



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 30 September 2015

### HIGHLIGHTS

- Production of 4,157t contained copper in concentrates from the Kanmantoo Copper Mine for the quarter.
- C1 cost for the quarter of USD2.18/lb (\$3.00/lb) despite treating significant volumes of stockpiles with high attributed costs (non-cash).
- The cut-back of the Giant pit continued to plan, with increases in copper production anticipated from the first quarter of 2016.
- Problematic Emily Star, Nugent and Valentine satellite pits are now complete and backfilling has commenced in Nugent and Valentine, providing an additional short haul option.
- Two CPS campaigns during the quarter processed 221kt of oxide/transitional ore to produce 934t of copper. Targeted tails grade was repeatedly achieved, but feed grade of CPS stockpiles was lower than anticipated.
- Quarterly mining costs at a record low of \$10.90/bcm and quarterly processing at a near low of \$5.80/t
- Record plant throughput set for the fourth quarter in a row (at an annualised rate of 4.5mtpa).
- Hillgrove has agreed to amended contract terms with its mining contractor to reduce costs during the cutback period and remove price escalation effective from the start of the September quarter, with the contract now extended by two years.
- Hillgrove's copper hedging continues to support the revenue stream, with significant hedge book cover to December 2017 (20.7kmt of hedging at an average price of \$7,707/t, above the current spot price of \$7,168).
- As at 30 September 2015, cash on hand was \$8.9 million, total debt increased from \$18.2 million to \$20.0 million (due to the depreciation of the AUD/USD exchange rate) and net debt stands at \$11.1 million.
- A comprehensive review by external consultants has resulted in a new Planning model to deliver more copper metal and an increased NPV, but with less metal in the upper areas which are currently being mined and more metal in the heart of the orebody. Copper metal production for FY15 is now projected to be 17,500t to 18,500t with gold expected to be higher at 5,500oz to 6,500oz. C1 cash costs remain within guidance.



## EXECUTIVE SUMMARY

There was a significant improvement in safety during the quarter, with a record period free of total recordable injuries. Copper production was 4,157t copper in concentrate, at a C1 cash cost of USD2.18/lb (\$3.00/lb). The Giant pit cut back continues on plan and cash on hand remains steady at \$8.9M.

Geological performance over the past year continued to prove challenging in historic stockpiles, upper levels of the cut back and satellite pits. It was for this reason that an independent review was conducted to validate the quality of the models used. This review showed that the learning of the last eighteen months is that the satellite pits and upper areas were less continuous and had different attributes to the heart of the main orebody which was found to significantly outperform. Looking forward, this has meant that whilst there is less copper in the near term resulting in a marginal lowering of copper production guidance for FY15, overall there are more copper tonnes and an increase in NPV for the current PEPR approved period to 2019.



Mining costs have reduced to an all-time low and another processing rate record was set. Looking forward, the mine plan will be amended to deliver copper metal in line with previous forecasts. Whilst ore hardness will increase and mill throughput will reduce, costs will continue at lower than original projections. Corporate activities have been simplified and a number of positions consolidated, including the CFO & Company Secretary being combined into one position. The intent is to deliver better than a 40% cost saving in Corporate by mid-2016.

As expected it has been a challenging quarter, but we continue to fund the Kanmantoo mine including the Giant Pit cutback through cashflow from operations. Revenue for the quarter was \$34.3 million at an average realised price for copper of \$3.53/lb (USD2.69/lb), with cash on hand at quarter end of \$8.9 million. These revenues were supported by Hillgrove's strong hedge book. This hedge book will continue to provide Hillgrove with strong revenue protection, with 20.7kt of hedging at an average price of \$7,707/t (\$3.50/lb), amounting to approximately 75% of payable copper until March 2016 and 42% of payable copper from April 2016 until December 2017 still available.

With an increase in NPV of the Project, strong exploration potential to the north and the extension of the simplification and consolidation across the entire Company, the future looks very positive for HGO. Prudent cash management during the cut back, then increased copper production and exploration activity during 2016 will lead to a significant cash generating phase from 2017.

The Company's Indonesian exploration projects at Sumba and Birds Head continued on a care and maintenance basis, with a review of these assets currently being undertaken.

