

Friday, 26 February 2016

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 2015**

---

Please find attached the Preliminary Final Report – 31 December 2015 (Appendix 4E) under Listing Rule 4.3A relating to Hillgrove Resources Limited's results for the 12 month period 1 January 2015 to 31 December 2015 – CY 15.

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 2015 and the auditors' report will be released by 31 March 2015 per ASX Guidelines.

Yours Faithfully



**Paul Kiley**  
Company Secretary



# **ASX Preliminary Final Report – 31 December 2015**

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

HILLGROVE RESOURCES LIMITED

ABN 73 004 297 116

## Table of Contents

Results for announcement to the market (unaudited)	4
Review of consolidated financial results	4
Review of operations for the year and outlook	9
Financial information	
▪ Preliminary consolidated statement of profit or loss	16
▪ Preliminary consolidated statement of financial position	17
▪ Preliminary consolidated statement of cash flows	18
▪ Preliminary consolidated statement of changes in equity	19
Notes to the preliminary consolidated financial statements	20
Supplementary Appendix 4E information	23

**Appendix 4E: Preliminary final report for period ending 31 December 2015**

<b>Name of entity</b>	Hillgrove Resources Limited
<b>ABN</b>	73 004 297 116
<b>Financial year ended</b>	12 Months to 31 December 2015 (CY15)
<b>Previous corresponding reporting period</b>	11 Months to 31 December 2014 (CY14)

**Results for announcement to the market (unaudited)**

Revenue from ordinary activities	\$139.5m	CY14: \$166.8m
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	(\$127.4m)	CY14: \$3.8m
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	(\$127.4m)	CY14: \$3.8m

**Dividends**

No dividends were paid or proposed to members during the 12 month period ended 31 December 2015 or in the previous period.

**Review of consolidated financial results**

During the reporting period, the Consolidated Entity (Hillgrove) renewed its focus on the operation and development of the Kanmantoo Mine. As part of this strategy, the Corporate Office was relocated from Sydney to Adelaide in a formal partnership with the South Australian Government. The Corporate Office activities, including the vast majority of externally sourced expertise is now sourced from South Australia. The high quality, moderately priced services available in South Australia and the reduction in rent, travel, and accommodation has led to significantly lower overheads.

Hillgrove generated operating revenue of \$139.5 million for the 12 months to December 2015, at an average realised price for copper of \$3.57/lb (US\$2.74/lb) (prior year \$3.62/lb). This was achieved from Kanmantoo Copper Mine production of 75,028 tonnes of dry concentrate containing 17,306 tonnes of copper. During the cut-back of the Giant Pit, which was initiated in early 2015, the mine plan necessitated mining of ore from the satellite pits and processing of stockpiled ore. Production and in turn revenue during 2015 was affected adversely by a number of factors including the underperformance of the satellite pits and the lower grade of ore from the historical oxide stockpiles which also led to lower copper recovery through the processing plant. This has led to a reduction in Underlying EBITDA from \$52.3 million in 2014 to \$17.3 million in 2015 and subsequently an Underlying net loss after tax of \$14.5 million. Moreover, in the upper thin lenses of Giant Pit, there was also underperformance of the geological model. Hillgrove implemented a thorough and extensive review which resulted in the adoption of an updated geological model during the fourth quarter of the year. This review concluded that, for the life of the mine, the copper in aggregate remains as expected albeit with a different production profile.

**Statement of profit or loss**

For the year ended 31 December 2015, the net loss after tax was \$127.4 million compared to a profit after tax of \$3.8 million for the 11 month period ended 31 December 2014. The net loss after tax was largely due to the inclusion of impairment charges and provisions against assets of \$112.9 million as a result of the lower commodity price environment. These are non-cash items and it is to be noted that an impairment is not a

write off, but a provision which can be reversed in the event of improvements in market outlook or operational performance, including mine life extensions.

\$ million	12 months to 31 Dec 2015	11 months to 31 Dec 2014	Change
Revenue from sale of concentrate	130.5	159.1	(28.6)
Hedge gains / (losses)	9.0	7.7	1.3
<b>TOTAL REVENUE</b>	<b>139.5</b>	<b>166.8</b>	<b>(27.3)</b>
<b>Cash costs of production</b>			
Mining	(79.0)	(81.6)	2.6
Prestrip and deferral	32.3	15.1	17.2
Processing	(24.6)	(23.2)	(1.4)
Transport and shipping	(6.4)	(8.4)	2.0
Treatment and refining	(17.9)	(18.3)	0.4
Royalties	(1.6)	(2.0)	0.4
Other direct costs	(9.0)	(9.2)	0.2
Inventory movements	(9.6)	19.4	(29.0)
<b>TOTAL CASH COSTS OF PRODUCTION</b>	<b>(115.8)</b>	<b>(108.4)</b>	<b>(7.4)</b>
Corporate costs	(5.1)	(5.6)	0.5
Other income	0.2	0.4	(0.2)
Net foreign exchange gain/(loss) realised	(1.5)	(0.9)	(0.6)
<b>UNDERLYING EBITDA</b>	<b>17.3</b>	<b>52.3</b>	<b>(35.0)</b>
Depreciation and amortisation	(36.4)	(35.8)	(0.6)
Net foreign exchange gain/(loss) unrealised	(1.0)	-	(1.0)
<b>UNDERLYING EBIT</b>	<b>(20.1)</b>	<b>16.5</b>	<b>(36.6)</b>
Net interest and financing charges	(2.4)	(2.5)	0.1
Income tax (expense)/benefit	8.0	2.1	5.9
<b>UNDERLYING NPAT</b>	<b>(14.5)</b>	<b>16.0</b>	<b>(30.5)</b>
Non-underlying items, net of tax	(112.9)	(12.2)	(100.7)
<b>Reported net profit / (loss) after tax</b>	<b>(127.4)</b>	<b>3.8</b>	<b>(131.2)</b>
<b>Non-underlying Items</b>			
Impairment - long term stockpiles write down	(11.8)	(13.8)	2.0
Impairment - Indonesian exploration write down	(29.9)	-	(29.9)
Impairment - Australian exploration write down	(1.4)	-	(1.4)
Impairment - Kanmantoo assets write down	(69.8)	-	(69.8)
Gains/(losses) on financial derivatives	-	1.6	(1.6)
<b>Total Non-underlying Items</b>	<b>(112.9)</b>	<b>(12.2)</b>	<b>(100.7)</b>

