

Thursday, 26 February 2015

ASX Market Announcement  
Australian Securities Exchange  
Level 4 Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

Dear Sir or Madam:

**LODGEMENT OF APPENDIX 4E – YEAR ENDED 31 DECEMBER 2014**

Please find attached the Preliminary Final Report – 31 December 2014 (Appendix 4E) under Listing Rule 4.3A relating to Hillgrove Resources Limited's results for the 11 month period 1 February 2014 to 31 December 2014 – CY14.

The full annual report together with the financial report of Hillgrove Resources Limited ("the Company") and the consolidated entity, being the Company and its controlled entities, for the year ended 31 December 2014 and the auditors' report thereon will be released by 31 March 2015 per ASX guidelines.

Yours faithfully



**Shanthi Smith**  
Company Secretary



# **ASX Preliminary Final Report – 31 December 2014**

**Lodged with the ASX under Listing Rule 4.3A**

HILLGROVE RESOURCES LIMITED  
ABN 73 004 297 116

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**Appendix 4E: Preliminary final report for period ending 31 December 2014**

<b>Name of entity</b>	Hillgrove Resources Limited
<b>ABN</b>	73 004 297 116
<b>Financial year ended (11 months)</b>	31 December 2014
<b>Previous corresponding reporting period (12 months)</b>	31 January 2014

**Results for announcement to the market**

Revenue from ordinary activities	up	19.8%	to	\$166,768,000
Profit from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	up	153.1%	to	\$3,787,000
Profit for the period attributable to the owners of Hillgrove Resources Limited	up	153.1%	to	\$3,787,000

**Dividends**

No dividends were paid or proposed to members during the 11 month period ended 31 December 2014 or in the previous period.

**Review of consolidated financial results**

During the year Hillgrove Resources Limited ('Hillgrove' or 'the Company') changed its financial year end from 31 January to 31 December. As a result the current reporting period (CY14) is for 11 months from 1 February 2014 to 31 December 2014 and the comparative period is for 12 months from 1 February 2013 to 31 January 2014.

During the reporting period, Hillgrove continued to improve the operational performance of its principal operating asset, the Kanmantoo Copper Mine. This follows the significant key changes implemented in 2013, when a new primary crusher system was installed and the mutual termination of the Mining Services Contract undertaken; after which the Company commenced supervision, planning and operational roles combined with specialised contractors for drilling, equipment supply/maintenance and explosive supply. During 2014 improvements to mining practices were continued in close association with our key contractors, in addition to the expansion of the Tailings Storage Facility (TSF) to its full planned footprint, approval of a Program for Environment Protection and Rehabilitation (PEPR) for extension of mining activities for an additional two years, and installed a new screening system that provided maintenance cost savings and increased throughput efficiencies.

Hillgrove generated operating revenue of \$166.8 million for the 11 months at an average realised price of \$3.62/lb (US\$3.31/lb). This was achieved from production of 90,163 tonnes of dry copper concentrate containing 20,693 tonnes of copper from the Kanmantoo Copper Mine, that was within the annual guidance provided and a 20.4% increase over the previous 12 month fiscal year.

**Statement of profit or loss**

For the 11 months ended 31 December 2014, the net profit after tax was \$3.8 million compared to \$1.5 million for the year ended 31 January 2014. The increase in net profit after tax on the previous period was primarily due to:

- Revenue generated in the 11 months to 31 December 2014 from the sale of copper concentrate of \$166.8 million was an increase of \$27.6 million on the previous 12 month period (31 January 2014: \$139.2 million).

Statement of Profit or Loss \$ million	11 months to 31 Dec 2014	12 months to 31 Jan 2014	Change
Revenue from sale of concentrates	166.8	139.2	27.6
Other income	0.1	0.3	(0.2)
Cost of production	(97.4)	(83.8)	(13.6)
Long term stockpiles written off	(10.7)	(0.5)	(10.2)
Materials and services costs	(4.9)	(5.0)	0.1
Employee expenses	(5.2)	(6.7)	1.5
Royalties	(2.0)	(1.6)	(0.4)
Corporate and other administration costs	(3.1)	(3.2)	0.1
Net foreign exchange gains / (losses)	(0.9)	(1.4)	0.5
<b>EBITDA</b>	<b>42.7</b>	<b>37.3</b>	<b>5.4</b>
Underlying EBITDA <sup>1</sup>	53.4	37.8	15.6
Cost of production – non cash	(35.1)	(28.1)	(7.0)
Long term stockpiles written off – non cash	(3.1)	(0.1)	(3.0)
Other depreciation and amortisation expenses	(0.7)	(0.8)	0.1
Gains/(losses) on derivative financial instruments	1.6	(0.3)	1.9
Net financing expenses	(3.6)	(5.5)	1.9
Other non-cash costs	(0.1)	(0.3)	0.2
<b>Profit before income tax</b>	<b>1.7</b>	<b>2.2</b>	<b>(0.5)</b>
Income tax benefit / (expense)	2.1	(0.7)	2.8
<b>Profit after income tax</b>	<b>3.8</b>	<b>1.5</b>	<b>2.3</b>
Underlying profit <sup>1</sup>	10.1	2.6	7.5

<sup>1</sup> Refer to tables below for detail of Underlying EBITDA and Underlying Profit

Underlying Profit \$ million	11 months to 31 December 2014			12 months to 31 January 2014		
	Gross	Tax	Net	Gross	Tax	Net
<b>Statutory profit after tax</b>			<b>3.8</b>			<b>1.5</b>
Impairment - long term stockpiles written off	13.8	(4.1)	9.7	0.6	(0.2)	0.4
(Gains)/losses on financial derivatives	(1.6)	0.5	(1.1)	0.3	(0.1)	0.2
Impairment of available for sale financial assets	-	-	-	0.3	-	0.3
	<b>12.2</b>	<b>(3.6)</b>	<b>8.6</b>	<b>1.2</b>	<b>(0.3)</b>	<b>0.9</b>
Prior period tax adjustments			(2.3)			0.2
<b>Underlying profit</b>			<b>10.1</b>			<b>2.6</b>

Underlying EBITDA \$ million	11 months to 31 December 2014	12 months to 31 January 2014
<b>Reported EBITDA</b>	<b>42.7</b>	<b>37.3</b>
Impairment – long term stockpiles written off	10.7	0.5
<b>Underlying EBITDA</b>	<b>53.4</b>	<b>37.8</b>

- During the period, production of 90,163t of dry copper concentrate containing 20,693t copper was sold from the Kanmantoo Copper Mine (31 January 2014: 75,423t of dry copper concentrate containing 17,184t copper). Production increased by 20.4% in comparison to the previous period and the cost of production increased by only 16.1% due to savings brought about by reductions in mining and processing unit costs.
- Deferred mining costs in the statement of financial position as at 31 January 2014 of \$6.3 million relating to the Kavanagh pit were fully allocated to the cost of production. Deferred mining costs as at 31 December 2014 are \$2.8 million and relate to the Nugent, Emily Star and Giant pits.
- As a result of the drop in copper prices during the year, the long term stockpiles were written down by \$13.8 million (cash and non-cash) compared to \$0.6 million in the prior period. Direct employee costs decreased by \$1.5 million during the period due to the shorter reporting period (11 months), write back of short term incentives which were lower than accrued costs, and the result of corporate cost reduction initiatives undertaken.
- There was a substantial improvement to EBITDA for the period, increasing by 14.5% from \$37.3 million in the prior year to \$42.7 million in the current 11 month period.
- Cost of production – non cash (depreciation and amortisation) increased to \$35.1 million from \$28.1 million in the previous period, mainly due to an increase in fixed assets combined with the higher throughput.
- During the period, there was a gain on financial derivatives of \$1.6 million in comparison to a loss of \$0.3 million in the previous period. This was mainly due to the repayment of the Gold loan when the price of gold was low.
- Net financing expenses reduced by \$1.9 million as a result of the repayment of borrowings during the period, with \$22.8 million of Project Finance and Gold Loan debt repaid.
- Income tax benefit in the current period of \$2.1 million is mainly due to the favourable research and development claims adjustment of \$2.3 million on finalisation of the prior year tax return.