## KANMANTOO COPPER MINE, SOUTH AUSTRALIA

### Mining Lease 6345 (Hillgrove 100%)

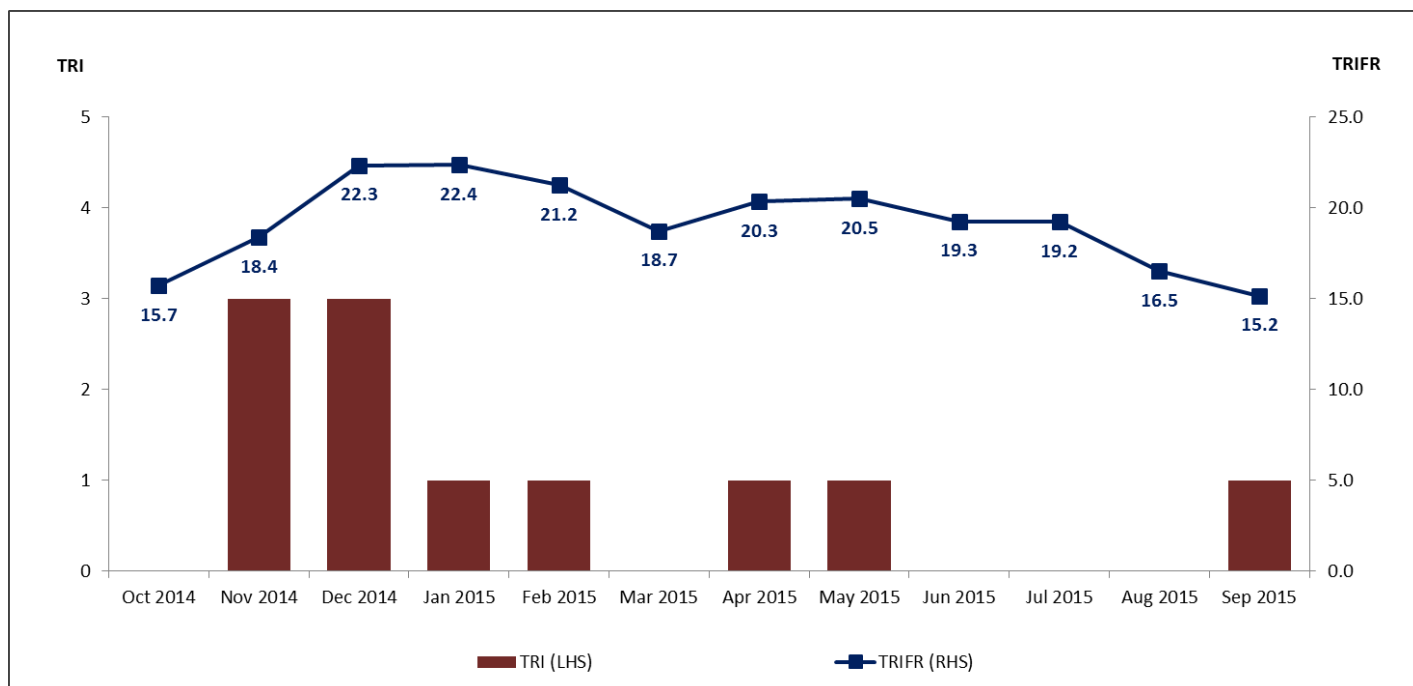
#### Overview

The Giant Pit cutback continued to produce ore from a series of satellite orebodies within the cutback. This ore is now all primary sulphide and is being fed directly to the ROM. Backfilling in Nugent enabled an alternate access to be established and ore outside of the reserve was extracted during the quarter. Nugent Pit is now complete and backfilling has resumed, providing a short haul option for the waste. The processing plant again performed very well with record mill throughput which offset the impacts of lower grades. Recovery was below plan as two CPS campaigns were brought forward to take advantage of the latent mill capacity which achieved record processing throughput rates for the fourth consecutive quarter.