- Revenue for the 12 months to 31 December 2015 was \$139.5 million (CY14: \$166.8 million). This drop was due primarily to copper production decreasing from 20,693 tonnes in CY14 to 17,306 tonnes in CY15, as well as a decrease in the average realised price from \$3.62/lb in CY14 to \$3.57/lb in CY15.

- During the period, production of 75,028 tonnes of dry concentrate containing 17,306 tonnes of copper was sold from the Kanmantoo Copper Mine (CY14: 90,583t of dry concentrate containing 20,693t of copper).
- Deferred Mining: costs carried forward as at 31 December 2015 were \$17.0 million and relate to the Giant Pit. Deferred mining costs from 2014 of \$2.8 million related to the Nugent and Emily pits and were fully allocated to the cost of production during 2015.
- Pre-Strip: during the year, \$18.1 million of pre-strip mining costs relating to the Giant Pit were capitalised in the balance sheet. Pre-strip costs for upper levels of pits with a strip ratio greater than 10:1 (waste:ore) are capitalised and amortised over the life of the mine.
- Long term stockpiles: were written down by \$11.8 million during the year (cash and non-cash) compared to \$13.8 million in the prior period. This is a result of the higher grade stockpiles being treated, reducing the grade of the remaining stockpiles. This in turn reduced the recoverability of copper from these stockpiles and, in combination with a drop in copper prices, has led to the write off of the long term stockpiles.

### Cash flow overview

\$ million	12 months to 31 Dec 2015	11 months to 31 Dec 2014	Change
Net cash inflows from operating activities	12.7	46.7	(34.0)
Net cash used in investing activities	(21.9)	(30.0)	8.1
Net cash inflows / (outflows) from financing activities	6.5	(24.3)	30.8
Net decrease in cash held	(2.8)	(7.6)	4.8
<b>Cash and cash equivalents at the end of the year</b>	<b>6.1</b>	<b>8.9</b>	<b>(2.8)</b>

### Operating activities

\$ million	12 months to 31 Dec 2015	11 months to 31 Dec 2014	Change
Receipts from customers	119.4	149.9	(30.5)
Payment to suppliers, employees and contractors	(106.7)	(103.2)	(3.5)
<b>Net cash inflows from operating activities</b>	<b>12.7</b>	<b>46.7</b>	<b>(34.0)</b>

Cash inflows from operating activities for the 12 months ended 31 December 2015 were \$12.7 million, which is \$34.0 million lower than the prior 12 month period cash flow of \$46.7 million. The decrease is mainly due to a reduction of cash receipts from sales due to lower production coupled with higher payments during CY15 vs CY14.

### Investing activities

\$ million	12 months to 31 Dec 2015	11 months to 31 Dec 2014	Change
Payments for exploration activities	(1.0)	(0.3)	(0.7)
Payments for property, plant and equipment	(21.6)	(29.8)	8.2
Proceeds on sale of plant and equipment and assets held for sale	0.7	0.1	0.6
<b>Net cash inflows from investing activities</b>	<b>(21.9)</b>	<b>(30.0)</b>	<b>8.1</b>

Cash flows from investing activities amounted to an outflow of \$21.9 million in the current period compared to an outflow of \$30.0 million in the previous period. The decrease is in respect to lower spend on capital works

such as the Tailings Storage Facility extension and pre-strip from new pits of \$21.6 million in comparison to \$29.8 million in the previous period.

### Financing activities

\$ million	12 months to 31 Dec 2015	11 months to 31 Dec 2014	Change
Net proceeds from issue of shares	9.2	-	9.2
Repayment of borrowings	(18.0)	(21.9)	3.9
Proceeds from borrowings	17.2	-	17.2
Net interest paid	(1.9)	(2.4)	0.5
<b>Net cash inflows / (outflows) from financing activities</b>	<b>6.5</b>	<b>(24.3)</b>	<b>30.8</b>

Cash flows relating to financing activities show an inflow of \$6.5 million, mainly due to proceeds received from the issuance of new shares in conjunction with the debt refinancing in mid-2015.

### Statement of financial position

Total equity decreased by \$104.3 million reflecting the increase in contributed equity from the rights issue of \$9.4 million, an increase in reserves of \$13.7 million due to revaluation of the unexpired hedging position as at 31 December 2015, and the loss for the period of \$127.4 million.

### Property, plant and equipment

During the year, the carrying value of property, plant and equipment decreased by \$65.8 million to \$145.6 million. This is a result of the impairment charges of \$69.8 million, depreciation of \$35.0 million and additions of \$39.0 million, which includes \$17.0 million of deferred mining costs which are classified as non-current.

### Cash and cash equivalents

Cash and cash equivalents at 31 December 2015 of \$6.1 million reduced by \$2.8 million from the 31 December 2014 balance of \$8.9 million. This was primarily due to a reduction in cash receipts from operating activities as a result of lower production.

