HILLGROVE
RESOURCES

ANNUAL REPORT

for year ended 31 December **2015**

Hillgrove Resources Limited

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CORPORATE AND REGISTERED OFFICE

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Australia

Barclays Bank PLC
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Sydney N.S.W. 2000
Australia

AUDITORS

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WEB SITE

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GENERAL ENQUIRIES

Info@hillgroveresources.com.au

CHAIRMAN'S STATEMENT

A significant deterioration in the copper price and underperformance of the mining operation have resulted in Hillgrove moving to reduce operating costs further in 2016, as highlighted in the Events Subsequent to Reporting Date (page 25 and Note 32 on page 74) and the Going Concern Note (Note 1 (A) (i) on page 50).

During 2015 the Board has implemented the following actions:

- The previous debt was refinanced and the new debt was sculptured to reflect the revenue profile of the significant Giant pit cutback.
- The refinancing required a capital raising in which all Directors participated.
- The CEO & Managing Director was replaced on a lower salary.
- The Head Office in Sydney was closed and employees made redundant.
- The Head Office functions were relocated to Adelaide with an approximate 50% staff reduction.
- Support services were transferred to South Australia to capture the benefit of much lower service charges.
- The salary freezes in place since 2013 have continued.
- Kanmantoo costs were targeted and were substantially reduced.
- In December the CEO & Managing Director took a further 15% temporary salary reduction, placing him on a salary below what he was recruited for as General Manager. At the same time the Board took a 20% temporary fee reduction.
- The Company reach an agreement with the South Australian Government, which included financial assistance to fund a water pipeline to double the potential available water.
- The Company added to the hedge book during the year at an opportune occasion.

The Hon. Dean Craig Brown, AO
Independent Non-Executive Chairman

- The size of the Board was reduced by one person to reduce costs.
- The exploration program was suspended for the immediate term.
- The Indonesian assets were placed on care and maintenance until they are sold.

CHAIRMAN'S STATEMENT

Considerable effort has been devoted by the Board, management and employees towards ensuring the Company survives this challenging period and putting the foundations in place to thrive and prosper when the copper price improves. The large number of Board meetings reflects this commitment to ensure strategic leadership and direction through this challenging period.

Management has focussed on core operational activities and to build the unique operational capability of the Kanmantoo Team. At the heart of the operation is a fundamental commitment to engage with our surrounding communities through the hard working Kanmantoo and Callington Community Consultative Committee. This has led to many gains, including:

- A local employment policy, which has resulted in Hillgrove being the largest employer in the Mount Barker Council district.
- Significant progress to measure, report, enhance and mitigate offsite impacts such as blasting and dust.
- Improving operational capability through employee-driven idea generation, which has meant lower costs and increased productivity.
- Progressive rehabilitation using native plants all sourced locally and grown in an extremely successful seed production area on the mining lease.
- Open and transparent communication with local communities, with a focus on striving to achieve the high standards we have set and that the communities expect from us.

Whilst the initial increase in revenue associated with accessing the heart of the Kanmantoo orebody for the third time (Main Pit in the 1970's, Kavanagh in 2013 and now Giant) will be utilised to reduce debt, there remains significant value and potential to return value to shareholders. The Board has used consensus pricing to arrive at our $145.6M carrying value reflected in the balance sheet, and has added transparency by showing the pricing used and the sensitivity to price variation. The value is impacted by copper price with a five percent movement equivalent to approximately $30M.

During the past year Mr Doug Snedden and Mr Greg Hall retired from the Board. Doug was a very effective Chairman of the Audit and Risk Committee and Greg, as Managing Director, guided the Company through the ramp-up of production from the Kavanagh Pit. I would like to thank them both for their considerable contribution.

Whilst it has not yet translated to shareholder returns, the commitment and dedication of the Hillgrove employees has been second to none throughout the year. From the Sydney head office employees who worked to the end transitioning their roles to Adelaide in a very professional manner, the commercial team transforming the company accounting systems, the processing team successfully introducing oxide ore treatment, the mining team continuing to improve and develop their capacity, and the technical and administrative teams constantly optimising and enhancing value.

I thank Steve McClare for the leadership he has provided in tough times. I also acknowledge the great partnerships and support the Company has with its key contractors, who are an integral part of the continued successful operation of the Company. I thank the whole Hillgrove team on their commitment, professional approach, and dedication.

The strategic focus of the Company is on the creation of value for shareholders via further improvements in operational performance at the Kanmantoo Copper Mine, growing the Kanmantoo regional resource through exploration, completing the major cutback for the Giant pit, and ensuring our capital structure aligns with the life of mine plan.

The Board appreciates the ongoing support of its many shareholders and hopes you can join us at our Annual General Meeting in Adelaide in May to hear further about our drive to return value on your investment in Hillgrove Resources.

MANAGING DIRECTOR'S REPORT

Calendar year 2015 was particularly challenging for Hillgrove Resources, our industry, our employees and our shareholders. The copper price fell 26%, the mined areas and historic stockpiles significantly underperformed and capital markets significantly tightened. However this was countered by, Hillgrove's hedging from the previous year, additional hedging placed in May 2015 (14,000 tonnes at $7,797/tonne), re-financing, continued cost and productivity improvements at Kanmantoo and reduction and relocation of corporate activities.

Our operating revenue was $139.5M, at an average realised price of $3.57/lb from 17,306t of copper in concentrate. The underlying EBITDA was $18.8M and an underlying net loss of $14.5M. The net loss after tax was $127.4M. This was largely due to the inclusion of impairment charges and provisions against assets of $112.9M and the resulting impact of the lower commodity price environment.

The Board has made the decision to provide impairment provisions against the following:

- The full $29.9M carrying value of the Indonesian exploration assets,
- The full $1.4M of exploration expenditure for Kitticoola and Wheal Ellen, and
- A reduction of $69.8M against Kanmantoo.

This has resulted in a carrying value of $145.6M for the Kanmantoo Operation. The assumptions and details utilised to calculate the value are outlined within this report. The disparity between the current market capitalisation of Hillgrove and the carrying value is attributable