## Safety and Community

The quarter saw the twelve month Total Recordable Injury Frequency Rate (TRIFR) reduce to 15.2, following three consecutive months without injury; the longest injury free period since operations began.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



## Operations

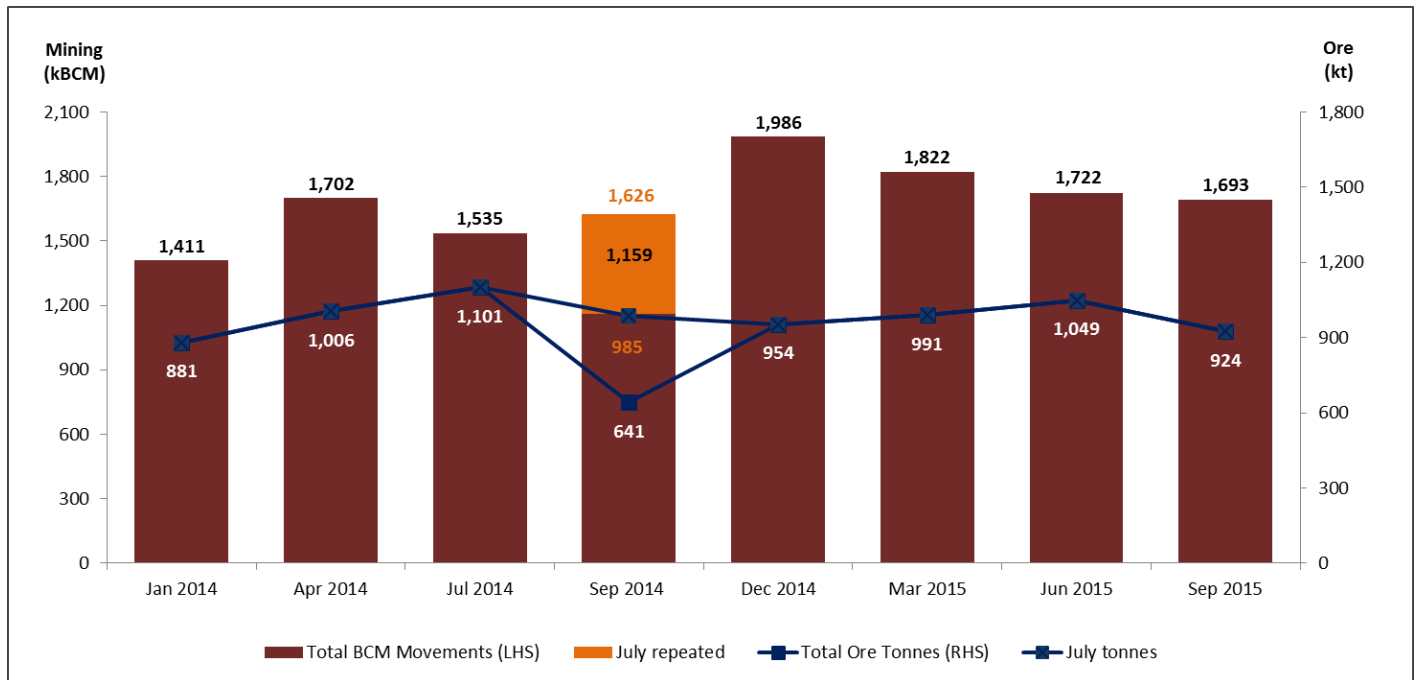
TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		FY14 to JAN 14	CY14* to DEC 14	MAR-15 QTR	JUN-15 QTR	SEP-15 QTR	FY15 YTD
		12 MTHS	11 MTHS	3 MTHS	3 MTHS	3 MTHS	9 MTHS
Ore to ROM from Pit	kt	2,633	2,620	888	899	924	2,711
Ore to long term stockpiles	kt	262	1,172	103	149	-	252
Mined Waste	kt	10,027	15,899	4,631	4,265	4,306	13,202
<b>Total Tonnes Mined</b>	kt	<b>12,922</b>	<b>19,691</b>	<b>5,622</b>	<b>5,313</b>	<b>5,230</b>	<b>16,165</b>
To ROM from LT Stockpiles	kt	332	509	-	193	179	372
Mining Grade to ROM	%	0.71	0.88	0.64	0.57	0.51	0.57
Ore Milled	kt	2,944	3,023	959	1,041	1,121	3,121
Milled Grade - Cu	%	0.64	0.75	0.58	0.49	0.48	0.51
- Au	g/t	0.12	0.14	0.12	0.07	0.09	0.09
Recovery - Cu	%	90.7	90.8	89.8	82.0	77.6	83.2
- Au	%	52.9	51.7	42.6	49.3	46.3	45.9
<b>Cu Concentrate Produced</b>	Dry mt	<b>75,423</b>	<b>90,163</b>	<b>21,949</b>	<b>17,947</b>	<b>17,282</b>	<b>57,178</b>
Concentrate Grade - Cu	%	22.8	23.0	22.8	23.1	24.1	23.3
- Au	g/t	2.5	2.3	2.2	2.1	2.7	2.3
Contained Metal in Con. - Cu	t	17,184	20,693	5,013	4,138	4,157	13,308
- Au	oz	5,962	6,798	1,532	1,214	1,517	4,263
- Ag	oz	132,854	131,901	24,920	21,554	31,334	77,808
<b>Total Concentrate Sold</b>	Dry mt	<b>74,051</b>	<b>90,583</b>	<b>22,714</b>	<b>17,104</b>	<b>17,468</b>	<b>57,286</b>