### Inventories

The decrease in inventories by \$25.8 million to \$6.9 million is the result of the following:

- \$4.0m – value of material added to the long-term stockpiles during the year;
- (\$13.3m) – removal of material from the long-term stockpiles and processed during the year;
- (\$11.8m) – net realisable value adjustments resulting from the drop in copper prices, together with adjustments to recoverability and grade estimates;
- (\$2.8m) – deferred mining costs expense;
- (\$1.7m) – reduction in ROM and finished goods; and
- (\$0.2m) – reduction in spares inventory.

Deferred mining costs as at 31 December 2014 of \$2.8 million were fully allocated to the cost of production during the year to 31 December 2015. An amount of \$17.0 million was capitalised during the period as deferred mining costs for the Giant Pit and is included in property plant and equipment.

### Derivative financial instruments

The net position on derivative financial instruments as at 31 December 2015 was an asset of \$19.6 million in comparison to a net liability of \$1.1 million at 31 December 2014. The increase in asset value of the hedge book is due to the fall in spot copper prices because the average hedged price is higher than the spot copper

price at balance date. After close out of contracts during the year and some replacement hedging, the nominal amount of copper hedging in tonnes is 16,476 tonnes at an average price of A\$7,758 at 31 December 2015 compared to 18,531 tonnes at an average price of A\$7,723 as at 31 December 2014.

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

In accordance with the consolidated entity's accounting policies, impairment testing is carried out to ensure assets are not carried at more than their recoverable amount at balance date. As the recoverable amount can vary with prevailing market conditions, impairment testing is a point in time calculation to reflect those market conditions. An impairment is not a write off but a provision which can be reversed in the event of improvements in market outlook or operational performance including mine life extensions.

Based on the Board's decision to simplify and consolidate the Group's focus onto its Kanmantoo operations, the Directors decided to write down the full \$29.9 million carrying value for the Indonesian exploration assets, which are currently on care and maintenance.

The Directors believe the projects still have potential value and Management continues to pursue options to realise this value.

In addition to this, an impairment provision was made for \$1.4 million of exploration expenditure relating to Wheal Ellen and Kitticoola tenements.

A valuation approach reflecting the prevailing weaker economic climate and declining commodity price environment resulted in a \$14.8 million impairment charge against Kanmantoo which was announced for the half year ended 30 June 2015. This has been increased by \$55.0 million resulting in a \$69.8 million impairment charge against the Company's Kanmantoo operations for the full year. This reduces Kanmantoo's carrying value to approximately \$145.6 million. The entity reviewed a number of factors when considering the indicators of impairment, which included:

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

Bloomberg consensus pricing with the following copper prices applied (real prices):

\$ per pound	2016	2017	2018	2019+
June 2015	\$3.79	\$3.85	\$3.90	\$3.68
December 2015	\$3.42	\$3.58	\$3.75	\$3.26
Percentage reduction	(9.8%)	(7.0%)	(3.8%)	(11.4%)

The AUD:USD forward curve in December 2015 (beginning at 0.732 in January 2016) as well as a discount rate of 9.50% (real) were used.

The Directors consider the above assumptions remain reasonable in a period of high volatility, but any sustained change in market prices and rates that are materially different from the above assumptions could result in a different set of assumptions applied to future valuations for impairment testing. By way of example, a +/- 5% movement in the AUD copper prices will increase or decrease the Kanmantoo carrying value by approximately \$30 million.

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

Based on sensitivity analysis conducted on the existing resource, it has been concluded reserves and resources do not represent an indicator of impairment as at 31 December 2015.

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

Cash Generating Units have been reviewed by updating Life of Mine Plans and assumptions, including operating costs, capital costs, and production activity in line with actual operating and cost performances.



## Trade and other payables

Trade and other payables have increased by \$1.8 million during the period, reflecting the lower income and cash inflows generated during the Giant Pit cutback.

## Borrowings

Total borrowings (current and non-current) as at 31 December 2015 are \$18.9 million, of which debt is \$18.0 million (US\$14.0m) and lease liabilities are \$0.9 million.

## Contributed equity

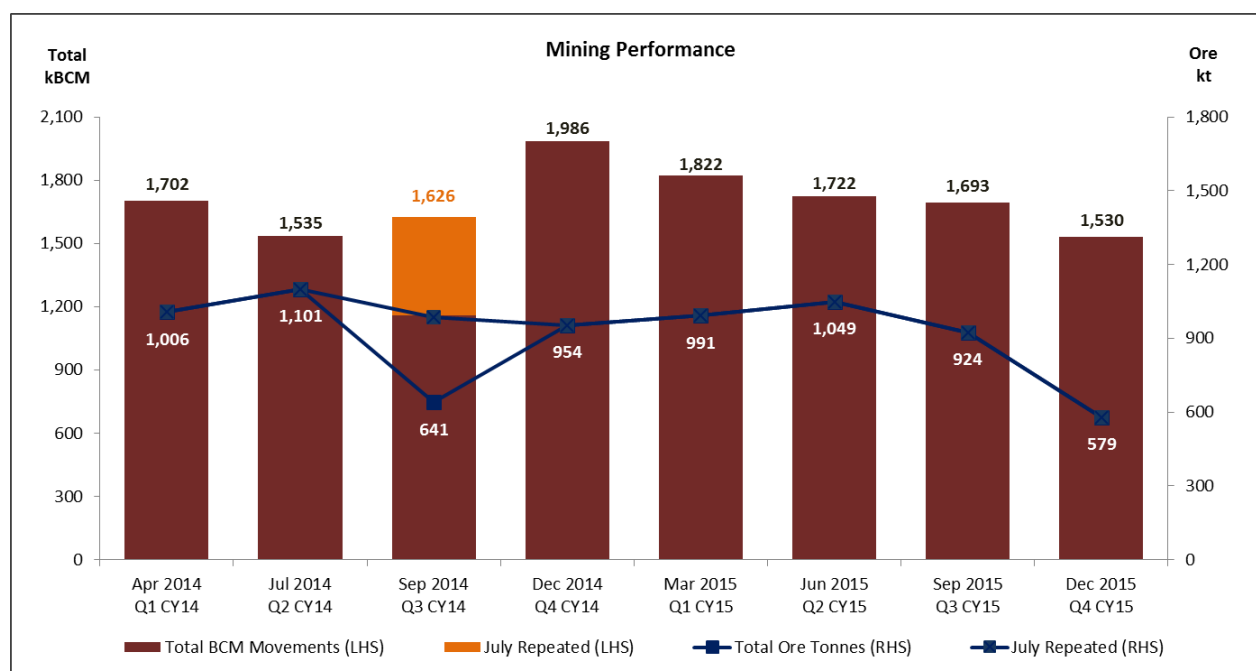
Contributed equity increased by \$9.4 million as a result of the rights issue of 40,310,719 shares at 25 cents per share less transaction costs in June 2015.