### Cash flow overview

\$ million	11 months to 31 Dec 2014	12 months to 31 Jan 2014	Change
Net cash flows from operating activities	46.7	13.8	32.9
Net cash flows from investing activities	(30.0)	(22.2)	(7.8)
Net cash flows from financing activities	(24.3)	(2.5)	(21.8)
Net decrease in cash held	(7.6)	(10.9)	3.3
<b>Cash and cash equivalents at the end of half year</b>	<b>8.8</b>	<b>16.4</b>	<b>(7.6)</b>

### Operating activities

\$ million	11 months to 31 Dec 2014	12 months to 31 Jan 2014	Change
Receipts from customers	149.9	121.3	28.6
Payment to suppliers, employees and contractors	(103.2)	(107.5)	4.3
<b>Net cash flows from operating activities</b>	<b>46.7</b>	<b>13.8</b>	<b>32.9</b>

Cash inflows from operating activities for the 11 months ended 31 December 2014 were \$46.7 million, which is \$32.9 million higher than the prior 12 month period cash inflow of \$13.8 million. The increase is mainly attributed to higher receipts from customers of \$149.9 million resulting from the higher volume of copper concentrate sold.

### Investing activities

\$ million	11 months to 31 Dec 2014	12 months to 31 Jan 2014	Change
Payments for exploration activities	(0.3)	(3.7)	3.4
Payments for property, plant and equipment	(29.8)	(19.0)	(10.8)
Proceeds on sale of plant and equipment and assets held for sale	0.1	0.5	(0.4)
<b>Net cash flows from investing activities</b>	<b>(30.0)</b>	<b>(22.2)</b>	<b>(7.8)</b>

Cash flows from investing activities amounted to \$30.0 million in the current period compared to an outflow of \$22.2 million in the previous period. The increase is in respect of capital works such as the Tailings Storage Facility (TSF) extension and pre-strip from new pits of \$29.8 million in comparison to \$19.0 million in the previous period. This completes the major TSF expenditure for the remainder of the base layer and first lift, which were the highest cost components of the TSF construction. From now only modest expenditure is required each year for future lifts (refer to Review of Operations for the Year and Outlook).

The lower exploration spend of \$1.0 million comprised \$0.3 million on Kanmantoo exploration (capitalised) and \$0.7 million holding costs on Indonesian projects, which was expensed. The \$1.0 million total is in comparison to \$3.7 million in the previous period, and is due to reduced activity on Indonesian projects, with both projects on care and maintenance, and closure of the exploration offices in Jakarta and Perth.

### Financing activities

\$ million	11 months to 31 Dec 2014	12 months to 31 Jan 2014	Change
Net proceeds from issue of shares	-	10.1	(10.1)
Repayment of borrowings	(21.9) <sup>1</sup>	(9.8)	(12.1)
Net interest paid	(2.4)	(2.8)	0.4
<b>Net cash flows from financing activities</b>	<b>(24.3)</b>	<b>(2.5)</b>	<b>(21.8)</b>

1. Debt was reduced by \$22.8 million; however actual cash paid was \$21.9 million due to favourable spot gold price compared to the gold loan price.

Cash flows relating to financing activities were an outflow of \$24.3 million, compared to an outflow of \$2.5 million in the comparative 12 month period. The increase in net outflows of \$21.8 million is mainly due to repayment of \$21.9 million of debt and no capital raising in the current period.

### Statement of financial position

Total equity increased by \$11.7 million reflecting the profit for the period of \$3.8 million and an increase in reserves from the revaluation of the unexpired hedging position as at 31 December 2014.

### Cash and cash equivalents

Cash and cash equivalents at 31 December 2014 of \$8.9 million reduced by \$7.6 million on the previous 12 month period (31 January 2014: \$16.5 million). The reduction was mainly due to payments for property, plant and equipment of \$29.8 million, repayment of borrowings of \$21.9 million, and \$2.4 million of net interest payments offset by net cash flows from operating activities of \$46.7 million.

### Inventories

The increase in inventories by \$6.5 million to \$32.7 million was mainly due to the net transfer of oxide, transitional and low grade primary ore from the mine to the long term stockpile of \$7.7 million, higher run-of-mine (ROM) stock of \$1.8 million due to higher mining levels partially offset by a decrease in deferred mining costs capitalised at \$3.5 million.

Deferred mining costs as at 31 January 2014 of \$6.3 million relating to the Kavanagh pit were fully allocated to the cost of production during the period to 31 December 2014. The amount of \$2.8 million capitalised during the period is the commencement of capitalised deferred mining costs from the Nugent, Emily Star and Giant pits.

#### **Derivative financial instruments**

The net position on derivative financial instruments at 31 December 2014 was a liability of \$1.1 million in comparison to \$9.3 million at 31 January 2014. The decrease in the net liability of \$8.2 million is due to the close out of contracts and decrease in copper prices.

#### **Property, plant and equipment**

During the 11 month period the carrying value of property, plant and equipment decreased by \$14.3 million to \$211.3 million. This was mainly due to depreciation of \$39.3 million offset by additions of \$27.1 million which included the cost of capitalising material to the Tailings Storage Facility.

#### **Impairment of non-current assets**

In accordance with the Consolidated Entity's accounting policies and processes, the Company evaluated each Cash Generating Unit (CGU) at 31 December 2014, to determine whether there were any indications of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is performed.

After consideration of the potential indicators which could impact the valuation of the CGUs, the Board assessed the carrying value of assets and concluded that although there were indicators of impairment, there was no impairment of any CGUs at 31 December 2014.

It should be noted that significant judgements and assumptions are required in making estimates of an asset's recoverable amount. This is particularly so in the assessment of long life assets. The projected cash flows used in recoverable amount valuations are subject to variability in key assumptions including, but not limited to, the forward profile and long-term level of copper and precious metal prices; currency exchange rates; discount rates; production profiles; and operating and capital costs. A change in one or more of the assumptions used in these estimates could result in a change in an asset's recoverable amount. The Board considered these factors and noted the following:

##### ***(i) Commodity price, exchange rate and discount rate assumptions***

- Copper – Bloomberg consensus, ranging from US\$2.57 to US\$3.07 per pound.
- AUD:USD exchange rate – forward curve as at 31 December 2014 (beginning at 0.822 in January 2015).
- Real discount rate – 9.5%.

Copper prices and the AUD:USD exchange rate have been particularly volatile towards and subsequent to 31 December 2014. The Company considers the above assumptions remain reasonable in a period of such volatility, though any sustained change in market prices and rates that are materially different from the above assumptions could result in a different set of valuation assumptions applied to future valuations.