\* Calendar year

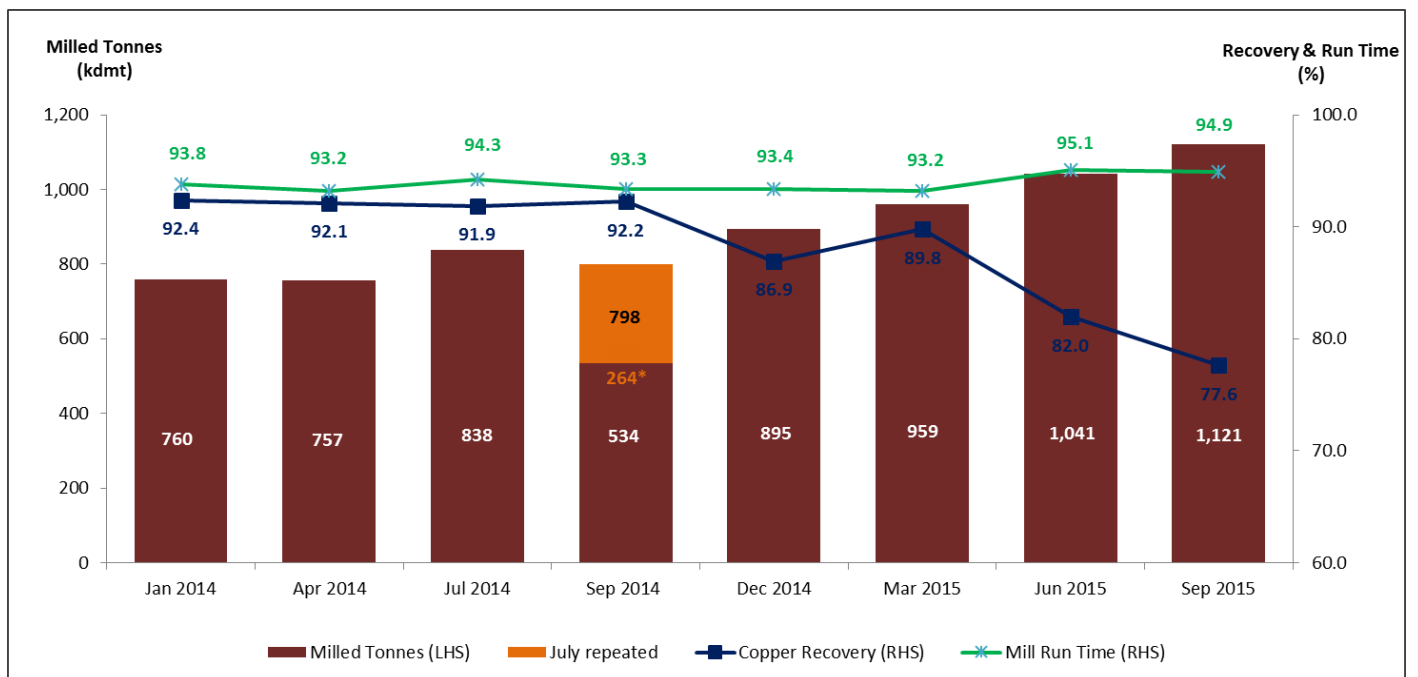
Mining production was 5,230kt (1,693k BCM moved) for the September 2015 quarter, of which 924kt was ore, with no oxide and transitional ore placed onto long term stockpiles.