## 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. Production has ramped up since construction was completed at the end of 2011 to an ore throughput rate for the processing plant of up to 4.1Mtpa, to allow production up to 90,000 dry metric tonnes of concentrate, containing more than 20,000t copper and associated gold and silver per annum. Copper concentrate production from the Kanmantoo Copper Mine is sold to Freeport Metals & Concentrates LLC under a 100% off take agreement.

### KANMANTOO COPPER MINE PERFORMANCE



\* As a two month period, July 2014 was included again in the September 2014 quarter for comparison purposes.

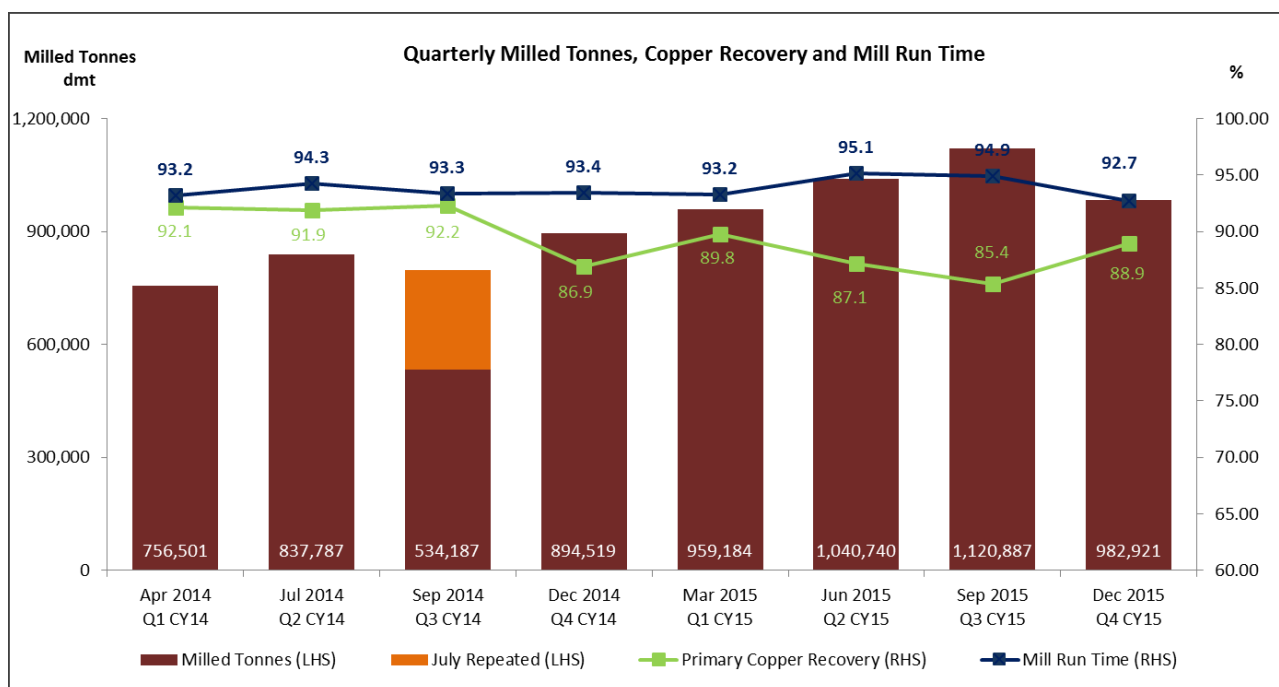
Mining unit costs reduced from \$12.50/BCM in CY14 to \$11.27/BCM in CY15, with production steady. The declining BCM movements and ore mined in recent quarters are a result of accelerating access to the ore in Giant, in preference to highly productive flat bench (top down) mining which would lead to irregular copper delivery. As a result of this, it is expected to increase the ore mined in CY15 by approximately 50%, from what was experienced in the December 2015 quarter. This change was a direct result of reviewing the geological model, whereby there was less copper in the upper portion of the pit, and more at depth.

Hillgrove’s workforce at the Kanmantoo Copper Mine now stands at 193 staff, 82% of whom live in the local and Adelaide Hills regions, and has continued to operate effectively and safely.