##### ***(ii) Reserves and resources***

Reserves and resources were subjected to a sensitivity analysis as part of the impairment review.

##### ***(iii) Production activity and operating and capital costs***

CGUs have been reviewed by updating long term life of mine plans and assumptions, including operating costs, capital costs and production activity in line with actual operating and cost performances and as such do not require impairment as at 31 December 2014.



### Exploration expenses

Exploration expenditure capitalised in the statement of financial position increased during the period by \$0.8 million from \$30.5 million to \$31.3 million. Of this \$0.3 million was spent on exploration activity at Kanmantoo and \$0.4 million on the revaluation of Indonesian exploration expenditure due to currency fluctuations. In addition, holding costs of \$0.7 million for the Indonesian projects were expensed.

### Trade and other payables

Trade and other payables have increased by \$5.8 million during the period, reflecting the increased cost of higher production, capital expenditure, as well as the timing of payments to suppliers.

### Borrowings

Total borrowings (current and non-current) are \$19.0 million as at 31 December 2014, of which bank debt is \$18.0 million. At the end of January 2014, total borrowings were \$41.7 million of which bank debt was \$40.8 million (total borrowings are higher due to the lease liabilities and deduction of transaction costs). Bank debt reduced by \$22.8 million during the period mainly due to the repayments of the Project Finance Loan amounting to \$17.0 million and the payout of the Gold Loan of \$5.8 million.

### Provisions

The provisions balance of \$9.8 million decreased by \$2.0 million from the balance at the end of the previous year due to the change in underlying assumptions used in the calculation of the discounted cash flows to rehabilitate the Kanmantoo Copper Mine.

### Contributed equity

There has been no change in contributed equity.

## Review of operations for the year and outlook

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on copper production from its Kanmantoo Copper Mine in South Australia.

Kanmantoo is an open-cut mine located 55 kilometres from Adelaide. Copper production has ramped up since construction was completed at the end of 2011, with an ore throughput of over 3.0Mtpa, to produce approximately 90,000 dry metric tonnes of copper concentrate, containing more than 20,000t copper and associated gold and silver per annum over a planned total 10 year mine life. Copper concentrate from the Kanmantoo Copper Mine is sold to Freepoint Metals & Concentrates LLC under a 100% off take agreement.

During the second half of CY14, ore mining transitioned from the main Kavanagh pit into the Nugent and Emily Star pits. Mining also commenced on the Giant pit cutback (around the Kavanagh pit) to enable future ore mining down to a depth of 360m. The Giant pit cutback will progress downwards through a series of smaller satellite orebodies that will provide primary ore during 2015, along with Emily Star and Nugent pits. The first ore from these Giant satellite deposits has already been processed, and at year end the Giant pit cutback was around five weeks ahead of schedule. The Giant pit will progress downwards and back onto the main Kanmantoo orebody at depth by early 2016.

Improvements to mining costs and detailed long term planning work have indicated the potential for a cutback on the Emily Star pit that could bring in additional ore and hence increase mine life. Work to confirm this plan is underway and should be completed during the first half of FY15.

The upper levels of all pits contain significant amounts of oxide ore, and during stripping operations this has been stockpiled, as recovery of this material through the standard primary sulphide ore circuit is low. During CY14 the Board approved the construction of a Controlled Potential Sulphidisation (CPS) plant, to enable controlled conditioning and processing of the oxide ore in a batch process. This enables higher recovery of copper through the primary flotation circuit. At the end of CY14, construction of the CPS plant was 52% complete and is due for first commissioning in May 2015. Two seven day batch trials are planned during

FY15, with four months of full production batch processing of oxide ore planned from November 2015 to February 2016. Approximately 1Mt of oxide ore at a grade of 0.85 to 0.95% Cu will be processed, with an estimated 70% recovery of copper.

Operating fundamentals at Kanmantoo are sound and within Life of Mine (LOM) plan parameters. Ore and waste mining for Q4 2014 averaged 21,588 bcm per day, above the LOM plan projections of 21,500 bcm per day. Processing throughput continues to improve with Q4 2014 ore processing throughput rates at over 3.5Mtpa; above the LOM plan rate of 3.3Mtpa (increased throughput has reduced overall life of mine end point). Mining unit costs for Q4 2014 were \$11.37/bcm, trending below the LOM plan average cost of \$11.43/bcm and processing unit costs (including ROM ore feed) were \$7.27/tonne milled, trending below the LOM plan average cost of \$8.07/tonne milled.

To ensure adequate liquidity during the Giant pit cutback, the Company has continued to advance capital management initiatives, including debt re-structure, to align capital structure with the LOM plan. As a first part of this, Hillgrove sought a reduction in the January 2015 debt repayment to \$3.0 million, reduced from \$8.0 million. The banks have provided the necessary consents for the reduced payment.

Key challenges include the ore reconciliation in the Nugent pit (although this pit is completed in the first quarter of 2015), geotechnical risk in the Emily Star and Nugent pits and CPS project execution and performance. However, opportunities include the potential at the Emily Star pit cutback not included in the current life of mine plan, continuing to unlock the latent capacity within the mine and processing plant through continuous improvement, and exploration upside at and around the Kanmantoo Mine site.

#### KANMANTOO COPPER MINE MINING PERFORMANCE

Period		CY14 to 31 Dec 14	FY14 to 31 JAN 14	FY13 to 31 JAN 13
		11 MTHS	12 MTHS	12 MTHS
Ore to ROM from Pit	kt	2,620	2,633	2,221
Ore to long term stockpiles	kt	1,172	262	849
Mined Waste	kt	15,899	10,027	11,777
<b>Total Tonnes Mined</b>	kt	<b>19,691</b>	<b>12,922</b>	<b>14,847</b>
Mining Grade to ROM	%	0.88	0.71	0.76
Ore Milled	kt	3,023	2,944	2,303
Milled Grade - Cu	%	0.75	0.64	0.66
Recovery - Cu	%	90.8	90.7	89.9
Cu Concentrate Produced	Dry mt	90,163	75,423	56,431
Concentrate Grade - Cu	%	23.0	22.8	24.4
Contained Metal in Concentrate - Cu	t	20,693	17,184	13,744
<b>Total Concentrate Sold</b>	Dry mt	<b>90,583</b>	<b>74,051</b>	<b>56,526</b>

The success of the changeover within the mine to owner operator can be clearly seen in the continuous improvement in mining performance and unit costs over the past two years. Mining rates continued to improve during the year, reaching 1,986k bcm in the December quarter, a new record. This resulted in 19,691kt total material mined for CY14, a 52.4% increase over the previous year.

Hillgrove employees continue to work closely with specialist contract service providers, Andy's Earthmovers (Asia Pacific) Pty Ltd (equipment supply and maintenance), Roc-Drill Pty Ltd (blast hole drilling) and Maxam Australia Pty Ltd (explosive suppliers), which have a combined permanent workforce of some 50 employees on site. The combination of specialised contract skills and experienced Hillgrove employees continues to allow a high level of quality control in the critical areas of drilling, blasting, productivity and dilution control during mining operations.