FIGURE 2. KANMANTOO COPPER MINE TOTAL BCM



Mill throughput and reliability continued to be high during the quarter, with another record throughput achieved.

FIGURE 3. KANMANTOO QUARTERLY MILL TONNES, COPPER RECOVER AND MILL RUN TIME



\* With change to 31 December year end, July was included again in milled tonnes for September quarter for comparison purposes.

Mill throughput for the quarter increased significantly from 1,041kt to 1,121kt, at the marginally lower average grade of 0.48% copper (0.49% in the June 2015 quarter). By increasing mill throughput to include all low grade ore being mined as well as some stockpiled transitional and oxide ore, cash flow was enhanced despite the reduced overall head grade as the incremental processing cost remained low.

The copper recovery of 77.6% was lower than the previous quarter (82.0%) due to the processing of 221kt of CPS ore in the quarter. The copper recovery in areas of primary sulphide remained in line with expectations for those primary ores at 85.4%.



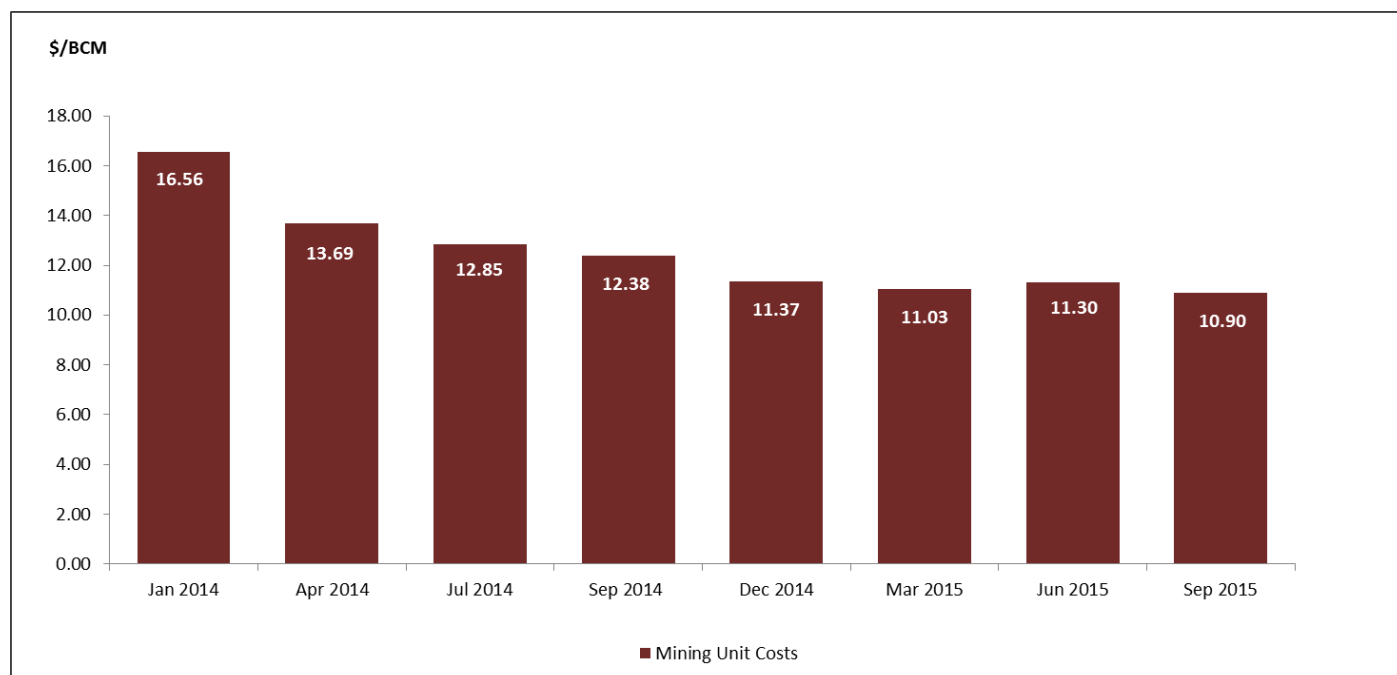
## CPS

The CPS (Controlled Potential Sulphidisation) plant which enables the controlled conditioning and processing of oxide ore in a batch process has continued to run successfully this quarter (with campaigns in July and August). A total of 221kt transitional and oxide material was processed, with a feed grade of 0.71% and a recovery of 59.1%, to produce 934t of copper in concentrate.

