Thursday, 28 May 2015

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 Crowne Plaza Hotel in Adelaide today.

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Chairman’s Address

Hillgrove Resources Limited - Annual General Meeting 2015

Ladies and Gentlemen, welcome to the 2015 Annual General Meeting of Hillgrove Resources Limited.

Let me start by addressing the absence of Doug Snedden, a Non-executive Director, who was up for re-election today. At our Board meeting yesterday Doug tendered his resignation to the Hillgrove Board to pursue other significant board commitments. Later I will comment further.

In the past financial year the Kanmantoo Copper Mine has had many successes. Copper production in concentrate in the 11 month period to 31 December 2014 increased by over 20% in comparison to the previous period of 12 months.

There have been significant reductions in unit mining and processing costs. By the end of the year, ore throughput rates of the processing plant were consistently running at the equivalent of 3.5 Mtpa for a plant originally designed for 2.4Mtpa. Both mining and processing costs were trending below the costs projected for the Life of Mine plan, which opens the potential to mine additional ore that previously would have been stockpiled or otherwise was uneconomic. This constant drive for improvement is a credit to the team operating the Mine, led by Steve McClare.

The improved performance of the whole operation and resulting cash flow have enabled bank debt to be reduced by $22.8 million during the 11 month period. Since the project started production, $40 million of debt has been repaid.

Pre-stripping of Giant Pit has been accelerated at a cost of $13 million so far. This pre-strip will continue until March 2016 although some ore is mined during the pre-strip period. It is the Kavanagh and Giant Pits where almost 89% of the value of the Kanmantoo Mine sits.

Mid last year the South Australian Government approved a new Program for Environment Protection and Rehabilitation, called a PEPR, which authorised a 75% increase in processed ore over the original PEPR and a two year extension of the Life of the Mine to 2019. This is based on current mine Reserves, and allows access to additional copper Resources located within the Mining Lease. A key part of obtaining the PEPR was an on-going constructive engagement with the local community through the Kanmantoo-Callington Community Consultative Committee (KCCCC). However during the latter part of the year a difficulty arose. Nugent Pit did not return the resource expected. This was due to the nature of the ore body and geotechnical instability. Nugent Pit is a satellite pit within different mineralogy and host rock compared to Kavanagh and Giant Pits. No such issues are expected in these latter Pits.

This week the Company announced the refinancing of our debt package to ensure debt repayments align with the most recent Life of Mine plan and to provide additional equity, which will accelerate the exploration program of nearby targets in order to extend the mine life.

The debt/finance facilities have been arranged through our strong supporters Macquarie Bank Limited and a subsidiary of our Offtake Partner, Freepoint, who have been involved in the project since 2005. The package comprises a US$14 million Pre-Export Facility loan (plus up to a further
US$6 million subject to conditions), US$3 million price participation deferral, a A$20 million Performance Bond Facility, being the Kanmantoo rehabilitation bond previously financed by both Macquarie and Barclays banks, and associated commodity hedging facilities for the Kanmantoo Mine.

Both facilities have terms until 30 June 2018, with balances reducing from March 2016 for the Pre-export Facility and from March 2017 for the Bond Facility. This will allow the Company to pay down all debt by 30 June 2018 and provide cash backing of the environmental bonds to the South Australian Government.

Hillgrove is also undertaking a pro-rata, non-renounceable, rights issue, fully underwritten by Freepoint Metals & Concentrates LLC, our off take partner, and Wilson HTM Corporate Finance Ltd. The Board believes this equity raising is both expedient and fair for shareholders. The purpose is for:

- raising approximately A$10 million equity as a condition precedent to, and to supplement, the financing facility with Ventures Australia LLC, a subsidiary of Freepoint Commodities LLC;
- increasing the Company’s cash balance in order to accelerate exploration activities at Kanmantoo, in particular, the evaluation of a second cutback on the Giant Pit, and exploration of the northern extension of the Kavanagh/Giant orebody; and
- together with the debt financing, allow Hillgrove to be fully funded to undertake all development works for the Giant Pit.

The Company is on the right path with sufficient capital being raised now with certainty (debt available and equity underwritten). While the debt load is clearly more manageable, it is prudent financial management to ensure an adequate buffer is available during the next 12 months or so to complete the Giant Pit cutback in order to tap the primary ore zone.

Further information in relation to the Offer has been filed with the ASX and is on our website. All shareholders will receive a letter this week outlining who is eligible and ineligible, the latter being certain overseas shareholders. Copies of the Offer Booklet will be despatched to eligible shareholders on Wednesday, 3 June 2015.

In parallel to the refinancing, the Board announced its renewed strategic focus on mine-site operations at Kanmantoo and its decision to reduce corporate costs. Steve McClare has been appointed as Chief Executive Officer and Managing Director.