Mining operations continued in the Kavanagh pit, and commenced in the Nugent, Emily Star and Giant pits during CY14. The Kavanagh pit bulk mining was completed and a ramp stripping operation providing small amounts of high grade ore is continuing. The Nugent pit is nearing completion and will commence backfilling in the first half of 2015. The Emily Star pit is now into primary ore and further cutbacks are being assessed. The Giant pit cutback commenced during 2014 and produced mostly oxide or transitional ore which was stockpiled, with primary ore mining and processing occurring in late 2014 / early 2015.

Hillgrove's workforce at the Kanmantoo Copper Mine now stands at 195 staff, 82% of whom live in the immediate local and Adelaide Hills regions. The Hillgrove workforce has continued to operate effectively and safely since the new mining plan was implemented. This has resulted in improved quality and ore grade mined, increased mill throughput and increased copper production.

The change in mine practices through the Hillgrove operated mining fleet has also continued to reap benefits for the Kanmantoo operating performance. This can clearly be seen in the reduction in mining dilution, increased mining tonnes, and improved feed grades to the mill. The processing plant has also continued to improve its throughput rates, run time and copper recovery, all resulting in an increase in copper produced.

Hillgrove achieved production of 90,163 tonnes of dry copper concentrate containing 20,693 tonnes copper at the Kanmantoo Copper Mine. This was within the annual guidance provided and a 20.4% increase over the previous 12 month fiscal year. Key operational aspects for the year included:

- Ore mined for CY14 was 3,792kt (previous 12 month period: 2,895kt).
- Throughput records included the highest plant throughput of 3,023kt ore (CY14 – 11 months) and a quarterly total tonnes mined record of 6,122kt during the December quarter; this was a result of continued increased efficiencies and has assisted with reducing unit costs for mining and processing.
- A new screening system installed in the primary/secondary crushing circuit provided maintenance cost savings and higher screening efficiency, which has increased overall output through the crushing system. This has enabled a reduction in recirculating load, and hence increased overall plant throughput.
- \$4.6 million capital investment was made in the TSF to complete the full base layer and first lift, with subsequent lifts each year anticipated to cost around \$1.0 million each.
- The record recovery of the previous 12 month period was maintained at 90.8% in CY14. While this had been trending higher in the first three quarters, during the transition from the Kavanagh pit to Nugent and Emily Star ore feed, recovery was lower, mainly due to the processing of older low grade stockpiles (with some resultant oxidation of ore), and slower floating minerals in the upper level ore (transitional material) of Nugent and Emily Star. Recoveries have now improved with a higher proportion of fresh primary ore feed.
- During the last 17 months, mining unit costs reduced by 48%, processing unit costs have reduced by 34% while ore and waste mining increased by 81%, and mill throughput increased by 22%.
- In addition to the above unit cost reductions, the Company continues to focus on broader cost control. This includes continued wage restraint throughout the Company with no salary increases since early 2013, and eliminating or minimising overheads.
- The processing plant performed very well, with a new large scale rougher flotation cell being commissioned towards the end of the year. This large flotation cell is the first conditioning tank for the CPS plant, but was commissioned early to enable increased float capacity within the primary float circuit. The additional capacity has increased float residence time by 40%, enabling higher recovery of slower floating minerals and greater control over tails grade.
- The C1 cash cost for CY14 was US\$1.97/lb or \$2.18/lb (FY14: US\$2.39/lb) which is lower than guidance and a direct result of improved production performance along with continued reduction in unit operating costs.

## Revenue

Hillgrove generated operating revenue of \$166.8 million (31 January 2014: \$139.2 million) for the year at an average realised price of \$3.62/lb (US\$3.31/lb). The Company has continued its active approach to hedging to protect its Kanmantoo Mine revenue stream from short term falls in the copper price. In the Company's September Quarterly Report it was noted our hedge book was providing an average realised copper price of \$3.50/lb (US\$3.29/lb). At that time, forward sales of copper were hedged at approximately 90% through to the end of November 2014 and approximately 65% thereafter, after an additional 1,487t of copper was hedged at \$7,642/Mt (\$3.47/lb).

Although the global copper price in US\$ terms reduced during the fourth quarter of 2014, the US\$/A\$ exchange rate also fell which maintained reasonably firm A\$ copper prices. Hence during December, Hillgrove continued its active hedging program by putting in place additional copper hedging of 2,887Mt copper at \$7,749/Mt (\$3.51/lb). This has now provided Hillgrove Resources with an average hedge cover of 78% of payable production through to March 2016, at an average price of \$7,723/Mt (\$3.50/lb). This average price compares favourably to the current global copper spot price of US\$5,722/Mt (\$6,997/Mt or \$3.17/lb). The hedge book represents a mark to market surplus of \$11.9 million as at 19 January 2015 (previously announced to the market).

## Exploration Program

Finalising the mine life extension approval process provided a welcome degree of certainty for the current Kanmantoo Mine programs and targets, confirming the next stage in the planned mine life of the project through to 2019. Following this, a review of exploration potential commenced as part of possible future life extensions. The review was based on conversion of Resources and exploration target ranges into Reserves within the Mining Lease, and reviewing the potential for new mineralised zones both within the Mining Lease and on the surrounding exploration licence. The Company's recent acquisition of the exploration and mining option over the historical Kitticoola private mine is one step in this program.

Hillgrove signed a Deed of Assignment and Assumption to take over the Option Agreement over Private Mine No 53 (Kitticoola Mine) located near Palmer, South Australia, approximately 35 kilometres from the Kanmantoo Copper Mine in July 2014. The Option Agreement with the owner of Kitticoola provides Hillgrove with exploration rights and any potential future mining rights, subject to certain conditions. Hillgrove paid a nominal cash amount to CN Resources for the Rights over the Prospect. Hillgrove is holding regular technical meetings with the Private Mine owner, and intends to carry out further initial exploration work to determine the possible extent and depth of the mineralisation.

Progress has been made with exploration plans since the appointment of an Exploration Manager in September 2014. Renewals have been submitted for the principal tenements and relevant reporting has been progressed with the Department of State Development, including a work program approval for the Wheel Ellen prospect.

During the fourth quarter, in-field exploration drilling recommenced. This work at Wheel Ellen included a \$60,000 reverse circulation (RC) and diamond drill hole program. The RC holes were targeted at mineralised extensions along strike, however did not indicate any significant results. The 180m diamond drill hole confirmed the mineralisation remains open at depth with results including; 1.6 m at 8% Zn, 4.3% Pb, 1.1 g/t Au, 0.7% Cu, 81 g/t Ag.

In addition to the drilling, a detailed gravity survey was completed to the north and south of the existing operation at Kanmantoo and is underway at Kitticoola. The gravity survey included 1,200 stations, at a spacing of 50 x 25m or 100 x 50m. The intent of this work is to directly detect concealed sulphide zones that may be associated with ore-bodies, and to assist in structural and geological mapping.

In the broader exploration tenement package, planning is well progressed to implement a \$220,000 helicopter borne electromagnetic survey in early 2015. The aim is to interpret and resolve conductive targets derived from a detailed heli-magnetic dataset obtained in 2007. Interpretation of existing data predicts a number of prospective structures and alteration zones within the Kanmantoo stratigraphy, each having potential to deliver further polymetallic resources to Kanmantoo operations and extend the life of mine.

Community liaison is key to the success of the survey and to this end Hillgrove has commenced preliminary discussions via the Kanmantoo Callington Community Consultative Committee. Prior to the work being undertaken all impacted landowners and residents will be informed.