During 2015, Hillgrove achieved production of 75,028 tonnes of dry concentrate containing 17,306 tonnes of copper at the Kanmantoo Copper Mine, which was slightly below the annual guidance provided. This was somewhat offset by gold production of 6,790oz, which was above guidance. Key operational aspects by year end included:

- Ore processed for CY15 was ahead of guidance at 4,104kt, (CY14: 3,023kt).
- Nugent and Emily pits were mined out, with Nugent being currently backfilled.
- The cut-back in the Giant Pit over the main orebody is well advanced, with the majority of higher stripping ratio benches underway or complete. The mine will drop below the LOM average strip ratio in mid-2016 (percentage of waste moved decreases with depth). Records included the highest plant throughput of 4,104kt ore and total tonnes mined to date of 20,892kt in CY15; this was a result of increased efficiencies. The controlled potential sulphidisation plant upgrade was completed and commissioned successfully. This plant met all of the technical expectations but output was affected by the lower grade of historic stockpiles.

**KANMANTOO QUARTERLY MILLED TONNES, COPPER RECOVERY (%) AND MILL RUN TIME (%)**



Mill throughput increased 25%, and processing unit costs reduced from \$7.76/tonne in CY14 to \$5.99/tonne in CY15. In addition:

- \$1.6 million capital investment was made in raising the tailings storage facility, to increase capacity.
- Recovery of primary and oxide ore, as anticipated, was lower in CY15 as a result of the processing of lower grade ore. This recovery was in line with the grade/recovery curve, which reflects the fixed component nature of the tail from processing the ore.

## KANMANTOO COPPER MINE PRODUCTION STATISTICS

		CY14* to DEC 14	MAR-15 QTR	JUN-15 QTR	SEP-15 QTR	DEC-15 QTR	CY15
		<b>11 MTHS</b>	3 MTHS	3 MTHS	3 MTHS	<b>3 MTHS</b>	<b>12 MTHS</b>
Ore to ROM from Pit	kt	2,620	888	899	924	<b>579</b>	<b>3,290</b>
Ore to long term stockpiles	kt	1,172	103	149	-	-	<b>252</b>
Mined Waste	kt	15,899	4,631	4,265	4,306	<b>4,148</b>	<b>17,350</b>
Total Tonnes Mined	kt	<b>19,691</b>	5,622	5,313	5,230	<b>4,727</b>	<b>20,892</b>
To ROM from LT Stockpiles	kt	509	-	193	179	<b>413</b>	<b>784</b>
Mining Grade to ROM	%	0.88	0.64	0.57	0.51	<b>0.66</b>	<b>0.59</b>
Ore Milled	kt	3,023	959	1,041	1,121	<b>983</b>	<b>4,104</b>
Milled Grade - Cu	%	0.75	0.58	0.49	0.48	<b>0.56</b>	<b>0.52</b>
- Au	g/t	0.14	0.12	0.07	0.09	<b>0.17</b>	<b>0.11</b>
Recovery - Cu	%	90.8	89.8	82.0	77.6	<b>72.0</b>	<b>80.3</b>
- Au	%	51.7	42.6	49.3	46.3	<b>49.0</b>	<b>47.1</b>
Cu Concentrate Produced	Dry	<b>90,163</b>	21,949	17,947	17,282	<b>17,793</b>	<b>74,971</b>
Concentrate Grade - Cu	%	23.0	22.8	23.1	24.1	<b>22.5</b>	<b>23.1</b>
- Au	g/t	2.3	2.2	2.1	2.7	<b>4.5</b>	<b>2.8</b>
Contained Metal in Con. - Cu	t	<b>20,693</b>	5,013	4,138	4,157	<b>3,997</b>	<b>17,306</b>
- Au	oz	6,798	1,532	1,214	1,486	<b>2,558</b>	<b>6,790</b>
- Ag	oz	131,901	24,920	21,554	31,334	<b>36,592</b>	<b>114,399</b>
Total Concentrate Sold	Dry	<b>90,583</b>	22,714	17,104	17,468	<b>17,742</b>	<b>75,028</b>

The C1 cash cost for CY15 was US\$2.11/lb or \$2.81/lb (CY14: US\$1.97/lb) which was within guidance.

### Revenue

Hillgrove generated operating revenue of \$139.5 million (CY14: \$166.8 million) for the year at an average realised price of \$3.57/lb (US\$2.74/lb). This was achieved from production of 74,971 tonnes of dry copper concentrate containing 17,306 tonnes copper at the Kanmantoo Copper Mine.