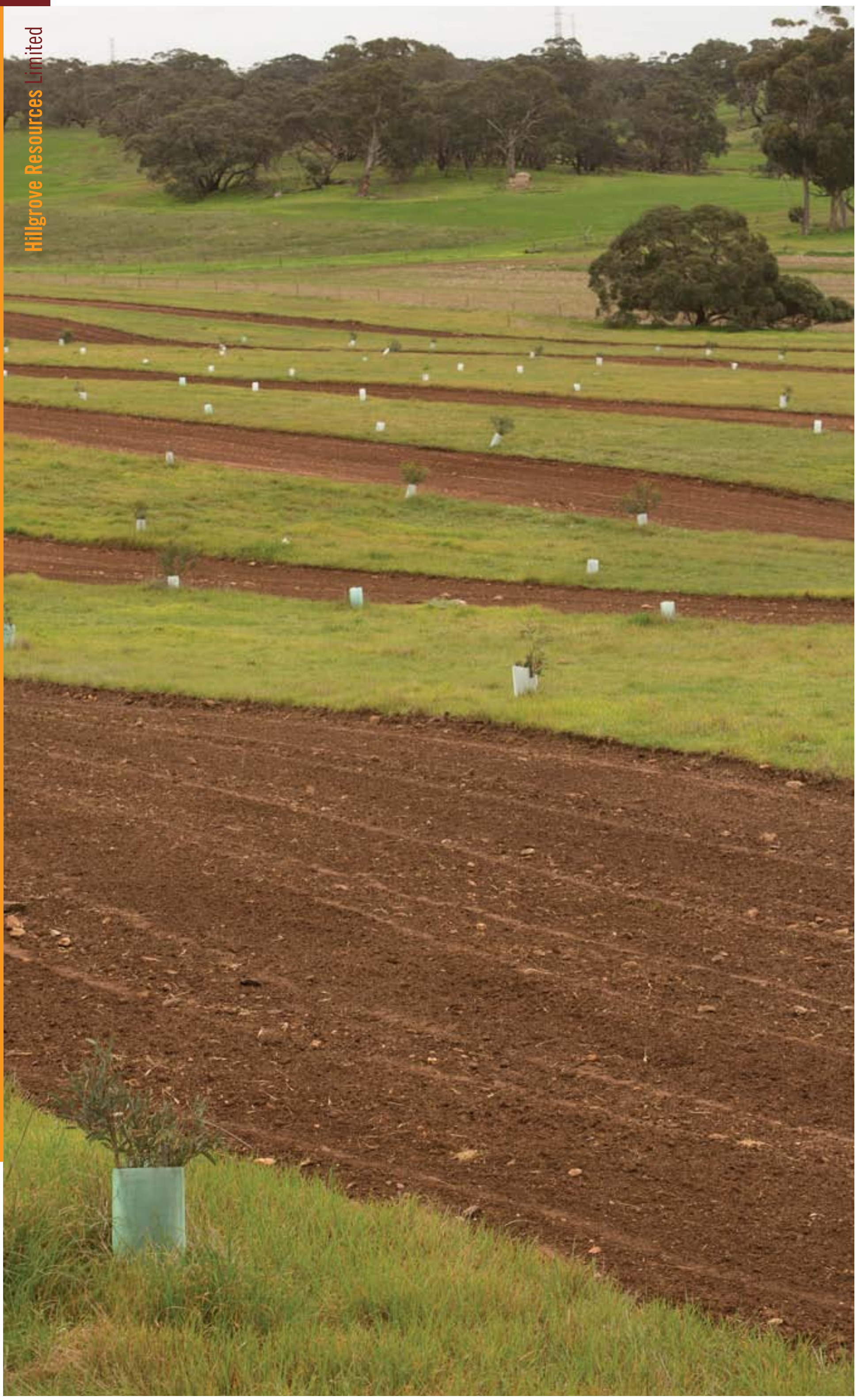
Mr Steven McClare - Chief Executive Officer and Managing Director

to the free cash generation post debt repayments at consensus pricing, which anticipate higher prices in coming years. Importantly it should be noted that a +/- 5% movement in the Australian dollar copper price alters the carrying value of the Kanmantoo operation by +/- $30M.

The Kanmantoo operation has made considerable progress on the cutback of Giant Pit, which has required significant cash investment.

Community, Safety, Environment and Stakeholders

The safety of our people is of the utmost importance and thanks to the intensive focus by our employees the total recordable injury frequency rate fell by 43% over the 12 months to 31 December 2015. In addition there has been considerable progress made on the integrated risk management system and consolidating all of the Group's risks into the one methodology called the Kan-Do system.



The local Kanmantoo/Callington community have been pivotal during the year at providing input into areas for improvement, measuring performance, conducting inspections and providing feedback. There have been many hundreds of hours of time and effort by the KCCCC members in striving to achieve the best mutually agreeable outcome.

The first large scale progressive rehabilitation of active mining areas has commenced on the northern slopes of the tailings storage facility at Kanmantoo. The area completed in the year was 12 hectares of Significant Environment Offset and 10 hectares of Integrated Waste Landform (tails dam and waste dump integration) of the active mining areas as required under the current PEPR. The plants and grasses were all sourced from the site during the time before mining commenced and are cultivated in the onsite seed production areas shown on the back page of this report.

Hillgrove has entered into a formal partnership with the South Australian Government. This partnership has included the successful completion of a six kilometre water pipeline from the Murray Bridge to Onkaparinga Pipeline to the onsite storage facility at Kanmantoo. This pipeline is critical to both warranting continuous supply to the current operations and opening up opportunities for future use post mining.

Operations

Hillgrove undertook a number of operational initiatives to ensure the Company remained on track to complete the Giant cutback, these included:

Optimising the processing plant run rate to an instantaneous rate of five million tonne per annum. Whilst the material is harder at depth, the estimate is that this will lead to a rate in excess of 3.3 million tonnes on a continuous basis.

The oxide treatment facility (CPS) was constructed and successfully ran throughout 2015. There was a considerable amount of effort put in place by the processing team and whilst the grade of the historic stockpiles was lower than planned, the facility was built and operated achieving every performance criteria.

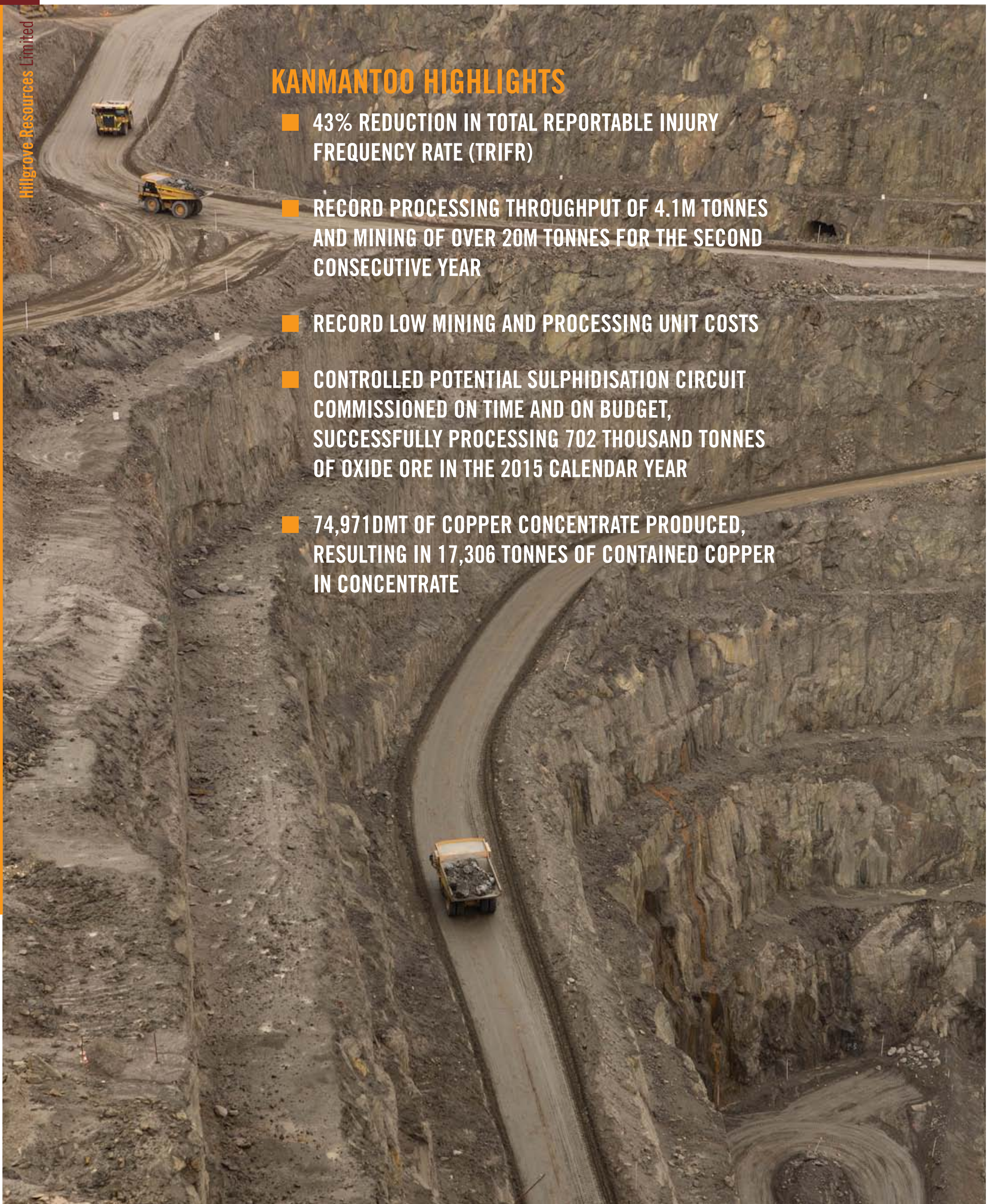
The mining team put in considerable effort to improve geological modelling, reduce dilution, remain productive in small footprint areas and incorporate progressive rehabilitation into the active mining cycle.

