Wednesday, 25 June 2014

CHAIRMAN’S ADDRESS TO AGM

Please find following the Chairman’s Address made at the Annual General Meeting of Hillgrove Resources Limited (ASX:HGO) at the Radisson Blu Hotel in Sydney today.

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Hillgrove Resources Limited - Annual General Meeting 2014

Chairman’s Address

Ladies and Gentlemen, welcome to the 2014 Annual General Meeting of Hillgrove Resources Limited.

During the year, Hillgrove remained focused on its two key assets: the operation of the Kanmantoo Copper Mine in South Australia and the joint venture development of its Indonesian exploration tenements.

Hillgrove’s flagship asset, the open pit Kanmantoo Copper Mine in South Australia, is just 55 kilometres from Adelaide. The location simplifies the provision of infrastructure, with a main highway passing close by and just 90km to the Port of Adelaide, permitting the trucking of copper concentrate. The mine is on the electricity grid and has mains water, although most of the process water is supplied by the District Council of Mount Barker’s treated waste water program.

Being located in the Murray Darling Basin and near urban communities requires a unique level of engagement. Along with direct employment opportunities and the significant use of local suppliers and businesses, Hillgrove supports local township events and groups. It engages with Local and State Governments on support and provision of services, such as the water program just mentioned and the approval to mine in such a sensitive area.

There are no fly in/fly out facilities. 22% of the 260 personnel who staff the mine live within five kilometres, 58% come from the nearby area, and the remainder from the greater Adelaide region.

Kanmantoo management increased its interaction with the local communities during the year, primarily through the Kanmantoo Callington Community Consultative Committee. Ongoing solutions are sought to manage dust, noise and other community concerns, and to ensure a common understanding of the mine-life extension application currently with the State Government.

The potential for further ore extensions and growth of the global copper/gold Resource at Kanmantoo are high. The exploration prospects range from near mine to regional. Further drilling could result in the expansion of the open pit and extension of mine life.

In Indonesia Hillgrove has advanced exploration projects with excellent geological provenance. However, as outlined last year, a decision was made to minimise expenditure but maintain the assets and relationships, while continuing to pursue suitable funding partners. As a consequence during 2013 action was taken to wind back expenditure at Hillgrove’s Indonesian assets at Bird’s Head in West Papua, and at Sumba Island, as well as closing the company’s exploration offices in Jakarta and Perth.

Hillgrove Management is pursuing the potential for strategic investors to fund and support future exploration and development programs for both projects. Interest remains despite reduced market investment in greenfields exploration. We are currently having discussions with a number of parties concerning joint ventures for these projects.

The performance of the Kanmantoo Mine for the last financial year reflects a period of significant change and improvement. The Company has returned to profitability by ensuring the Kanmantoo mining operations have consistent performance and quality control processes to maximise copper production and reduce costs.

Changes in the operations, including replacement of the jaw crusher, a new Life of Mine Plan, the mining services contract moving to owner operator, together with many process improvements, all helped lead to a 36% increase in copper produced in the final quarter. This resulted in a 25% increase in production of copper contained within concentrate for the full year over the previous year, and generated revenue of $139.2 million from the sale of copper concentrate. Based on the mid-point of our guidance for this current year, the Company is forecast to lift copper production by a further 36% this year compared to last year.
Having achieved many of our corporate and operational targets in the latter half of last year, the Hillgrove Board then commenced a strategic review of the Board and current and future operations of the Company.

The Board of Directors undertook an analysis of its capabilities and an external review of its operation to ensure appropriate Board renewal. John Quirke retired in November 2013 after eight years and Edwin Zemancheff retired in May 2014 after nearly four years.

John was an early Director who helped develop the Company with the then MD David Archer, developing a major shareholding in the Gunnedah coal seam gas project through Eastern Star Gas and exploration of the Kanmantoo site. John played a pivotal role in securing the South Australian Government approvals for the Kanmantoo Mine to proceed.