### Exploration Program

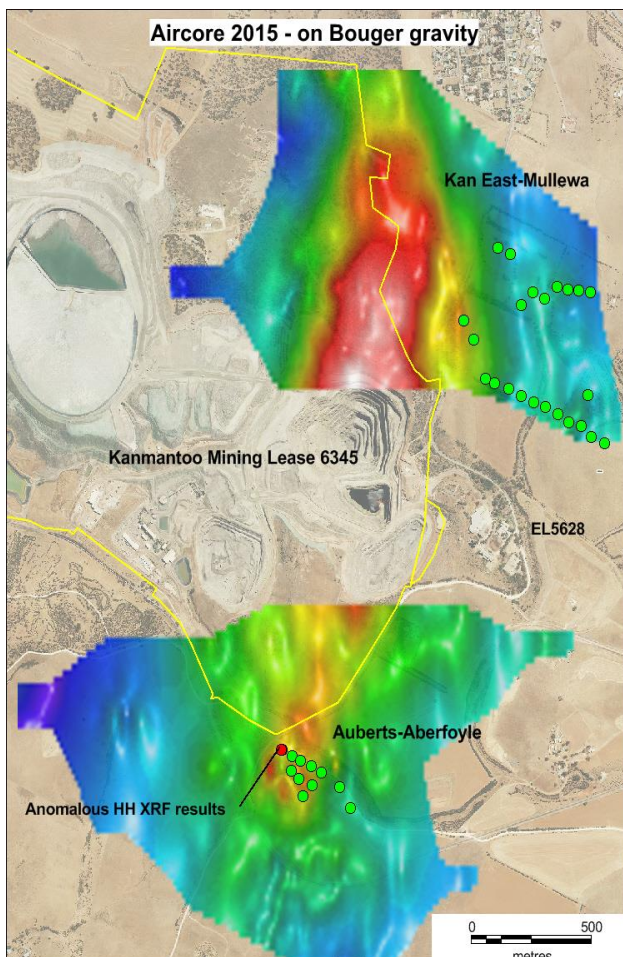
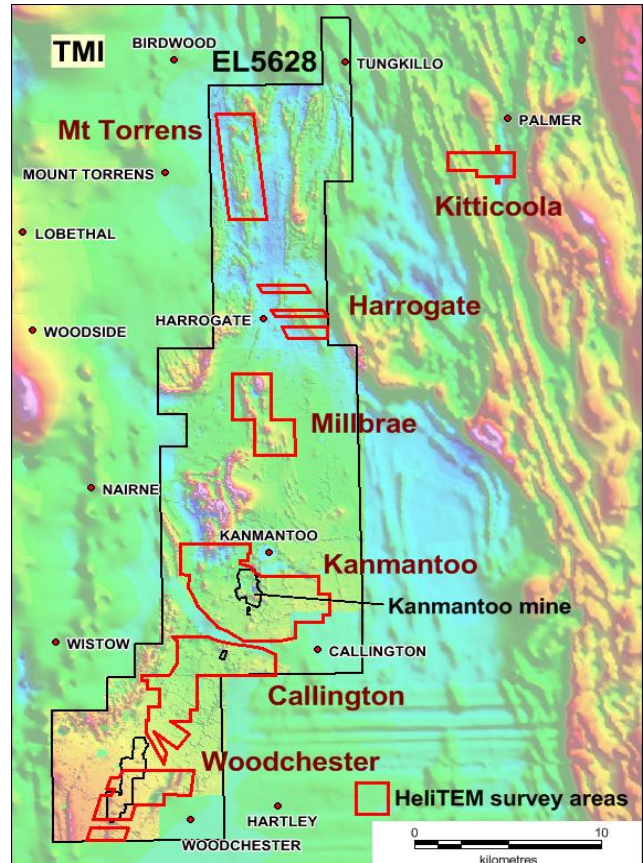
Kanmantoo Copper commenced an exploration programme on its mining lease and broader regional exploration tenement as part of possible future life extensions. The work included a gravity survey, shallow near mine RAB holes, a number of deep RC exploration holes and a regional Heli-TEM survey. This program and related expenditure was placed on hold during the second half of 2015 in order to conserve cash.

**KANMANTOO EXPLORATION LEASE**

A detailed helicopter-borne EM survey (HeliTEM) over an area of 87km<sup>2</sup> of prospective geology for sedimentary-hosted sulphides, including copper, lead, zinc and gold was completed.

This survey took place in late April and early May, covering 520 line kilometres in total. Most areas were flown at 200m EW line spacing, but selected interest areas were flown at a tighter 100m spacing. During the QAQC process, it was evident surficial conductivity issues were minimal and bedrock conductivity contrasts were excellent.

The results are with our consultant geophysicist who will be processing and interpreting the data, identifying anomalies, defining their size, depth and orientation, modelling, and then finally, ranking the anomalies. Hillgrove will report the results once they are available.



In addition to the HeliTEM, Hillgrove undertook a program of reverse circulation (RC) drill holes. Hillgrove reported initial exploration success in one of its first exploration drill holes on the Mining Lease, 200 metres to the north of the current resource profile at its Kanmantoo Copper Mine. The 433 metre deep RC hole returned the following assays at a depth of 300 metres below surface:

- 28 metres @ 0.61% Cu, 0.14g/t Au, and 2.6g/t Ag at a 0.20% Cu cut off – within a broader mineralised zone of:
- 39 metres @ 0.47% Cu, 0.11g/t Au, and 2.1g/t Ag at a 0.1% Cu cut off, from 324m downhole.

Included within the 28 metre intersection are:

- A higher grade zone of 10 metres @ 0.88% Cu, 0.18g/t Au, and 3.2g/t Ag; and
- A peak of 1 metre interval of 2.86% Cu, 0.8g/t Au, and 9.4g/t Ag.

**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.

Parties have and continue to express interest and have initiated due diligence during the year. Hillgrove is continuing to work with these groups, including providing access under confidentiality to the exploration database.

### Capital Management Initiatives

During the financial year, Hillgrove successfully refinanced its debt in May and June 2015, which was completed to align the debt repayments with the current Life of Mine Plan, as well as to advance the cut back of the Giant Pit.

Hillgrove secured debt facility arrangements with its two financiers, Macquarie Bank Limited and Ventures Australia LLC (subsidiary of Freepoint Commodities LLC), with a US\$14 million Pre-export facility, a deferral and extension of the existing price participation obligations, and replacement of the performance bonds. In addition to this, Hillgrove successfully completed a capital raise of approximately \$9.2 million net through a three (3) for eleven (11) Non-Renounceable Rights issue.

### Performance

The guidance Hillgrove provided in February 2015 was updated in the September quarterly, following the updated Life of Mine Plan.