## Costs

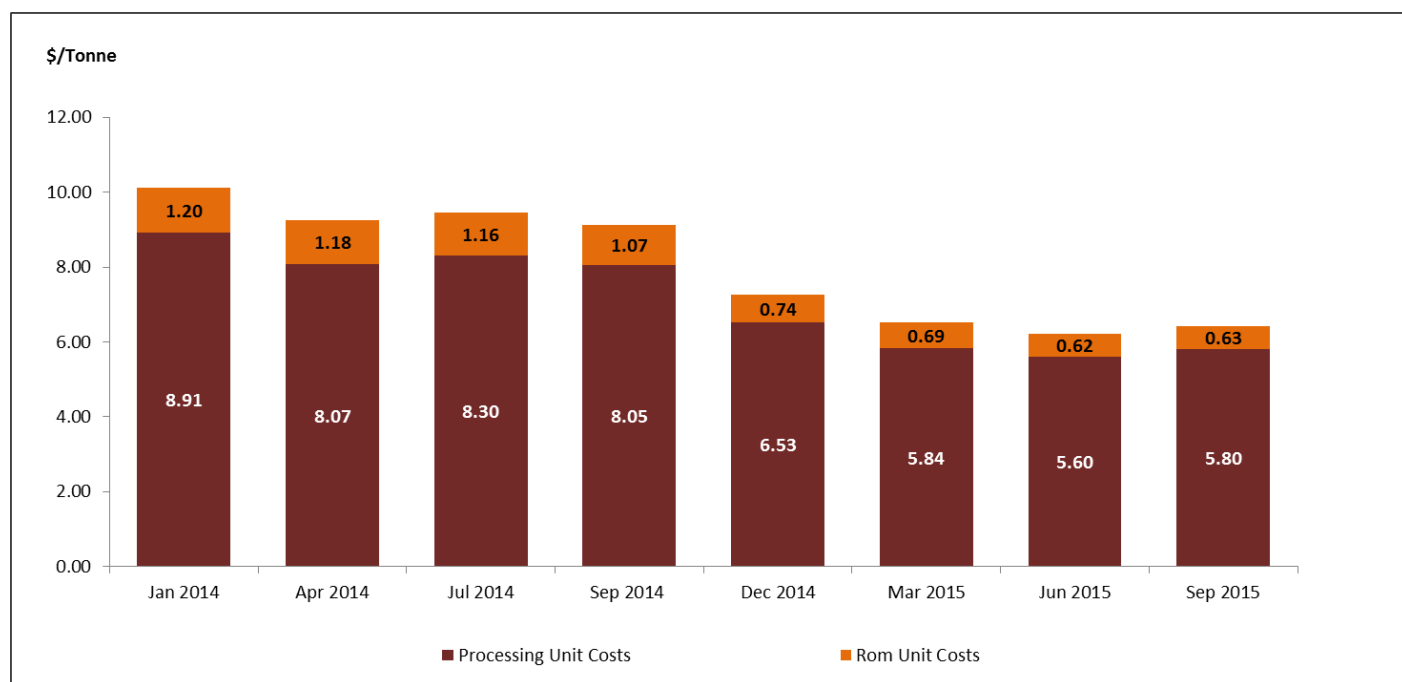
Quarterly mining unit costs further reduced to a record low of \$10.90/bcm, while quarterly processing unit costs remain low at \$5.80/t milled. The slight increase from the record lows of last quarter (\$5.60/t) was a result of the increased CPS processing, which requires additional reagents and lower throughput rates.