The administrative and commercial team successfully transitioned all infrastructure and commercial activities to South Australia without a single interruption or loss of quality of service.

KEY PROJECT OVERVIEWS

KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining production was over 20 million tonnes for the second consecutive year and record processing throughput, combined with improved operating efficiencies, resulted in the lowest mining and processing unit costs for the project to date.



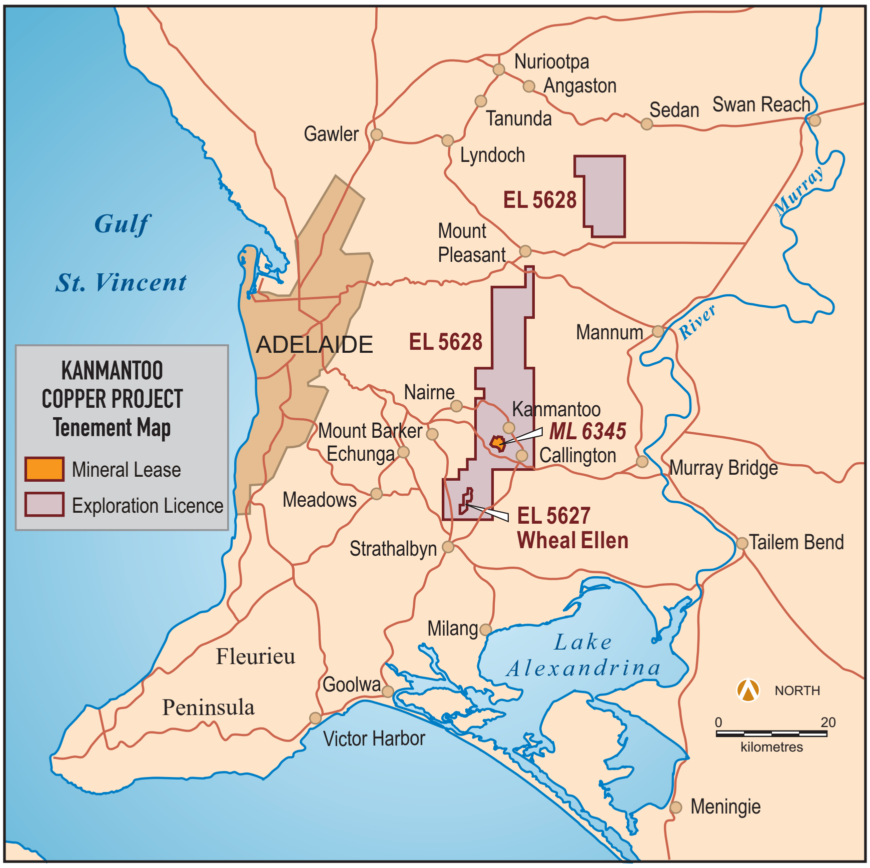
KANMANTOO HIGHLIGHTS

- 43% REDUCTION IN TOTAL REPORTABLE INJURY FREQUENCY RATE (TRIFR)
- RECORD PROCESSING THROUGHPUT OF 4.1M TONNES AND MINING OF OVER 20M TONNES FOR THE SECOND CONSECUTIVE YEAR
- RECORD LOW MINING AND PROCESSING UNIT COSTS
- CONTROLLED POTENTIAL SULPHIDISATION CIRCUIT COMMISSIONED ON TIME AND ON BUDGET, SUCCESSFULLY PROCESSING 702 THOUSAND TONNES OF OXIDE ORE IN THE 2015 CALENDAR YEAR
- 74,971DMT OF COPPER CONCENTRATE PRODUCED, RESULTING IN 17,306 TONNES OF CONTAINED COPPER IN CONCENTRATE

KANMANTOO COPPER MINE, SOUTH AUSTRALIA *(continued)*

Hillgrove's flagship development is the open pit Kanmantoo Copper Mine in South Australia, located 55 kilometres from Adelaide and close to road, rail, power and the Port of Adelaide. The exploration and mining lease is dotted with historical copper and base metal operations and includes the former Kanmantoo Mine; a medium sized copper operation that operated from 1971 to 1976. Little of that original pit can be seen today as mining has progressed rapidly since the project received the green light in October 2010 and production started in late 2011.

The location of the Kanmantoo Copper Mine simplifies the provision of infrastructure, with a main highway passing close to the project and being approximately 90km by road to the Port of Adelaide, permitting the trucking of copper concentrate. The mine site is connected to the electricity grid and has mains water available, although most of the process water is supplied by the District Council of Mount Barker's treated waste water program.



This joint initiative enables waste water to be reused and the surplus made available for the local community and agriculture. In partnership with the South Australian Government, additional water capacity was installed this year from the Murray River which provides 100% redundancy to the Mount Barker supply if required and enhances Hillgrove's active dust suppression programme.

KEY PROJECT OVERVIEWS

KANMANTOO COPPER MINE, SOUTH AUSTRALIA *(continued)*

Approximately 200 Hillgrove personnel currently staff the mine. Due to Kanmantoo's location close to the outer-Adelaide regional centres of Mt Barker and Murray Bridge there is no requirement to provide fly in/fly out facilities. The resulting mix of staff comprises approximately 20% from the local area, 60% from the nearby regional area and the remainder from greater Adelaide.

Along with Hillgrove's direct employment, specialist contract services are being undertaken by 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), who have a combined permanent workforce of some 55 employees on site. The combination of specialised contract skills and experienced Hillgrove employees has allowed a high level of quality control in the critical areas of drilling, blasting, productivity and dilution control during mining operations.

The completion of two satellite pits, Emily Star and Nugent, has enabled backfilling to commence, providing both a short haul which reduces haulage costs, as well as meeting our environmental closure obligations. Additionally, approval of the mining extension plan in CY14 allowed the footprint of the final integrated waste landform to take shape, 25ha of which was rehabilitated ahead of the winter period in order to promote seed growth. Rehabilitation works continue as part of the mining process, which is the most cost effective way to meet our environmental obligations and allows us to progressively manage our environmental liability.

The processing plant continued to outperform design capacity with over 4.1M tonnes crushed and milled in CY15, 25% higher than the previous year. The Controlled Potential Sulphidisation (CPS) circuit in the process plant was commissioned on time and on budget, enabling copper recovery from 702k tonnes of oxide ores in CY15 which had been stockpiled since the commencement of the project.

Mining costs were $11.27/BCM, and processing costs $5.99/tonne milled, both of which were record lows as a result of continued operating efficiencies in both work areas. C1 costs of US$2.11/lb was within guidance of US$2.00/lb to US$2.25/lb.

Kanmantoo management continued its engagement during the year with the local Kanmantoo Callington Community Consultative Committee (KCCCC) in regards to improving key community concerns and beginning to plan how the mine can have a lasting positive effect on the local area, through shared infrastructure and enhancing the local environment by linking onsite rehabilitation works with offsite vegetation.

Along with direct employment opportunities and the significant use of local suppliers and businesses, Hillgrove has supported local township community events and sporting groups, and engaged with local Councils on support and provision of services. The Company also supports the awareness of and education in the mining industry through its support of mining training, induction programs and scholarships for study in the resources industry.