#### Guidance for CY15 versus actual

CY15	Guidance	Actuals Achieved
Ore Mined	2,800 - 3,000kt	3,542kt
Ore Processed	2,300 - 2,600kt	4,104kt
Ore Grade Processed	0.68 - 0.72% Cu	0.52% Cu
Copper Recovery	91.0 - 93.0%	87.8%
Copper contained in concentrates produced	17,500 - 18,500t	17,306t
Gold contained in concentrates produced	5,500 - 6,500oz	6,790oz
C1 Costs	US\$2.00 - \$2.25 per lb	US\$2.11 per lb
Capital Projects (excludes pre-strip)*	\$5.0M - \$6.0M	\$5.7 million

\* In addition to the capital projects, \$18.1 million of pre strip was completed.

### Life of Mine Plan and Outlook for 2016

Hillgrove has continued to optimise the geological model and mine plan and work on initiatives to maximise revenue as well as lower costs compared to the past year. Hillgrove views the next 12 months to be a challenging one with uncertainty regarding the copper price and the overall resources sector but it has implemented initiatives to try to mitigate these potential headwinds in the market. These initiatives include:

- Managing the volatility in copper price and insulating the operating cash flows through an active hedging program with the existing hedge book, as well as being prepared to seize opportunities which may arise during the course of the year;
- Continue the Giant Pit cutback, with more primary ore available as the cutback continues, positioning Hillgrove for stronger production in future years;
- Drive lower mining and processing unit costs through productivity improvements; and
- Undertake minimal sustaining capital expenditure.

On the basis of the above initiatives, the company provides the following guidance for the current Financial Year ending 31 December 2016 (CY16) for the Kanmantoo Copper Mine:

- Total ore mined 2,900kt to 3,100kt
- Total ore processed 3,350kt to 3,550kt

- Copper produced 16,500t to 18,500t copper contained in concentrates
- Gold produced 11,000oz to 13,500oz gold contained in concentrates
- C1 Costs US\$1.75 to US\$2.05 per lb (at a 0.75 exchange rate)
- Capital Projects \$1.0 million to \$1.4 million

Gold production is forecast to be significantly higher this financial year relative to prior years (by approximately 6,000 ounces, or 1,500 tonnes of copper equivalent based on existing spot prices).

In addition to the above forecast capital expenditure, Hillgrove will continue to undertake capital development in pre-strip operations for the Giant Pit (\$20.5 million in CY16). Deferred mining is forecast to be \$10.8 million in CY16.

The 2016 financial year will be one of continued consolidation, with steady production of copper, gold and silver from Kanmantoo. Focus on the Kanmantoo operation and advancing of the Giant Pit cutback will be maintained, giving the Company a solid footing for building production rates and improving cash flow beyond this year. As part of this year's plan, Hillgrove aims to assess the potential for resource expansion with evaluation of targets on the Kanmantoo mining lease and the surrounding regional tenement.

### 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 12 months ended 31 December 2015**

	12 months to 31 Dec 2015	11 months to 31 Dec 2014
	\$'000	\$'000
Revenue	139,501	166,768
Other income	160	439
Expenses	(158,244)	(147,798)
Impairment charges	(112,915)	(13,795)
Interest and finance charges	(2,721)	(3,222)
Rehabilitation and mine closure provision discount unwind	(1,136)	(684)
Profit / (Loss) before income tax	(135,355)	1,708
Income tax benefit	1	2,079
Profit / (Loss) for the year attributable to owners	(127,356)	3,787
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Other financial assets	389	199
Exchange differences on translation of foreign operations	(28)	493
Unrealised gain/(loss) on cash flow hedges taken to equity	19,220	9,552
Income tax relating to components of other comprehensive income	(5,766)	(2,865)
Other comprehensive income for the period (net of income tax)	13,815	7,379
<b>Total comprehensive income for the period</b>	(113,541)	11,166
<b>Total comprehensive income for the period is attributed to:</b>		
Equity holders of Hillgrove Resources Limited	(113,541)	11,166
Non-controlling interests	-	-
Total comprehensive income	(113,541)	11,166



**Preliminary consolidated statement of financial position**  
**As at 31 December 2015**

	12 months to 31 Dec 2015	11 months to 31 Dec 2014
	\$'000	\$'000
<b>Current assets</b>		
Cash and cash equivalents	6,100	8,854
Trade and other receivables	3,434	5,012
Other financial assets	-	229
Inventories	6,904	32,664
Derivative financial instruments	10,212	1,477
<b>Total current assets</b>	<b>26,650</b>	<b>48,236</b>
<b>Non-current assets</b>		
Property, plant and equipment	145,630	211,386
Intangible assets	2	4
Exploration and evaluation expenditure	792	31,330
Deferred tax assets	15,577	13,058
Derivative financial instruments	9,382	-
<b>Total non-current assets</b>	<b>171,383</b>	<b>255,778</b>
<b>Total assets</b>	<b>198,033</b>	<b>304,014</b>
<b>Current liabilities</b>		
Trade and other payables	31,477	29,703
Provisions	2,504	1,316
Borrowings	3,826	18,363
Employee benefits payable	2,360	2,595
Derivative financial instruments	-	1,269
<b>Total current liabilities</b>	<b>40,167</b>	<b>53,246</b>
<b>Non-current liabilities</b>		
Provisions	6,660	8,434
Borrowings	15,116	673
Employee benefits payable	126	126
Derivative financial instruments	-	1,285
<b>Total non-current liabilities</b>	<b>21,902</b>	<b>10,518</b>
<b>Total liabilities</b>	<b>62,069</b>	<b>63,764</b>
<b>Net assets</b>	<b>135,964</b>	<b>240,250</b>
<b>Equity</b>		
Contributed equity	216,272	206,860
Reserves	16,122	2,464
Retained earnings / (accumulated losses)	(96,430)	30,926
<b>Total equity</b>	<b>135,964</b>	<b>240,250</b>