FIGURE 4. KANMANTOO QUARTERLY MINING UNIT COSTS



During the quarter, the mining contractor, Andy's Earthmovers (Asia Pacific) Pty Ltd (AEM) agreed to amend its supply contract terms as follows:

- Discounted rates will apply from July 2015 to June 2016 during the cutback, with escalated rates in the following twelve months (capped to the discounted amount);
- Escalation clauses have been removed from the contract, and rates lowered to those at the commencement of the contract; and in return
- The contract term was extended by two years (subject to statutory approvals).

**FIGURE 5. KANMANTOO QUARTERLY PROCESSING UNIT COSTS**


The C1 cash cost of USD2.18/lb (\$3.00/lb) for the quarter remained steady compared to the previous quarter (USD2.13/lb, \$2.74/lb). Lower metal production due to head grade is the dominant driver of higher costs in 2015 compared to 2014, which is partially offset by favourable movements in foreign exchange and the lower treatment, refining and smelter charges.

**TABLE 2. KANMANTOO COPPER MINE COSTS (USC/lb)**

US cents per lb	FY14 to JAN 14 12 MTHS	CY14* to DEC 14 11 MTHS	MAR-15 QTR 3 MTHS	JUN-15 QTR 3 MTHS	SEP-15 QTR 3 MTHS	FY15 YTD 9 MTHS
Total Mining Cost	165	169	153	179	160	163
Deferred Mining	-14	7	0	-24	-59	-26
Pre-strip	-33	-38	-29	-56	-3	-29
Ore Inventory Adjustment	-1	-39	-10	7	26	7
<b>Mining Costs</b>	<b>117</b>	<b>99</b>	<b>114</b>	<b>106</b>	<b>124</b>	<b>115</b>
Processing Costs	72	48	42	52	54	50
Other Direct Cash Costs	22	18	19	16	14	17
<b>Total Onsite Costs</b>	<b>211</b>	<b>165</b>	<b>175</b>	<b>174</b>	<b>192</b>	<b>182</b>
Transport & Shipping	17	16	13	12	11	12
Treatment, Refining & Smelter Charges	41	41	43	46	36	43
<b>Total Offsite Costs</b>	<b>58</b>	<b>57</b>	<b>56</b>	<b>58</b>	<b>47</b>	<b>55</b>
Precious Metals Credits	-30	-25	-20	-19	-21	-20
<b>Total Direct Operating Costs (C1 Cash Costs)</b>	<b>239</b>	<b>197</b>	<b>211</b>	<b>213</b>	<b>218</b>	<b>217</b>
Royalties	4	4	3	3	3	3
D&A	74	80	69	72	66	69
<b>TOTAL COSTS</b>	<b>317</b>	<b>281</b>	<b>283</b>	<b>288</b>	<b>287</b>	<b>289</b>

\* Calendar year

**NOTES TO TABLE 2:**

**Deferred Mining:** Within each pit, the cost of higher waste benches, proportional to the copper contained in the ore, is normalised for the impact of strip ratios and copper grades over the life of specific pits. **Pre-Strip:** Upper levels of pits where the strip ratio is greater than 10:1 (waste:ore) are capitalised and amortised over the life of the mine based on metal.

**Ore Inventory Adjustment:** Mining costs per tonne of ore added to (-'ve) or processed from (+'ve) long term stockpiles. During the quarter a Net Realisable Value adjustment of stockpile valuation occurred, which is also reflected in the Ore Inventory Adjustment.

**Shipping**

During the quarter, Hillgrove shipped its twenty-eighth and twenty-ninth shipments of copper concentrate of 10,877WMT (9,812dmt) and 10,304WMT (9,159dmt) respectively.

**Revenue**

Revenue for the quarter was \$34.3 million at an average realised price of \$3.53/lb (USD2.69/lb) after hedging.

**Exploration Program**

Following the positive exploration results and potential for mine life extensions to the north of the Giant pit at Kanmantoo, work will continue (downhole geophysical and analysis of the Heli-borne TEM) to identify targets for the drilling programme which is scheduled to commence in mid-2016.

**Planning Model Update**

During the quarter, a comprehensive external review of the Kanmantoo Global Resource Model was completed by external consultants. The review found that the Resource Model is globally accurate but could be further refined to make it area specific and enhance mine scheduling. A Planning model was therefore developed which more accurately reflects the underperformance of the grade up high in the narrower ore bodies and over performance of the grade at depth in the wider consistent ore bodies.