The potential for further ore extensions and discoveries and growth of the global copper/gold Resource at Kanmantoo is high. The Project's regional exploration prospects range from grass roots to those with significant intercepts and historic mining. Exploration drilling during CY15 intersected copper sulphide mineralisation through the southern extent of a geophysical anomaly identified earlier in the year, with a 433 metre deep RC hole returning the following assays at a depth of 300 metres below surface of 28 metres @ 0.61% Cu, 0.14g/t Au, and 2.6g/t Ag at a 0.20% Cu cut off.

Further drilling could provide additions to the Mineral Resources at depth and along strike of the open pit, and if converted to Ore Reserves could result in the expansion of the open pit, increases in the mining rate and extension of mine life.

INDONESIAN PROJECTS

In 2013 the Board decided to wind back expenditure at Hillgrove's Indonesian assets at Bird's Head in West Papua and Sumba Island in order to preserve cash. Since then Hillgrove has retained exploration care and maintenance teams at the project offices.

The Indonesian assets still have the potential to realise value and the Company has continued to pursue options to realise this value with the assistance from our Jakarta based joint venture partners. A major Indonesian company is currently conducting due diligence on the Sumba project.

SUMBA PROJECT

Hillgrove is a direct 80% shareholder in PT Fathi Resources Pte Ltd held IUP 322, covering nearly 490km^2 or some 5% of the island of Sumba, up until November 2015, when the permit expired and Hillgrove has lodged an application to renew the IUP as a Produksi licence.

Hillgrove is responsible for the sole funding and management of all exploration and development activities, up to a decision to mine.

Sumba is something of a geological oddity, with its highly prospective basement island arc volcanic lithology being approximately 90 million years old: significantly older than similar island arc settings such as Newmont's Batu Hijau porphyry copper-gold mine on the nearby island of Sumbawa.

The island is covered in geologically recent marine sediments that effectively mask and preserve highly gold-prospective underlying volcanic units. Uplift of the island and subsequent erosion of this sedimentary cover has created windows through the sediment to the underlying volcanic lithology, where PT Fathi Resources had focused its exploration efforts.

BIRD'S HEAD PROJECT

Hillgrove is a direct 80% shareholder in PT Akram Resources Pte Ltd which holds the IUP Eksplorasi 40/2010 (Izin Usaha Pertambangan) covering 220.0km^2 granted in March 2010 for seven years.

Hillgrove is responsible for the sole funding and management of all exploration and development activities up to a decision to mine.

The Bird's Head licence is located in north-western West Papua, Indonesia. The regional centre of Sorong, located approximately 130km to the southwest of the licence where a PT Akram office has been established, is supported by regular commercial air and sea services. The licence area is sparsely populated and covers areas ranging from the coast through to moderate elevations of around 2,500m within 40km of the coast.

DIRECTORS' REPORT

The Directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Hillgrove Resources Limited (Hillgrove or the Company) and the entities it controlled during the 12 months ended 31 December 2015.

During 2014 the Group changed its financial year end from 31 January to 31 December with Australian Securities & Investments Commission (ASIC) approval. As a result the current reporting period (CY15) is for 12 months from 1 January 2015 to 31 December 2015 and the comparative period is for 11 months from 1 February 2014 to 31 December 2014.

DIRECTORS AND OFFICERS

The Directors and Officers of the Company at any time during the 12 month period or since the end of 31 December 2015 are:

Name/Qualifications	Experience and special responsibilities
The Hon. Dean Craig Brown, AO	**Independent Non-Executive Chairman / Chairman Nomination Committee**
Qualifications	*B.Rur.Sc., Grad.Dip. Bus.Admin., M.Rur.Sc., D.Sc.(Hon), FAICD*
Experience 	Former Premier and Minister of the South Australian Government and Member of South Australian Parliament from 1973-1985 and 1992-2006. Dean was also Deputy Premier and Leader of the Opposition. He was a Director of AACM International Pty Ltd (1986-92), a Senior Agricultural Scientist, the Premier's Special Advisor on Drought (2007-11), a Director of the National Youth Mental Health Advisory Board (Headspace) (2006-09) and Chairman of InterMet Resources Limited (2008-13). Dean undertakes corporate advisory consulting to a variety of companies and is also a Director of Scantech Limited (2007-), Chairman of the Playford Memorial Trust (member since 2008 and Chairman since 2011), a Director of Foodbank SA (2006-), a Director of Mission Australia (2012-), Chairman of Skills IQ and a member of several advisory Boards. Dean Chairs the Nomination and the Remuneration Committees and is a member of the Audit and Risk Committee. Appointed 1 September 2006
Mr John Edwin Gooding	**Independent Non-Executive Director**
Qualifications	*Assoc Dip. Mining Eng., FIE Aust., F. Aus. IMM, MAICD*
Experience 	John is a Mining Engineer with over 40 years' experience in the resources industry. He has held executive management positions with CRA, Normandy Mining, MIM, Xstrata (CEO Xstrata Copper Australia), Ok Tedi Mining and Roche Mining. John has extensive experience in gold and base metal mining (both open-cut and underground) through the management and operation of mines in Australia and internationally. He has been a Board member of the PNG Chamber of Mines and Petroleum since 2009 and has previously held directorships in a number of companies within the resources industry. John is Managing Director and CEO at Highlands Pacific Limited (2007-). John is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 31 May 2007
Mr Maurice William Loomes	**Non-Executive Director**
Qualifications	*B.Comm (Econ Hons), F.Fin.*
Experience 	Maurice joined the Hillgrove Board on 25 November 2013. Maurice has a Bachelor of Commerce (Econ Hons) and over 40 years' experience in investment analysis and strategy gained across many industries, including roles at Bain and Company, Industrial Equity Limited, Westmex Limited, Guinness Peat Group PLC and many others. He has also held numerous directorships of public companies including CIC Australia Limited (1994-2013), Guinness Peat Group PLC (1996-2000) and Tower Limited (2003-2005). Maurice is currently a Non-Executive Director of Ariadne Australia Limited (2004-) (a significant shareholder of Hillgrove Resources) and Calliden Group Ltd (2000-). Maurice is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 25 November 2013

DIRECTORS AND OFFICERS *(continued)*

Name/Qualifications	Experience and special responsibilities
Mr Philip Baker	**Independent Non-Executive Director**
Qualifications	*CPA, MAICD, BBus, PGDipBA*
Experience 	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 was then CFO and Company Secretary at Peplin Limited and later QMAG Limited before joining Lihir Gold Limited in 2007 as CFO, serving as CEO for three months in 2010 before the takeover by Newcrest Ltd. After a period consulting to the resources industry, Phil joined Rio Tinto in 2012 as CFO of Pacific Aluminium to help prepare it for divestment, leaving in late 2013 when it was reintegrated into Rio Tinto Alcan. Phil is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 29 October 2014
Mr Steven McClare	**Chief Executive Officer and Managing Director**
Qualifications	*BEng (Mining), M.Aus.IMM*
Experience 	Steve joined Hillgrove in September 2012 as the General Manager Operations at the Kanmantoo Copper Mine and in May 2015 he was promoted to Chief Executive Officer and Managing Director. Previously the Deputy General Manager, then Head of Mining Operations for Newcrest Mining's Cadia Valley Operations, Steve has spent a significant portion of his career constructing, ramping up and optimising mining operations, including Telfer, Cadia Hill, Ridgeway Deeps and Cadia East for Newcrest, and Callie for Newmont. With a background that includes management of Normandy's White Devil Mine, and also various roles within Mount Isa Mines and a work/study Mining Engineering Cadetship with Western Collieries when he joined the industry in 1989. Steve boasts significant experience within industry ranging from underground operations to 150ktpa to 26mtpa, to open pit operations of 2mtpa to 24mtpa Steve is a member of the Treasury Committee. Appointed 27 May 2015
Mr Paul Kiley	**Chief Financial Officer & Company Secretary**
Qualifications	*B.Ec, CPA*
Experience 	Paul joined Hillgrove in June 2015 on a contract basis and was appointed to the role as an employee on 1 December 2015. Paul has over thirty years of experience in the mining, oil and gas industries. He spent 13 years with Newmont (and previously Normandy) in a number of executive roles including Director for Corporate Development for Newmont's Asia Pacific region and the Group Risk Manager. He also spent six years in senior roles with Occidental Oil & Gas, working in both Australia and the United States of America. Paul is also an independent non-executive director of SIPA Resources Limited. Paul is a member of the Treasury Committee. Appointed 12 June 2015.