Edwin brought valuable and significant commercial, corporate and legal experience to the Board, in particular during the Kanmantoo site and processing plant construction period, and as we worked through some crucial decisions over the past year.

I thank both John Quirke and Edwin Zemancheff for their very valuable and committed work for the Company.

In November Maurice Loomes joined the Board. Maurice brings considerable corporate Board experience and is a very accomplished corporate strategist and investment specialist. He makes a valuable contribution to Board considerations. The Board has also engaged a recruitment specialist to identify a person with additional resource industry experience to join the Board.

The strategic focus of the Company is on further improvements in production and financial performance of the Kanmantoo Copper Mine, expansion of the Kanmantoo regional Resource through exploration, realisation of value from the Indonesian assets, reduction of outstanding debt, and the creation of value for shareholders.

This past year was a turnaround year for the Company, not only in terms of operational achievements, but also in achieving our first full year profit since funding of the Kanmantoo Mine. This clearly underlines the transition from mine development to profitable production, which has set the platform for value improvement to shareholders over the coming year.

Hillgrove took advantage of the high US dollar copper price and low Australian dollar in January 2014 by putting in place additional hedging contracts. This brought our hedged coverage of copper to 90% of production through to the end of July at an average price of A$8,107 per tonne or A$3.68 / lb of copper. Post July through to early 2016 our hedging cover reduces to approximately 65%. In light of the current down turn in the copper price, this has further strengthened the Company’s position and cash flow generation over the next six months, and supports planned debt repayments.

In the last financial year total debt reduced from $50.4 to $40.8 million, and has been further reduced from $40.8 to $33.4 million so far this year. Project cash flow generation from Kanmantoo provides the ability to repay the remaining debt over the next 12 months. Key dates on the current debt repayment schedule are the:

- Gold Loan repayments completed by September 2014;
- Project Finance by January 2015; and

Increased stripping to open up the Giant pit and the potential to pay a dividend when possible may require the review of debt finance.
The Board of Directors has begun to evaluate various capital management options to enable a commencement of return of value to shareholders. Shareholder return options (including the potential for future dividends) under the current financing arrangements are subject to full repayment of existing debt and associated facilities to our financiers, as well as being subject to available free cash.

In line with this view, yesterday, the Board of Directors approved a Dividend Policy which is now available on the Hillgrove website. Under the policy Hillgrove will aim to maintain a minimum dividend payment payout of 40% of net profit, excluding non-recurring items. This of course will be subject to immediate demands for cashflow and Board approval.

Franking credits of approximately $21 million within the Group together with approximately $70 million of tax losses, as a result of deductible exploration expenses along with the R&D incentive, can then be utilised.

As advised during the last quarterly report, the Company will be changing its financial year end date to 31 December in order to align reporting quarters with our peers. Accordingly, the current financial year will be modified to 11 months ending 31 December 2014, with the first half still ending on 31 July 2014. The half year will then be followed by an interim two month third quarter (August and September) and a three month final quarter (October to December). This move will allow better performance comparison of Hillgrove with its peers for investors, analysts and the market in general.

The current financial year will be one of continued improvement with projected copper production increasing by 36%, as mentioned earlier, giving the Company a strong footing for value growth. As part of the coming year’s plan, Hillgrove will look further at the potential for Resource expansion with evaluation of targets on the Kanmantoo mining lease and surrounding regional tenement.

Following the business of the meeting, our Managing Director, Greg Hall, will provide further detail on the proposed activities at Kanmantoo and planned exploration.

The progressive improvement in performance can be attributed to the hard work and commitment of the whole Hillgrove team at the Kanmantoo Copper Mine and in Sydney. I thank them all for their outstanding efforts. With the team focussed on safety, mining performance, copper production, and the community, the Board is confident Hillgrove Resources Limited will achieve its production targets.

I want to acknowledge the ongoing support of our many shareholders, testimony of which can be seen in the proxy voting I am about to announce. We truly appreciate this backing of the Company.

The Hon. Dean Brown, AO
Chairman