### Indonesia

Hillgrove continues to maintain exploration care and maintenance teams at its advanced exploration projects at Bird's Head in West Papua and Sumba Island. Local landholder relationships are being maintained at the projects, and a review of next steps on both projects will be undertaken during the first half of the year. With the status of the two projects in advanced exploration stage, the recent ban on mining exports does not have an impact on the value or the potential progress of the next stage works.

Several parties continue to express interest in a potential joint venture. This includes major exploration companies and private investment groups, including direct investment from within Indonesia. Hillgrove is continuing to work with these groups, including providing access under confidentiality to the exploration database. Hillgrove believes the projects are continuing to receive support for further exploration expenditure based on the quality of the asset.

### Capital Management Initiatives

Hillgrove undertook capital management initiatives, to implement a one for eight share consolidation followed by an unmarketable parcel sale process. The share consolidation was approved at the Extraordinary General Meeting held on 10 September 2014. Notices were sent to shareholders on 17 September 2014 with their new holding balances following the conversion, and the number of shares on issue reduced to 147.7 million.

Hillgrove proceeded with an Unmarketable Parcel Sale Facility in October 2014. The facility provided a convenient way for eligible shareholders to sell their Hillgrove shares without brokerage costs and reduced Hillgrove's on-going administrative costs of managing those shareholdings by reducing the number of shareholders by approximately 1,250.

The Company has continued to advance capital management initiatives, including debt restructure, to align capital structure with the LOM plan and ensure optimal liquidity during the Giant pit cutback. As a first part of this, Hillgrove negotiated a reduction in the January 2015 debt repayment to \$3.0 million, reduced from \$8.0 million.

### Performance vs CY14 Guidance

The guidance Hillgrove provided in February 2014 was updated in the July quarterly report following the decision to move to the new financial year end, a reduced 11 month period from 1 February 2014 to 31 December 2014 (CY14). Copper and gold production remained proportionally in line with the previous guidance, and ore processed and grade were adjusted based on increased mill throughput and slightly lower head grades.

CY14	Guidance	Actuals Achieved
Ore Mined	2,850 - 3,000kt	3,792kt
Ore Processed	2,900 - 3,000kt	3,023kt
Ore Grade Processed	0.76 - 0.81% Cu	0.75% Cu
Copper Recovery	91.5 - 92.5%	90.8%
Copper contained in concentrates produced	20,500 - 22,500t	20,693t
Gold contained in concentrates produced	6,000 - 7,800oz	6,798oz
C1 Costs at 0.90 exchange rate	US\$2.00 - 2.20 per lb	US\$1.97 per lb
Capital Projects (excludes pre-strip)	\$9.4 million	\$8.5 million

Copper grades mined in the fourth quarter were lower than the previous three quarters of 2014 due to the transition from the Kavanagh pit into Nugent and Emily Star pits, requiring increased ore for processing from low grade stockpiles. While Kavanagh and Emily Star ore mining reconciled well to resource models overall, the Nugent pit performed below the estimated resource. Despite this both copper and gold were within the guidance range provided for the year.

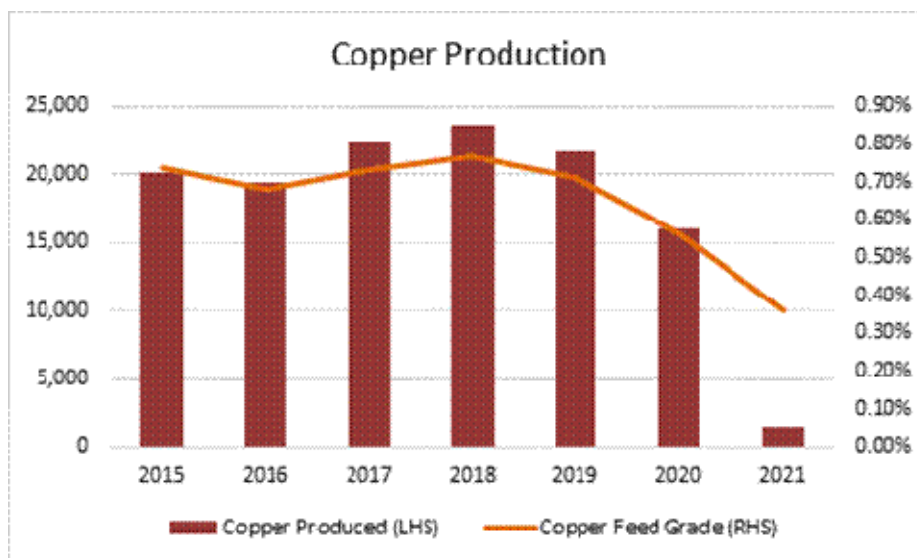
### Life of Mine Plan and Outlook for 2015

In February 2013 a Life of Mine (LOM) plan was announced which contained a total life of mine ore mined target of 30-32Mt ore @ 0.7-0.8% Cu for approximately 190,000 tonnes of recoverable copper metal contained within concentrates (based on Ore Reserves, Mineral Resources and Exploration Targets) and a possible extension of mine life to 2023.

As these estimates confirmed the confidence to extend the total life of the Kanmantoo Copper Mine to ten years the Company made application to the South Australian and Australian Federal Governments in late 2013 for an additional approval period. Hillgrove Copper's Program for Environment Protection and Rehabilitation (PEPR) in relation to the Life of Mine plan for ML6345 and ML6436 was approved by the Department of State Development (DSD - formerly Department of Manufacturing, Innovation, Trade, Resources and Energy (DMITRE)) on 24 July 2014. The approval provides a 75% increase in processed ore over the original PEPR and a two year approved life extension to 2019, based on current mine Reserves, and allows access to additional copper Resources located within the Mining Lease. Future PEPR submissions are planned to extend the approved life of mine to 2021 based on Resource and potentially to 2023 based on conversion of exploration targets.

In December 2014 the LOM plan was reviewed and an updated model prepared with key physicals summary as follows.

### KANMANTOO COPPER PRODUCTION FOR LOM



The current exploration program is aimed at extending mine life beyond 2021.

Hillgrove will continue to work on unit costs reductions and productivity improvements which continue to be identified and implemented by its employees. While the significant operational improvements on site have been pleasing, it is important to note mining operations contain certain risks in the resource, throughput performance and costs from time to time. Hillgrove at its Kanmantoo operations has endeavoured to minimise these risks through planning and evaluation, and monitoring of performance by key operational parameters.

Through the next 12 months, Hillgrove will undertake the following key activities:

- Continue to manage the volatility in copper price and insulate its operating cash flows through an active hedging program for metals;

- Provide primary ore feed from the Nugent, Emily Star and Giant pit orebodies;
- Continue the Giant pit cutback at the required mining rate to access the higher grade ore in the main Kanmantoo orebodies by early 2016. The cutback will increase the strip ratio to 6.2 to 1 for the year (inclusive of all ore and waste mining) with much of this capitalised. Giant pit and remaining Emily Star pre-strip capital is estimated at \$16.0 - 17.0 million for the year. The Giant pit cutback is the final major cutback required under the current LOM plan. The overall project strip ratio remains at 4.5 to 1;
- Complete construction of and commission, test and operate the Controlled Potential Sulphidisation (CPS) plant to process stockpiled oxide and transition ore for a four month period (November 2015 to February 2016). Construction was 52% complete at year end, with \$1.8 million of capital expenditure for FY15 to complete the project;
- Continue to drive mining and processing unit costs lower, however C1 cost guidance has increased slightly due to increased waste mining with the Giant pit cutback and some increased processing costs and lower recovery with the CPS plant;
- Undertake modest sustaining capital expenditure of approximately \$3.0 - 4.0 million which includes a planned tailings lift of \$1.3 million, and exploration of \$1.0 million; and
- Complete capital management initiatives, including debt re-structure, to align capital structure with LOM plan for Kanmantoo operations.