DIRECTORS AND OFFICERS *(continued)*

Retired Directors and Officers

Name/Qualifications	Experience and special responsibilities
Mr Douglas Norman Snedden	**Independent Non-Executive Director / Chairman Audit and Risk and Treasury Committees**
Qualifications	*B. Economics and Accounting*
Experience 	Doug has more than 30 years' experience in finance, audit, strategic management and outsourcing, largely gained through a distinguished career at Accenture (formerly Andersen Consulting). He has experience working in Australia, as well as the United Kingdom, South Africa, USA and the Asia Pacific region; providing management and financial advice to some of Australia's biggest companies before retiring from the position of Managing Director of Accenture's Australian business in June 2008. Doug has been a Director of a number of organisations since 1996 and currently holds directorships at Transfield Services Limited (2009-), UXC Limited (2012-), Sirca Technology Pty Ltd (2012-), the Black Dog Institute (2001-), St James Ethics Centre (2007-) and is Chairman of Odyssey House (NSW) (2012-) and Chris O'Brien Lifehouse (2013-). Doug was Chairman of the Audit and Risk and Treasury Committees, and was a member of the Nomination and Remuneration Committees. Resigned 30 May 2015.
Mr Gregory Hall	**Chief Executive Officer and Managing Director**
Qualifications	*B.Eng, M AusIMM and MAICD*
Experience 	Greg joined Hillgrove in February 2013 bringing three decades of experience in the resources industry. Having trained as a Mining Engineer, he worked in senior mine operational management and resource marketing roles before joining Toro Energy Limited as Managing Director upon its start up in 2006. Prior to this he was Director of Sales with Rio Tinto's Bauxite and Alumina division. Greg has also held a variety of senior technical and operational management roles at WMC Resources Limited at its nickel operations and the Olympic Dam project, and with ERA Ltd at their Ranger and Jabiluka operations, and later as Marketing Manager (North America) responsible for uranium sales. Greg is a Non-Executive Director of Toro Energy Limited (2006-). Greg was a member of the Treasury Committee. Resigned 26 May 2015
Mrs Shanthi Smith	**Company Secretary / Group Finance Manager**
Qualifications	*B.Com, CPA*
Experience 	Shanthi was the Company Secretary of Hillgrove Resources Limited. She has been with the Company since 2010 in the role of Group Finance Manager and has been extensively involved in the financial management of the construction, financing, and operations of the Company during this time. Shanthi started her career in Big 4 chartered accountancy before moving into the commercial arena where she has over 18 years' experience across a diverse range of roles and industries. She has held various senior management positions in finance, commercial and planning roles, most recently at Caltex Australia and the London Organising Committee of the 2012 Olympic Games. Shanthi was a member of the Treasury Committee. Resigned 31 August 2015

DIRECTORS AND OFFICERS *(continued)*

Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the 12 month period are:

Meetings Held	Board		Remuneration Committee		Audit Committee		Nomination Committee		Treasury Committee	
Director	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*
Hon. D C Brown, AO	22	22	4	4	2	2	1	1	-	-
Mr J E Gooding	22	21	4	4	2	1	1	1	-	-
Mr M W Loomes	22	20	4	4	2	2	1	1	-	-
Mr P Baker	22	22	2	2	2	2	1	1	2	2
Mr S P McClare	10	10	2	2	1	1	-	-	2	2
Mr D N Snedden	13	12	2	2	1	1	-	-	1	1
Mr G C Hall	12	12	2	2	1	1	1	1	1	1

A – Number of meetings held during the Directors time in office
B – Number of meetings attended

On 30 July 2015 the Board decided all four non-executive Directors (NED's) would become members of the Nomination, Remuneration and Audit and Risk Committees.

As outlined in the Operating and Financial Review section below, the 2015 financial year required the close monitoring of the refinancing and the operations and many decisions to be approved which required the regular meeting of the Board to monitor progress and make the required changes in a timely manner. This resulted in a high number of Board meetings.

The Treasury Committee members include Mr P Baker, Mr S McClare, Mr P Kiley and Mr J Sutanto.

PRINCIPAL ACTIVITIES

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.

The Kanmantoo Copper Mine is located some 55 kilometres from Adelaide in South Australia. Kanmantoo is an open-cut mine with a 2013 declared Mineral Resource of 31.3M tonnes (4.02Mt Measured, 22.27Mt Indicated, 5.00Mt Inferred) grading 0.78% copper and 0.20g/t gold. It has ramped up since construction was completed at the end of 2011 to an ore throughput of up to 3.6M tonnes p.a., to produce up to 90,000 dry metric tonnes of copper concentrate, containing more than 20,000 tonnes copper and associated gold and silver per annum over the targeted 10 year mine life.

Production of concentrate from the Kanmantoo Copper Mine has been underway since November 2011, with sales of copper concentrate to Freepoint Commodities LLC under a 100% copper concentrate off take agreement.

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.

REVIEW OF CONSOLIDATED FINANCIAL RESULTS *(continued)*

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 $53.7 million in 2014 to $18.8 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
TOTAL REVENUE	**139.5**	**166.8**	**(27.3)**
Cash costs of production			
Mining	**(78.9)**	(81.8)	2.9
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
Other direct costs	**(7.9)**	(8.5)	0.6
Inventory movements	**(9.6)**	19.4	(29.0)
Royalties	**(1.6)**	(2.0)	0.4
Corporate costs	**(4.3)**	(4.9)	0.6
Gain/(Loss) on disposal of assets	**(0.5)**	-	(0.5)
Other income	**0.2**	0.4	(0.2)
Net foreign exchange gain/(loss) realised	**(1.5)**	(0.9)	(0.6)
TOTAL CASH COSTS OF PRODUCTION	**(120.7)**	**(113.1)**	**(7.6)**
UNDERLYING EBITDA	**18.8**	**53.7**	**(34.9)**
Depreciation and amortisation	**(36.4)**	(35.9)	(0.5)
Net foreign exchange gain/(loss) unrealised	**(1.0)**	-	(1.0)
UNDERLYING EBIT	**(18.6)**	**17.8**	**36.4**
Net interest and financing charges	**(3.9)**	(3.9)	-
Income tax (expense)/benefit	**8.0**	2.1	5.9
UNDERLYING NPAT	**(14.5)**	**16.0**	**(30.5)**
Non-underlying items, net of tax	**(112.9)**	(12.2)	(100.7)
Reported net profit / (loss) after tax	**(127.4)**	**3.8**	**(131.2)**
Non-underlying Items			
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)
Total Non-underlying Items	**(112.9)**	**(12.2)**	**(100.7)**

REVIEW OF CONSOLIDATED FINANCIAL RESULTS *(continued)*

- 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
Cash and cash equivalents at the end of the year	**6.1**	**8.9**	**(2.8)**

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)
Net cash inflows from operating activities	**12.7**	**46.7**	**(34.0)**

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
Net cash inflows from investing activities	**(21.9)**	**(30.0)**	**8.1**

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.