Steve’s previous role as General Manager of the Kanmantoo Copper Mine placed him in a unique position to provide the direction and operational oversight to increase production, develop Hillgrove’s exploration activities, and reduce the corporate cost structures. The Board believes he has the right experience and qualifications to guide Hillgrove into its next phase of development.

By agreement, Greg Hall stepped down this week as Chief Executive Officer and Managing Director. Greg commenced in February 2013 and together with Steve and the team at Kanmantoo has guided the Company through a number of recent successes, including moving the mining operations to Owner Operated resulting in significant productivity and cost improvements, delivering
consistent performance above nameplate for the processing plant, and recommencing exploration in the Kanmantoo region. The Board thanks Greg for his leadership during the past two and a half years and for his contribution to our business during that time.

In the coming year Hillgrove will continue to build on the solid improvements in costs and productivity which have been made. The focus will be on progressing the cutback of the Giant Pit to gain access to the large orebody for the remainder of the current life of mine plan. This was to be the last major cutback under the current plan, however the reduced operating costs and the refinancing have allowed for the planning of an additional Giant Pit cutback. The best immediate value is to access the proven reliable, consistent grade and quality of the main Kanmantoo orebody.

To supplement copper production during the Giant Pit cutback, the Controlled Potential Sulphidisation (CPS) plant will be operating. The upper levels of all pits contain significant amounts of oxide ore, and during stripping operations it has been stockpiled. Recovery of this material through the normal primary sulphide ore circuit is low. During the year the Board approved the construction of the plant to enable controlled conditioning and processing of oxide ore in a batch process, resulting in higher recovery of oxide copper through the primary flotation circuit. Construction is complete and the first commissioning and testing is occurring. The CPS plant will soon be ready to process stockpiled oxide and transition ore later this year.

The Board is optimistic that exploration will add significantly to the mining inventory, and hence the Life of Mine model. Future PEPR submissions are planned to extend the approved Life of Mine to 2021 based on Resources and exploration targets.

A $5 million exploration program was commenced at the end of 2014. Exploration was undertaken at Wheal Ellen and a gravity survey completed over the mining lease and Kitticoola prospect. A heli-borne electromagnetic survey over parts of the broader exploration lease has just been completed, with analysis well under way.

Hillgrove may be operating a copper mine but we are all reminded that the strategic focus of the Company is and must remain on the creation of value for shareholders.

An obvious question you would be asking is if there have been significant improvements in production performance and resource why isn’t that reflecting in the share price. The lower commodity prices have depressed investor sentiment in the mining industry, especially with smaller companies. With recent comments and evidence regarding the underlying strength of the copper market, the Board believes this is the right time to position the Company for solid copper production into the future. At a Company level the expenditure on the Giant Pit cutback, exploration, the lower production costs, the CPS plant and the re-alignment of debt, have set up the prospects for strong returns and opportunities for a longer mine life. The Board’s goal is to maximise shareholder value.

We now come to the resolutions of the meeting. We withdraw the third resolution of the meeting today due to Doug Snedden’s resignation. Doug advised yesterday that he had wanted to see the refinancing completed before he resigned. Doug was Chairman of the Audit and Risk Committee and the Treasury Committee of Hillgrove Resources. Doug has provided valuable financial, audit and management experience to the Board over the past three and a half years. His contribution to the Company has been significant and we thank him for that.
Doug’s resignation means the Board is now smaller and reflects the drive to simplify and consolidate, particularly at the corporate level.

Phil Baker was appointed to the Board late last year. Phil is a CPA with over 30 years in the mining industry. He started with MIM Holdings in 1980 undertaking various roles before leading the development and construction of the Ernest Henry copper/gold mine from 1995-97, and then responsible for the copper refinery and other operations in north Queensland. He became Group Treasurer and later EGM - Strategy, Planning and Development, before leaving MIM in 2003. Phil then gained additional key experience in the roles of CFO, Company Secretary and CEO at other mining companies, including Peplin, QMAG, Lihir Gold and Rio Tinto’s Pacific Aluminium. Phil has made a significant contribution to the Board and its Committees and is up for re-appointment this year.

I want to acknowledge the ongoing support of our many shareholders. I urge those of you who can, to support the Rights Issue and continue to back your Company. Our directors will be taking up their rights.

Hillgrove has added significant potential shareholder value at Kanmantoo by bringing down costs, increasing throughput and production capacity, and making the operation more robust. We believe these lower costs and better performance metrics have the potential to lead to increased resource / reserve, through additional resource conversion and robust near-mine exploration, both of which will lead to increased mine life and longer cashflow. The results we have reported reflect the constant drive for improved efficiency and are a credit to the team operating the Mine. I thank our Hillgrove Resources Team, and all the contractors who support us, for their on-going effort and commitment.

The Hon. Dean Brown, AO
Chairman