On the basis of the above initiatives the Company provides the following guidance for the upcoming Financial Year ending 31 December 2015 (FY15) for the Kanmantoo Copper Mine:

- |   |   |
|---|---|
| • Total ore mined                       | 2,800kt to 3,000kt                                    |
| • Primary ore processed                 | 2,300kt to 2,500kt                                    |
| • Primary ore grade processed           | 0.68% to 0.72% Copper                                 |
| • Primary ore copper recovery           | 91.0% to 93.0%  |
| • Oxide ore processed (from Stockpiles) | 500kt to 600kt  |
| • Oxide ore grade processed             | 0.85% to 0.95%  |
| • Oxide ore recovery                    | 65% to 70%  |
| • Copper produced                       | 18,500t to 20,500t copper contained in concentrates   |
| • Gold produced                         | 5,000oz to 6,000oz gold contained in concentrates     |
| • C1 Costs                              | US\$2.00 to US\$2.25 per lb (at an 0.8 exchange rate) |
| • Capital Projects (including CPS)      | \$5.0 million to \$6.0 million                        |
| • Pre Strip                             | \$16.0 million to \$17.0 million.                     |

The Company's continuous improvements in performance at Kanmantoo in the operating and cost structures support the target mine life to 2021 (adjusted for increased production). Hillgrove will continue its recently commenced exploration initiatives with a target to increase this mine life.

The Company fully executed its obligations in regard to the Gold Loan by September 2014 which made up a portion of the Kanmantoo Project Financing package with Macquarie Bank Limited and Barclays Capital PLC. The Gold Loan was put in place in March 2012 for \$15.0 million requiring a repayment of 10,413 ounces of gold in quarterly instalments between June 2012 and September 2014. Cash on hand at 31 December 2014 was \$8.8 million, with debt reducing from \$40.8 million as at 31 January 2014 to \$18.0 million at 31 December 2014.



Hillgrove will continue to build on the solid improvements in costs and productivity at its Kanmantoo Copper Mine, and produce within the planned copper guidance while protecting its revenue stream with appropriate hedging during periods of capital commitments and debt repayments. The coming year will establish the LOM production and cash flows through the Giant pit cutback, giving a solid footing for shareholder value in the medium term. Along with this, Hillgrove will further look at resource expansion with evaluation of targets on the Kanmantoo mining lease and surrounding exploration tenements.

### Mineral Resource and Ore Reserve Estimate

In August 2013 a Mineral Resource Estimate was released updating the previous 2012 estimate. The 2013 In Situ Mineral Resource Estimate resulted in 29.5Mt at grades of 0.80% copper, 0.20g/t gold and 2.11g/t silver using a cut-off grade of 0.20% copper beneath the end of February 2013 topographic surface as outlined below.

#### KANMANTOO GLOBAL MINERAL RESOURCE ESTIMATE AT END FEBRUARY 2013

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)
In Situ Resource	Measured	2.63	0.88	0.10	1.95
	Indicated	21.77	0.82	0.23	2.21
	Inferred	5.0	0.67	0.13	1.79
		<b>29.46</b>	<b>0.80</b>	<b>0.20</b>	<b>2.11</b>
Long Term Stockpiles	Measured	1.39	0.46	N/A	N/A
	Indicated	0.50	0.18	N/A	N/A
		<b>1.89</b>	<b>0.39</b>	-	-
	<b>Total</b>	<b>31.30</b>	<b>0.78</b>	<b>0.20</b>	<b>2.11</b>

Note: In Situ Resource >0.20% Cu, Long Term Stockpiles >0.15% Cu.

#### KANMANTOO GLOBAL ORE RESERVE ESTIMATE AT END FEBRUARY 2013

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)
In Situ Reserve	Proven	2.5	0.77	0.08	1.7
	Probable	18.2	0.72	0.20	2.0
		<b>20.7</b>	<b>0.73</b>	<b>0.18</b>	<b>1.9</b>
Long Term Stockpiles	Proven	1.4	0.46	N/A	N/A
		<b>1.4</b>	<b>0.46</b>	-	-
	<b>Total</b>	<b>22.1</b>	<b>0.71</b>	<b>0.18</b>	<b>1.9</b>

Note: In Situ Reserve >0.20% Cu. Long Term Stockpiles >0.15% Cu.

In November 2013 an Ore Reserve estimate was released, that was prepared in accordance with *The JORC Code 2012 Edition*. The new Reserve showed an increase in both confidence and contained metal when compared to the May 2010 Ore Reserve, after taking into account depletion from mining. The total Ore Reserve stands at 22.1Mt at 0.71% copper, 0.18g/t gold and 1.9g/t silver for contained metal of 157k tonnes (346Mlbs) of copper, 128k ounces of gold and 1.35M ounces of silver.



**Preliminary consolidated statement of profit or loss  
For the 11 months ended 31 December 2014**

		<b>11 months to 31 Dec 2014</b>	<b>12 months to 31 Jan 2014</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue from sale of concentrates		166,768	139,157
Other income		439	793
Cost of production		(132,447)	(111,993)
Long term stockpile written off		(13,795)	(574)
Materials and services costs		(4,910)	(4,993)
Employee benefits expense		(5,215)	(6,650)
Royalties expense		(2,017)	(1,605)
Foreign exchange losses		(917)	(1,385)
Gains/(losses) on financial derivatives		1,564	(289)
Impairment of available for sale financial assets		-	(315)
Loss on sale of available for sale financial assets		(9)	(12)
(Loss)/gain on disposal of property, plant and equipment		(15)	11
Depreciation and amortisation expenses		(746)	(794)
Corporate and other administration costs		(3,086)	(3,206)
Financing costs		(3,906)	(5,898)
<b>Profit before income tax</b>		<b>1,708</b>	<b>2,247</b>
Income tax benefit/(expense)	1	2,079	(751)
<b>Profit for the period</b>		<b>3,787</b>	<b>1,496</b>
<b>Profit for the period is attributable to:</b>			
Equity holders of Hillgrove Resources Limited		3,787	1,496
Non-controlling interests		-	-
		<b>3,787</b>	<b>1,496</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share		2.56	1.11
Diluted earnings per share		2.50	1.05

**Preliminary consolidated statement of comprehensive income**  
**For the 11 months ended 31 December 2014**

	11 months to 31 Dec 2014	12 months to 31 Jan 2014
	\$'000	\$'000
<b>Profit for the period</b>	3,787	1,496
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Other financial assets	199	(167)
Exchange differences on translation of foreign operations	493	(642)
Unrealised gain/(loss) on cash flow hedges taken to equity	9,552	(5,112)
Income tax relating to components of other comprehensive income	(2,865)	1,533
<b>Other comprehensive income for the period (net of income tax)</b>	<u>7,379</u>	<u>(4,388)</u>
<b>Total comprehensive income for the period</b>	<u><b>11,166</b></u>	<u><b>(2,892)</b></u>
<b>Total comprehensive income for the period is attributable to:</b>		
Equity holders of Hillgrove Resources Limited	11,166	(2,892)
Non-controlling interests	-	-
	<u><b>11,166</b></u>	<u><b>(2,892)</b></u>