REVIEW OF CONSOLIDATED FINANCIAL RESULTS *(continued)*

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
Net cash inflows / (outflows) from financing activities	**6.5**	**(24.3)**	**30.8**

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

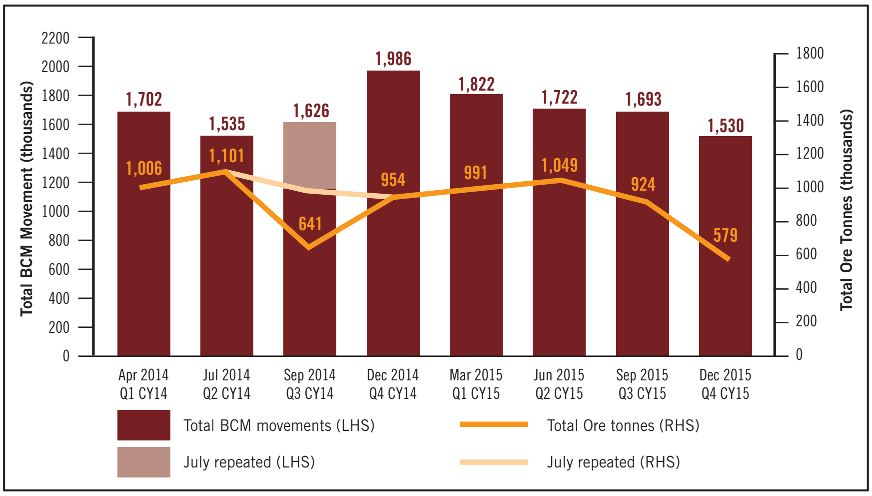
Contributed equity increased by $9.4 million as a result of the rights issue of 40,310,719 shares at 25 cents per share less transaction costs in June 2015.

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 Freepoint 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.*

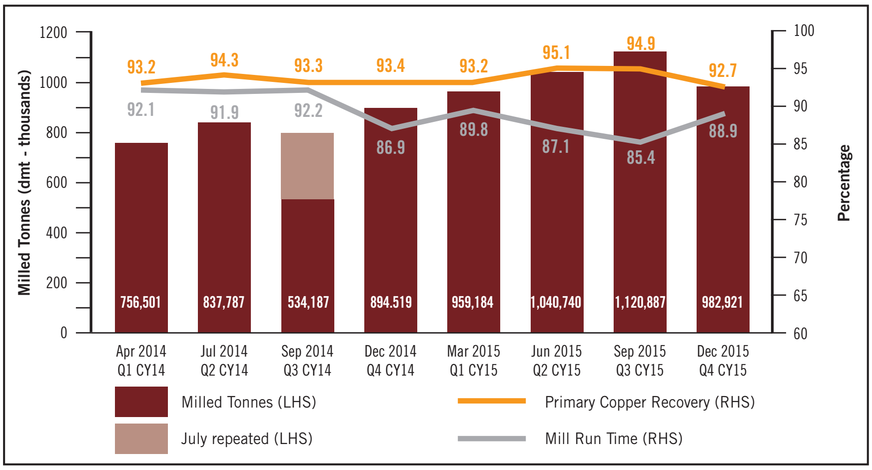
Mining unit costs reduced from $12.50/BCM in CY14 to $11.27/BCM in CY15, with production steady. The declining BCM movements and ore mined in recent quarters are a result of accelerating access to the ore in Giant, in preference to highly productive flat bench (top down) mining which would lead to irregular copper delivery. As a result of this, it is expected to increase the ore mined in CY16 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 200 staff, 80% of whom live in the local and Adelaide Hills regions, and has continued to operate effectively and safely.

During 2015, Hillgrove achieved production of 74,971 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.

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 COPPER MINE PRODUCTION STATISTICS

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

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

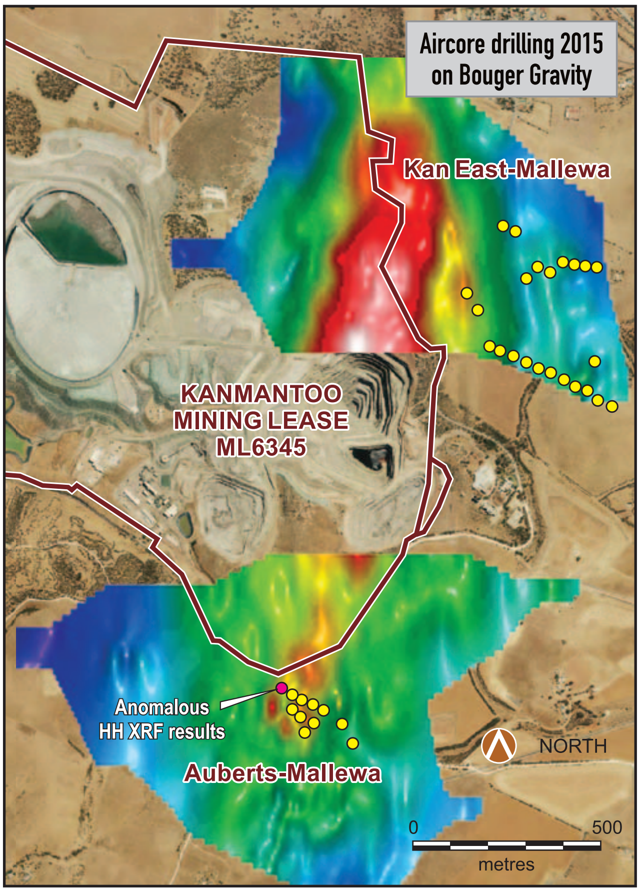
REVIEW OF OPERATIONS FOR THE YEAR AND OUTLOOK *(continued)*

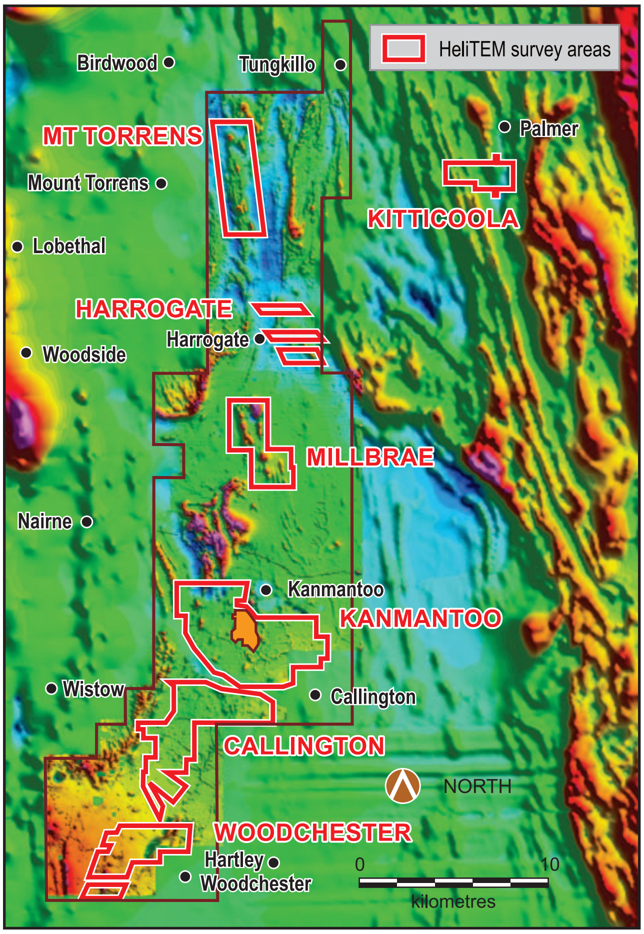
Kanmantoo Exploration Lease

A detailed helicopter-borne EM survey (HeliTEM) over an area of 87km^2 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 (excluding CPS)	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.*