The Planning model was developed by calibrating against the historical tonnes and grade mined by Hillgrove since operations at Kanmantoo recommenced in 2011 through to the beginning of the September Quarter. The Planning model is expected to prove a more accurate localised predictive tool for forecasting grade and tonnage production, which is critical to the forward planning process.

Whilst there is no material change to the Global Reserve and Resource estimates in terms of copper metal production, the Planning model over the existing cut back delivers more tonnes at a lower grade, additional tonnes of copper and a higher NPV. The Planning model will continue to be refined and is likely to form the basis for the next Reserve and Resource estimate in 2016.

As a result of this deferral of copper metal from the upper areas, the mine plan has been modified. The Giant pit cutback will be driven deeper on the eastern half to bring forward high grade ore and mining rates in the next year have been accelerated, where short haul backfilling is available, to maintain planned mill throughput.

**Outlook**

The Kanmantoo Mine will continue to advance the Giant Pit cutback, with the main higher grade orebodies still expected to be accessed in 2016. The Matthew extension is planned to be completed in November, with ore primarily sourced from Spitfire and Schultze into early 2016.

The CPS plant will continue to be used in the short term to supplement copper production during the cutback.

As noted above, the new Planning model projects copper production slightly lower than the lower end of the previous FY15 guidance (18,500 tonnes), which is partially offset by higher gold production. The revised guidance is copper production reducing to 17,500t to 18,500t contained copper (previously 18,500t to 20,500t) and gold production increasing to 5,500oz to 6,500oz (previously 5,000oz to 6,000oz). C1 costs remain within FY15 guidance.





## INDONESIAN GOLD AND GOLD/COPPER ASSETS

The focus on its Kanmantoo operations means the Indonesian assets are no longer considered core assets. Hillgrove believes there is inherent value in the exploration tenements and continues to pursue options to realise this value.

### BIRD'S HEAD COPPER/GOLD PROJECT, WEST PAPUA, INDONESIA

#### IUP40/2010 (Hillgrove 80%)

Hillgrove is an 80% shareholder in PT. Akram Resources which holds IUP40/2010 in the Bird's Head region of West Papua. Hillgrove is responsible for the management of exploration and development activities up to a decision to mine. The IUP covers 992.3km<sup>2</sup> and is valid until December 2016.

### SUMBA GOLD PROJECT, INDONESIA

#### IUP 322/KEP/HK/2009 (Hillgrove 80%)

Hillgrove is an 80% shareholder in PT Fathi Resources which holds IUP 322 on the island of Sumba. Hillgrove is responsible for the management of exploration and development activities, up to a decision to mine. The IUP Explorasi (Exploration and Mining Business Licence) covers 750km<sup>2</sup> and is valid until November 2015.

## HILLGROVE CORPORATE

Work continued on the simplification and consolidation of Hillgrove's operations along with the implementation of cost reduction initiatives across the Company, with the elimination and consolidation of a number of roles at both the Corporate Office and the Kanmantoo Mine site.

### Cash and Investments

Cash as at 30 September 2015 was \$8.9 million.

Debt as at 30 September 2015 was \$20.0 million with net debt at \$11.1 million.

### CORPORATE INFORMATION

#### Issued Share Capital at 30 September 2015

Ordinary shares	188,109,342
Employee Performance Rights	2,078,125
Unlisted options	3,125,000

#### Share price activity for the Quarter

High	0.230
Low	0.150
Last (30 September 2015)	0.175
Average Daily Volume	305,507

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**ABOUT HILLGROVE**

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on the operation of the Kanmantoo Copper Mine in South Australia, and with exploration projects on its Indonesian tenements. The Kanmantoo Copper Mine is located less than 55 kilometres from Adelaide in South Australia. With construction completed in late 2011, Kanmantoo is an open-cut mine with a throughput of 3.0 - 3.5Mt p.a., to produce up to 100,000 dry metric tonnes of copper concentrate per annum, containing approximately 20,000t copper and associated gold and silver per annum over the current life of mine.

**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 Reserve >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.

**Competent Person's Statement**

The information in this release that relates to Mineral Resources is based upon information compiled by Ms Michaela Wright, who is a Member of The Australasian Institute of Mining and Metallurgy. Ms 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)'. Ms 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.