**Preliminary consolidated statement of financial position**  
**As at 31 December 2014**

	31 Dec 2014	31 Jan 2014
	\$'000	\$'000
<b>Current assets</b>		
Cash and cash equivalents	8,854	16,452
Trade and other receivables	5,012	5,024
Other financial assets	229	192
Inventories	32,664	26,162
Derivative financial instruments	1,477	4,016
<b>Total current assets</b>	<b>48,236</b>	<b>51,846</b>
<b>Non-current assets</b>		
Property, plant and equipment	211,386	225,680
Intangible assets	4	279
Exploration and evaluation expenditure	31,330	30,550
Deferred tax assets	13,058	13,845
<b>Total non-current assets</b>	<b>255,778</b>	<b>270,354</b>
<b>Total assets</b>	<b>304,014</b>	<b>322,200</b>
<b>Current liabilities</b>		
Trade and other payables	29,703	23,936
Provisions	1,316	404
Borrowings	18,363	30,619
Employee benefits payable	2,595	3,017
Derivative financial instruments	1,269	4,491
<b>Total current liabilities</b>	<b>53,246</b>	<b>62,467</b>
<b>Non-current liabilities</b>		
Provisions	8,434	11,363
Borrowings	673	11,050
Employee benefits payable	126	-
Derivative financial instruments	1,285	8,781
<b>Total non-current liabilities</b>	<b>10,518</b>	<b>31,194</b>
<b>Total liabilities</b>	<b>63,764</b>	<b>93,661</b>
<b>Net assets</b>	<b>240,250</b>	<b>228,539</b>
<b>Equity</b>		
Contributed equity	206,860	206,860
Reserves	2,464	(3,320)
Retained earnings	30,926	24,999
<b>Total equity</b>	<b>240,250</b>	<b>228,539</b>

**Preliminary consolidated statement of cash flows**  
**For the 11 months ended 31 December 2014**

	<b>11 months to 31 Dec 2014</b>	<b>12 months to 31 Jan 2014</b>
<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	149,898	121,328
Cash payments in the course of operations	(103,230)	(107,544)
<b>Net cash generated by operating activities</b>	<b>46,668</b>	<b>13,784</b>
<b>Cash flows from investing activities</b>		
Payments for exploration and evaluation expenditure	(284)	(3,751)
Payments for property, plant and equipment	(29,843)	(18,996)
Proceeds on sale of available for sale financial assets	152	46
Proceeds on disposal of plant and equipment	-	453
<b>Net cash used in investing activities</b>	<b>(29,975)</b>	<b>(22,248)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	10,759
Transaction costs on issue of shares	-	(593)
Repayment of borrowings	(21,854)	(9,826)
Interest received from investments	293	460
Interest paid on borrowings	(2,730)	(3,289)
<b>Net cash used in financing activities</b>	<b>(24,291)</b>	<b>(2,489)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(7,598)</b>	<b>(10,953)</b>
Cash and cash equivalents at the beginning of financial period	16,452	27,405
<b>Cash and cash equivalents at the end of the financial period</b>	<b>8,854</b>	<b>16,452</b>

**Preliminary consolidated statement of changes in equity**  
**For the 11 months ended 31 December 2014**

	Contributed equity	Reserves	Retained earnings	Total	Non- controlling interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance 31 January 2013</b>	196,510	597	23,503	220,610	-	220,610
<b>Other comprehensive income for the year</b>	-	(4,388)	1,496	(2,892)	-	(2,892)
<b>Transactions with owners:</b>						
Contributions of equity, net of transaction costs	10,350	-	-	10,350	-	10,350
Share based compensation	-	471	-	471	-	471
<b>Balance 31 January 2014</b>	<b>206,860</b>	<b>(3,320)</b>	<b>24,999</b>	<b>228,539</b>	<b>-</b>	<b>228,539</b>
Restatement due to change in accounting policy	-	(2,140)	2,140	-	-	-
<b>Restated total equity 1 February 2014</b>	<b>206,860</b>	<b>(5,460)</b>	<b>27,139</b>	<b>228,539</b>	<b>-</b>	<b>228,539</b>
<b>Other comprehensive income for the period</b>	<b>-</b>	<b>7,379</b>	<b>3,787</b>	<b>11,166</b>	<b>-</b>	<b>11,166</b>
<b>Transactions with owners:</b>						
Share based compensation	-	545	-	545	-	545
<b>Balance 31 December 2014</b>	<b>206,860</b>	<b>2,464</b>	<b>30,926</b>	<b>240,250</b>	<b>-</b>	<b>240,250</b>

**Notes to the preliminary consolidated financial statements  
For the 11 months ended 31 December 2014**

**1. Reconciliation of income tax expense**

	<b>Consolidated</b>	
	<b>11 months to 31 Dec 2014</b>	<b>12 months to 31 Jan 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax (benefit)/expense	1,708	2,247
Tax at the Australian Company tax rate of 30%	512	674
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	164	141
- Non-deductible expenses	222	244
Losses from non-resident companies	223	42
Accounting loss on sale of available for sale assets	3	4
Impairment of available for sale assets	-	95
Research and development concession	(867)	(295)
Tax loss on sale of available for sale assets	(35)	(404)
Adjustment for income tax of prior periods including R&D	(2,301)	250
<b>Income tax (benefit)/expense</b>	<b>(2,079)</b>	<b>751</b>

**Notes to the preliminary consolidated financial statements  
For the 11 months ended 31 December 2014 continued**

**2. Reconciliation of operating profit after income tax  
to net cash provided by operating activities**

	<b>Consolidated</b>	
	<b>11 months to 31 Dec 2014</b>	<b>12 months to 31 Jan 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Operating profit after income tax</b>	3,787	1,496
<b>Add items classified as investing/financing activities</b>		
Loss on sale of investments	9	13
Net Interest expense	2,437	2,829
<b>Add/(less) non-cash items</b>		
Depreciation and amortisation	39,263	29,157
Net loss/(gain) on sale of non-current assets	15	(11)
Employee share options	545	471
Net exchange differences	-	1,387
Fair value losses on available for sale financial assets	-	315
Discount on unwind of rehabilitation provision	683	720
Unrealised gain/(loss) on financial derivatives	1,374	(1,672)
Unwind of deferred mining costs	3,509	3,308
<b>Net cash generated by operating activities before change in assets and liabilities</b>	<b>51,622</b>	<b>38,013</b>
<b>Changes in operating assets and liabilities</b>		
Increase in receivables, prepayments and inventories	(9,998)	(11,538)
Increase/(decrease) in trade creditors and accruals	7,101	(14,829)
(Increase)/decrease in net deferred tax assets	(2,078)	751
Increase in provisions	21	1,387
<b>Net cash generated by operating activities</b>	<b>46,668</b>	<b>13,784</b>