**Preliminary consolidated statement of cash flows**  
**For the 12 months ended 31 December 2015**

	12 months to 31 Dec 2015	11 months to 31 Dec 2014
Note	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	119,379	149,898
Cash payments in the course of operations	(106,720)	(103,230)
<b>Net cash generated by operating activities</b>	2 12,659	46,668
<b>Cash flows from investing activities</b>		
Payments for exploration and evaluation expenditure	(1,042)	(284)
Payments for property, plant and equipment	(21,589)	(29,843)
Proceeds on sale of available for sale financial assets	235	152
Proceeds on disposal of plant and equipment	454	-
<b>Net cash used in investing activities</b>	(21,942)	(29,975)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	10,078	-
Transaction costs for issue of shares	(830)	-
Proceeds from borrowings	18,051	-
Transaction costs of borrowings	(896)	-
Repayment of borrowings	(18,000)	(21,854)
Interest received from investments	144	293
Interest paid on borrowings	(2,018)	(2,730)
<b>Net cash from / (used) in financing activities</b>	6,529	(24,291)
<b>Net decrease in cash and cash equivalents</b>	(2,754)	(7,598)
Cash and cash equivalents at the beginning of financial period	8,854	16,452
<b>Cash and cash equivalents at the end of the financial period</b>	<b>6,100</b>	<b>8,854</b>

**Preliminary consolidated statement of changes in equity  
For the 12 months ended 31 December 2015**

	Contributed equity	Reserves	Retained earnings	Total	Non- controlling interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance 31 January 2014</b>	206,860	(3,320)	24,999	228,539	-	228,539
Restatement due to change in accounting policy	-	(2,140)	2,140	-	-	-
<b>Restated total equity 1 February 2014</b>	206,860	(5,460)	27,139	228,539	-	228,539
Profit / (Loss)	-	-	3,787	3,787	-	3,787
<b>Transactions with owners:</b>						
Other comprehensive income	-	7,379	-	7,379	-	7,379
Share based compensation	-	545	-	545	-	545
<b>Balance 31 December 2014</b>	206,860	2,464	30,926	240,250	-	240,250
Profit / (Loss)	-	-	(127,356)	(127,356)	-	(127,356)
<b>Transactions with owners:</b>						
Contributions of equity	9,412	-	-	9,412	-	9,412
Other comprehensive income	-	13,815	-	13,816	-	13,816
Share based compensation	-	(157)	-	(157)	-	(157)
<b>Balance 31 December 2015</b>	<b>216,272</b>	<b>16,122</b>	<b>(96,430)</b>	<b>135,964</b>	-	<b>135,964</b>

**Notes to the preliminary consolidated financial statements  
For the 12 months ended 31 December 2015**

**1. Reconciliation of income tax expense**

	<b>Consolidated</b>	
	<b>12 months to 31 Dec 2015</b>	<b>11 months to 31 Dec 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(loss) from continuing operations before income tax expense/(benefit)	(135,356)	1,708
Tax at the Australian tax rate of 30%	(40,607)	512
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	(68)	164
- Non-deductible expenses	207	222
- Losses from non-resident foreign operations	9,247	223
- Accounting loss on sale of available for sale assets	114	3
- Tax losses not recognised	25,365	-
- Research and development concession	(1,542)	(867)
- Tax loss on sale of available for sale assets	(114)	(35)
- Adjustment for income tax of prior periods	(601)	(2,301)
<b>Income tax (benefit)/expense</b>	<b>(7,999)</b>	<b>(2,079)</b>

**Notes to the preliminary consolidated financial statements  
For the 12 months ended 31 December 2015 continued**

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

	<b>Consolidated</b>	
	<b>12 months to 31 Dec 2015</b>	<b>11 months to 31 Dec 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Operating profit (loss) after income tax</b>	(127,356)	3,787
<b>Add / (less) items classified as investing/financing activities</b>		
Net loss on sale of investments	381	9
Net loss on sale of fixed assets	111	15
Net Interest expense	2,560	2,437
<b>Add/(less) non-cash items</b>		
Depreciation and amortization	36,347	39,263
Impairment asset write downs	101,118	-
Inventory NRV write downs	11,797	-
Employee share options	(415)	545
Unrealised FX losses	1,162	-
Unrealised (gains)/losses on financial derivatives	(1,113)	1,374
Discount on unwind of rehabilitation provision	1,136	683
Allocation of deferred mining costs to cost of goods sold	2,937	3,509
<b>Net cash generated by operating activities before change in assets and liabilities</b>	<b>28,665</b>	<b>51,622</b>
<b>Changes in operating assets and liabilities</b>		
Increase in receivables, prepayments and inventories	(7,946)	(9,998)
Increase in trade creditors and accruals	1,660	7,101
Increase in net deferred tax assets	(7,999)	(2,078)
Increase / (decrease) in provisions	(1,721)	21
<b>Net cash generated by operating activities</b>	<b>12,659</b>	<b>46,668</b>

**Notes to the preliminary consolidated financial statements  
For the 12 months ended 31 December 2015 continued**

**3. Discontinued operations**

There were no operations that were discontinued during the year.

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

There were no events to disclose subsequent to the balance sheet date.

## 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)	\$0.72	\$1.63 (after 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 2015 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 2015 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 2015	Equity Holding 31 Dec 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 Pte Ltd	Indonesia	Ordinary	80	80
PT Fathi Resources Pte Ltd	Indonesia	Ordinary	80	80
PT Hillgrove Indonesia Pte Ltd	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.