REVIEW OF OPERATIONS FOR THE YEAR AND OUTLOOK *(continued)*

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
		29.46	**0.80**	**0.20**	**2.11**
Long Term Stockpiles	Measured	1.39	0.46	N/A	N/A
	Indicated	0.50	0.18	N/A	N/A
		1.89	**0.39**	**-**	**-**
Total		**31.30**	**0.78**	**0.20**	**2.11**

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
		20.7	**0.73**	**0.18**	**1.9**
Long Term Stockpiles	Proven	1.4	0.46	N/A	N/A
		1.4	**0.46**	**-**	**-**
Total		**22.1**	**0.71**	**0.18**	**1.9**

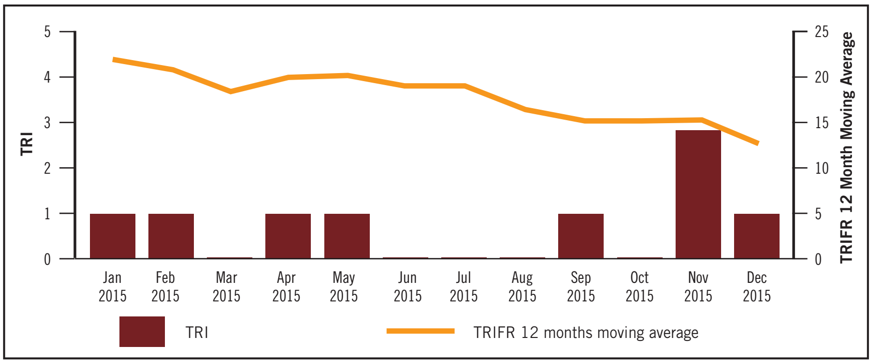
Note: In Situ Reserve >0.20% Cu. Long Term Stockpiles >0.15% Cu.

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.

Sustainability: environment, safety and community

KAN-DO

Our attitude at Kanmantoo



Hillgrove's Sustainability and Work Health & Safety Policies provide a strong, ethical foundation for our approach to health, safety, environment and community (HSEC) responsibilities. Supporting these policies, Hillgrove has implemented an Integrated Risk Management System (Kan-do) across our operations. The system incorporates a prioritised risk based approach and continual improvement framework, ensuring our HSEC policy objectives and legislative compliance are achieved.

To reduce the risks as low as reasonably practicable, the Kan-do system provides the appropriate safe systems of work, clearly outlined responsibilities and accountabilities, and a strong audit framework. Hillgrove has identified its Principal HSEC risks and implemented the appropriate control measures.

The Kan-do system is driven by effective leadership, the acceptance of individual responsibility and the promotion of a risk aware culture across its operations through the implementation of a Due Diligence Model. The Kan-do system is audited on an annual basis, and improvements are monitored through Hillgrove's Senior Leadership Team and the Audit and Risk Committee. The implementation of the Kan-do system has contributed to an improvement in the Company's Health & Safety Performance with a 43% reduction in the Total Recordable Injury Frequency Rate this year.

Prudent and environmentally responsible operational management at Kanmantoo has helped reduce our overall rehabilitation expenditure, while building our reputation with the community as a good neighbour and an ethical mining operator.

Progressive rehabilitation of the site has commenced and the Integrated Waste Landform (IWL) comprised of our waste rock and the tailings storage facility has seen considerable progress. The continued revegetation of the Mining Lease has seen further linkages of remnant woodland areas and enhancement of conserved remnant vegetation. The establishment of high quality native vegetation on adjacent land is assisting Hillgrove to return 10 hectares of high quality rehabilitated land to the community for every hectare of native vegetation we have disturbed. The establishment of this vegetation as a community asset is being integrated into a "Community Master Plan" to ensure real benefit back to the impacted community and the natural environment. We continue to produce and harvest native seed as well as conduct wild seed collection to ensure there are sufficient propagules to enable this important work.

Backfilling of our first satellite pit commenced in CY15 and is near completion which will go a long way toward addressing visual amenity from the eastern aspect of the mine.

Strategic community engagement continues utilising the long established Community Engagement Plan (2009). Regular reviews and modifications to the plan continue to ensure engagement of the community remains effective and productive.

We remain pro-active in meeting the ongoing challenges and impacts of our site through the use of real-time monitoring and alert systems focused on dust prevention and action and blasting notification SMS system. There is however always room for improvement and as such we utilise working groups made up of community and committee members and regulators to drive actions and ideas to improve performance.

REVIEW OF OPERATIONS FOR THE YEAR AND OUTLOOK *(continued)*

Corporate Review and Cost Management

The Hillgrove Board and Management have continued to focus on improving Kanmantoo mine's operational performance, increasing cashflow, protection of revenue streams with suitable hedging and positioning the Company for value generating shareholder returns. To this end the Company has retained a small core group of key executives, while rationalising all other activities and reducing employee, operational and corporate costs. In 2015, the key areas of improvement and cost control which were put in place includes the following:

- Reduction in Corporate and Exploration office roles from 14 down to 3 personnel;
- Move of the Corporate Office as well as the vast majority of the externally sourced expertise to South Australia in 2015 – with access to high quality, moderately priced services in the state and the significant reduction in rent, travel and accommodation;
- A reduction on the annual salary of the CEO/MD of 25% in 2015, as well as no CPI or annual increases in TFR for Key Management Personnel (KMP's) or other employees since early 2013;
- Reduction in the CEO's maximum STI from 100% of TFR down to 60%;
- Reduction in the number of Non-Executive Director Board members from five in 2014 to four in 2015;
- Reduction in individual Board remuneration of 20%;
- Suspension of STI payments in 2015.

Along with these initiatives which have already been put in place, in 2016 Hillgrove will continue with the following initiatives:

- Deferring further salary reviews for all employees until at least mid-2016;
- Divestment of the Indonesian exploration projects; and
- Continued review of Kanmantoo and Corporate costs.

Risks

The Company currently has a single operation asset, the Kanmantoo Copper Mine in South Australia. The operation provides the Company with all of its income. The operation consists of an open pit mine and processing plant located close to regional communities. Concentrate is transported by road in containers to the Port of Adelaide and then loaded onto ship via the port rotainer operation. The concentrate is then shipped to the receiver, typically located in China. Should any of these elements be subject to failure, the Company's expected financial result could be impacted.

The Company's annual budget and related mine plans and production and operation outcomes are subject to a range of assumptions and expectations, all of which contain a level of uncertainty and therefore risk. The Company adopts a risk management framework in order to identify, analyse, treat and monitor the risks applicable to the Group. The risks are formally reported and discussed with the Executive on a regular basis and with the Board and Audit and Risk Committee twice a year.

The prices received for the Company's commodities (copper, gold and silver) are dictated by global markets over which Hillgrove and its offtake partner, Freepoint Commodities LLC, have no influence. The Company takes active steps to hedge the copper price in Australian dollars against these fluctuations to reduce the direct impact on financial performance.

Strategic Vision

The Board has made the decision to simplify and consolidate operations with a Kanmantoo Operations focus. This strategy is designed to ensure all non-essential expenditure is directly linked to near term income generating activities. Once the Giant Pit cutback is finalised and free cash is being generated the debt will be reduced and near mine exploration targets capable of supplying existing assets will be prioritised.

Even at current consensus pricing there is the potential to generate many multiples on our current market capitalisation. Unlike other companies who only targeted costs when the cycle bottomed, Hillgrove has been methodically cutting costs for several years. It is our intent to be able to do for twenty cents what any other can do for a dollar, whilst maintaining the very high standards we have set ourselves.

The Board has set the vision that any future growth must have a realistic expectation of delivering an enhanced outcome over and above the base case of significant cash generation.

Capital Raisings

In June 2015, the Company raised $10.08 million, as part of the refinancing package, through a non-renounceable entitlement issue on a 3 for 11 basis, which resulted in the issue of 40,310,719 shares at 25.0 cents.

There were no capital raisings in the year prior.