**Notes to the preliminary consolidated financial statements**  
**For the 11 months ended 31 December 2014 continued**

**3. Financial reporting by segment**

	Australia			Indo- nesia	Consol- -idated	Australia		
	Copper	Other operations				Copper	Other operations	
	\$'000	\$'000	\$'000			\$'000	\$'000	\$'000
	<b>11 months to 31 December 2014</b>				<b>12 months to 31 January 2014</b>			
Revenue from sale of concentrates	166,768	-	-	166,768	139,157	-	-	139,157
Other income	51	94	-	145	81	47	218	346
Cost of production - cash	(97,394)	-	-	(97,394)	(83,820)	-	-	(83,820)
Long term stockpile written off - cash	(10,727)	-	-	(10,727)	(514)	-	-	(514)
Materials and services costs	(4,910)	-	-	(4,910)	(4,993)	-	-	(4,993)
Employee benefits expense	(2,165)	(2,807)	(243)	(5,215)	(2,470)	(3,792)	(388)	(6,650)
Royalties expense	(2,017)	-	-	(2,017)	(1,605)	-	-	(1,605)
Foreign exchange (losses)/ gains	(917)	-	-	(917)	(1,388)	5	(2)	(1,385)
Corporate and other administration costs	(1,212)	(1,423)	(451)	(3,086)	(1,132)	(1,977)	(97)	(3,206)
<b>EBITDA</b>	<b>47,477</b>	<b>(4,136)</b>	<b>(694)</b>	<b>42,647</b>	<b>43,316</b>	<b>(5,717)</b>	<b>(269)</b>	<b>37,330</b>
Depreciation and amortisation expenses	(704)	(35)	(7)	(746)	(677)	(108)	(9)	(794)
Gains/(losses) on financial derivatives	1,564	-	-	1,564	(289)	-	-	(289)
Impairment of other financial assets	-	-	-	-	-	(315)	-	(315)
Loss on sale of available for sale financial assets	-	(9)	-	(9)	-	(12)	-	(12)
(Loss)/gain from disposal of property, plant and equipment	(15)	-	-	(15)	10	1	-	11
Cost of production - non-cash	(35,053)	-	-	(35,053)	(28,173)	-	-	(28,173)
Long term stockpile written off – non-cash	(3,068)	-	-	(3,068)	(60)	-	-	(60)
<b>EBIT</b>	<b>10,201</b>	<b>(4,180)</b>	<b>(701)</b>	<b>5,320</b>	<b>14,127</b>	<b>(6,151)</b>	<b>(278)</b>	<b>7,698</b>
Net financing costs	(2,963)	(649)	-	(3,612)	(4,761)	(689)	(1)	(5,451)
<b>Profit before tax</b>	<b>7,238</b>	<b>(4,829)</b>	<b>(701)</b>	<b>1,708</b>	<b>9,366</b>	<b>(6,840)</b>	<b>(279)</b>	<b>2,247</b>
Income tax				2,079				(751)
<b>Net profit after tax</b>				<b>3,787</b>				<b>1,496</b>



**Notes to the preliminary consolidated financial statements  
For the 11 months ended 31 December 2014 continued**

**3. Financial reporting by segment (continued)**

**Geographical information**

Hillgrove's external revenues are derived from the USA, with the final destination for copper concentrate being China.

	Australia				Australia			
	Copper	Other Operations	Indonesia	Consolidated	Copper	Other Operations	Indonesia	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	31 December 2014				31 January 2014			
<b>Segment assets</b>	248,098	25,922	29,994	304,014	263,225	29,456	29,519	322,200
<b>Additions to non-current assets*</b>	27,342	130	-	27,472	21,821	24	3,682	25,527
<b>Segment liabilities</b>	51,588	12,119	57	63,764	81,124	12,467	70	93,661

\* Other than financial assets and deferred tax.

Information about Hillgrove's non-current assets by location of assets are detailed below:

	11 months to 31 Dec 2014	12 months to 31 Jan 2014
	\$'000	\$'000
<b>Non-current assets</b>		
Australia	212,739	227,017
Indonesia	29,981	29,492
	<u>242,720</u>	<u>256,509</u>

Non-current assets by location excludes financial instruments and deferred tax assets.

**4. Discontinued operations**

There were no operations that were discontinued during the year.

**5. Events occurring after the balance sheet date**

At the time of publishing this Appendix 4E the Company was in the process of restructuring its debt facilities with its financiers to align with the new LOM plan. A waiver was provided by the current financiers to reduce the 31 January 2015 payment from \$8.0 million to \$3.0 million.

## Supplementary Appendix 4E information

### Dividend reinvestment plans

There are no dividend reinvestment plans in operation.

### Net tangible assets per security

NTA backing	Current period	Previous period
Net tangible asset backing per ordinary security (undiluted)	\$1.63	\$1.55 (after share consolidation)

### Control gained or lost during the period

#### Control gained

There were no transactions entered into by the group during the period ended 31 December 2014 that resulted in control being gained over any entities.

#### Control lost

There were no transactions entered into by the group during the period ended 31 December 2014 that resulted in control being lost over any entities.

### Subsidiaries

The consolidated results incorporate the assets, liabilities and results of the following subsidiaries.

Name of entity	Country of incorporation	Class of Share	Equity Holding 31 Dec 2014	Equity Holding 31 Jan 2014
<b>Controlled entity</b>			%	%
Hillgrove Copper Pty Ltd	Australia	Ordinary	100	100
Hillgrove Copper Holdings Pty Ltd	Australia	Ordinary	100	100
Hillgrove Exploration Pty Ltd	Australia	Ordinary	100	100
Hillgrove Mining Pty Ltd	Australia	Ordinary	100	100
Hillgrove Operations Pty Ltd	Australia	Ordinary	100	100
Hillgrove Wheal Ellen Pty Ltd	Australia	Ordinary	100	100
Kanmantoo Properties Pty Ltd	Australia	Ordinary	100	100
Mt Torrens Properties Pty Ltd	Australia	Ordinary	100	100
SA Mining Resources Pty Ltd	Australia	Ordinary	100	100
Hillgrove Indonesia Pty Ltd	Australia	Ordinary	100	100
Hillgrove Singapore Pte Ltd	Singapore	Ordinary	80	80
Hillgrove Singapore No 2 Pte Ltd	Singapore	Ordinary	80	80
Hillgrove Singapore No 3 Pte Ltd	Singapore	Ordinary	100	100
Hillgrove Singapore No 4 Pte Ltd	Singapore	Ordinary	100	100
PT Akram Resources	Indonesia	Ordinary	80	80
PT Fathi Resources	Indonesia	Ordinary	80	80
PT Hillgrove Indonesia	Indonesia	Ordinary	100	100

The proportion of ownership interest is equal to the proportion of voting power held.

**Supplementary Appendix 4E information continued****Associates and joint venture entities**

None.

**Foreign entities**

International Accounting standards have been used in compiling the report.

**Report based on unaudited accounts**

This report has been based on accounts which are currently being audited.

**Competent Person's Statement**

The information in this release that relates to Mineral Resources is based upon information compiled by Mrs Michaela Wright, who is a Member of The Australasian Institute of Mining and Metallurgy. Mrs Wright is a full-time employee of Hillgrove Resources Limited and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Mrs Wright has consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.

The information in this release that relates to Ore Reserves is based upon information compiled by Mr Steven McClare, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr McClare is a full-time employee of Hillgrove Resources Limited and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Mr McClare has consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.