 George Street, Sydney, NSW, 2000 | Tel: +61 (2) 8247 9300





#### Head of Research

Jacqueline Fernley (02) 8247 6661

#### Industrials

James Ferrier (03) 9640 3827

Martin Pretty (03) 9640 3893

Ivor Ries (03) 9640 3863

Andrew Dalziel (07) 3212 1946

Stewart Oldfield (03) 9640 3818

Chris Gibson (03) 9640 3828

Daniel Wan (02) 8247 6694

#### Healthcare and Biotechnology

Shane Storey (07) 3212 1351

Daniel Sciberras (07) 3212 1022

#### Resources

Andrew Pedler (07) 3212 1346

John Young (03) 9640 3846

Cameron Judd (03) 9640 3864

Liam Schofield (07) 3212 1313

Nathan Szeitli (03) 9640 3806

#### Quantitative Strategy/TAA

Damien Klassen (02) 8247 3101

#### Head of Institutional Sales

Duncan Gamble (02) 8247 6629

#### Sydney

Jonathan Scales (02) 8247 6613

Richard Moulder (02) 8247 6603

Michael Pegum (02) 8247 6602

Anthony Wilson (02) 8247 3113

#### Melbourne

David Permezel (03) 9640 3885

Adam Dellaway (03) 9640 3824

#### Wealth Management Research

Peter McManus (02) 8247 3186

John Lockton (02) 8247 3118

*Email: [firstname.lastname@wilsonhtm.com.au](mailto:firstname.lastname@wilsonhtm.com.au)*

#### National Offices

Brisbane Ph: (07) 3212 1333

Sydney Ph: (02) 8247 6600

Melbourne Ph: (03) 9640 3888

Gold Coast Ph: (07) 5509 5500

Dalby Ph: (07) 4660 8000

Hervey Bay Ph: (07) 4197 1600

*Our web site: [www.wilsonhtm.com.au](http://www.wilsonhtm.com.au)*

#### Return Reinvestment Matrix and Risk Measures

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

#### Recommendation Structure and Other Definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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