Dividends

There were no dividends declared or paid during the current period or in the prior year.

Significant Changes in the State of Affairs

Other than those matters listed in this report there have been no significant changes in the affairs of the Group during the period.

Events Subsequent to Reporting Date

Following a two-day trading halt on the ASX on the 31 March 2016, Hillgrove announced that since February 2016 it had not achieved the budgeted production levels at its Kanmantoo copper / gold mine for the following reasons:

- As advised in late 2015, the independent evaluation of the orebody led to the deferral of revenue;
- To address this deferral the previous life of mine plan was amended, which intensified mining in a smaller footprint;
- Following detailed implementation, planning and analysis of recent actual performance, it has been determined that the planned mining sequence was too aggressive; and

as a result of this, the life of mine (LOM) plan has been revised to one which has a simpler sequence and is based upon currently achieved mining rates, but which brings forward waste removal and in consequence defers copper production.

In February 2016, as a consequence of this lower production, current liabilities increased during the month and Hillgrove was in breach of its month end, $25,000,000 trade creditor financial covenant.
Subsequent to the end of February, Hillgrove obtained a waiver from its financiers that removed the $25,000,000 month end limit for February 2016.

The waiver required the Group to achieve 95% (formerly 85%) of its payable copper production target, as set out in its LOM plan, for the three month period from March to May 2016. During March 2016 Hillgrove determined that, for the reasons outlined above, the LOM plan was too aggressive and the 95% of its payable copper production target would not be achieved.

As a consequence Hillgrove revised its LOM plan to lower targets in line with recent performance. While this revised LOM plan still shows Kanmantoo will generate significant value and has exploration potential, the anticipated near term production levels coupled with the need to continue the pre-strip and cut-back of the Giant pit are likely to result in a cash shortfall in 2016 and 2017 at current performance levels and commodity prices unless cost-reduction measures are implemented to improve cash flow from operations.

The Board has agreed a process to address the anticipated cash flow shortfall. As part of this, an independent review of the Company's revised plans and forecasts is to be undertaken and a range of measures are being implemented to reduce costs and generate proceeds from asset sales.

Hillgrove has begun discussions with its key stakeholders including employees, major contractors, suppliers and service providers, financiers and the South Australian Government to seek their assistance with this process to ensure the Company can bridge any cash flow gaps this year and into 2017.

These key stakeholder discussions have advanced and stakeholders and they have indicated their favourable response to ensure the continued operation of the Kanmantoo Mine.

If Hillgrove can successfully implement the package of measures with these stakeholder groups, it should be able to generate sufficient cash flow from operations to continue operating the Kanmantoo Mine. Considerable progress had been made in these stakeholder discussions. The Company's financiers are generally supportive of the pre-emptive action being taken.

The directors remain confident that there is significant value in the mine and believe that the best outcome for the company as a whole is achieved by implementing the revised LOM plan and reducing costs with the cooperation and support of all stakeholders.

For further information refer to Going Concern Note (a) (i) on page 50.

REVIEW OF OPERATIONS FOR THE YEAR AND OUTLOOK *(continued)*

Events Subsequent to Reporting Date *(continued)*

REVISED LIFE OF MINE PLAN AND OUTLOOK FOR 2016

As a result of the revision to the mine and financial plan (referred to above), the CY16 guidance issued on 26 February for the Kanmantoo Copper Mine has been revised as follows:

Guidance	Previous	Current
Ore Mined	2,900kt to 3,100kt	**2,500kt to 2,700kt**
Ore Processed	3,350kt to 3,550kt	**2,850kt to 3,050kt**
Copper contained in concentrates produced	16,500t to 18,500t	**14,500t to 16,500t**
Gold contained in concentrates produced	11,000oz to 13,500oz	**8,000oz to 10,000oz**
C1 Costs (at a 0.75 exchange rate)	US$1.75 to US$2.05 per lb	**US$1.85 to US$2.15 per lb**
Capital Projects (excludes pre-strip)*	$1.0 million to $1.4 million	**No change**

For the reasons outlined in the Events Subsequent to Balance Date section above, the tonnes mined and processed have been revised downwards.

As a result of the lower ore tonnes mined and processed, copper and gold production is now forecast to be lower in CY16., as some of the previous forecast CY16 copper and gold metal production is deferred to later years (i.e., there is no change to the LOM copper and gold production, just a deferral to later years).

Gold production is forecast to be significantly higher this financial year relative to prior years (by approximately 2,000 ounces, or 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,while focussing on the Kanmantoo operation and advancing of the Giant Pit cutback 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.

Environmental Regulation

The consolidated entity's operations are subject to significant environmental and other regulations. The consolidated entity has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration and development activities. There have been no reports of material breaches of environmental regulations in the financial period and at the date of this report.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Officers' and Auditors' Indemnity

Article 7.3(a) of the Company's Constitution provides that "To the extent permitted by law, the Company must indemnify each Relevant Officer against: (i) a Liability of that person; and (ii) Legal Costs of that person". The Company indemnifies every officer against any liability or costs and expenses incurred by the person in his or her capacity as officer of the Company:

- in defending any proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or
- in connection with an application, in relation to such proceedings, in which the Court grants relief to the person under the Corporations Law.

Directors' and Officers' Insurance

During the financial year, the Company paid a premium in respect of a contract for directors' and officers' liability insurance. It is a condition of this Policy that each Insured and/or any persons at their direction or on their behalf shall not disclose the existence of any Coverage Section, its Limits of Liability, the nature of the liability indemnified, or the premium payable.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (Deloitte Touche Tohmatsu) for audit and non-audit services provided during the period are set out in Note 6.

The Audit and Risk Committee has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

None of the services provided undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards. A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 44.

The Board is committed to following ASX *Corporate Governance Council Corporate Governance Principles and Recommendations*. The Company adopts these best practice recommendations in its policies and procedures where it is appropriate to do so, given the size and type of Company and its operations.

The Board has a process of reviewing all policies and corporate governance processes. Charters are reviewed and updated periodically. These charters provide the framework and roles of respective committees for the appointment of Non-Executive Directors to undertake specific responsibilities on behalf of the Board.

Details of the corporate governance policies adopted by the Company and referred to in this statement are available on the Company's website at www.hillgroveresources.com.

REMUNERATION REPORT (AUDITED)

The Company's approach to remuneration is outlined in our Remuneration and Benefits Policy on our website, and is based on providing competitive rewards that motivate talented employees to deliver superior results.

Responsibility for overall remuneration lies with the board supported by the board remuneration committee. The board is committed to ensuring that the company's remuneration policies are fair, responsible and competitive and that we communicate remuneration arrangements with full transparency.

The Remuneration and Benefits policy aims to:

- Align employee remuneration to the principles and measurement of Total Shareholder Return (TSR);
- Present progressive incentive structures to encourage outstanding performance, and hence improved TSR;
- Mitigate the business risks associated with poor performance, market movements and employee turnover.

These aims need to be balanced against the need to continually reduce operating cost at all times, but particularly so in challenging times, and the 2015 year has certainly been a very challenging period for the Company and for the mining industry in general, characterised by low commodity prices and a stagnant world economy.

The Giant Pit cutback which continued throughout 2015 required a significant cash investment which has made Hillgrove's challenge even more difficult and a number of remuneration related, cost reduction decisions were taken to meet this challenge, including:

- Continuing the pay freeze which was instituted in 2014, with salaries remaining at 2013 levels,
- Not granting any STI's or LTI's during 2015,
- Reducing staff both at site through natural attrition and through the closure of the Sydney corporate office and absorbing many of the functions previously carried out in the Sydney Office into the site,
- The Managing Director & CEO taking a 13% reduction in salary and a 20% reduction in LTI and STI on appointment, and a further 15% temporary salary reduction in December 2015,
- The Board agreeing to a 20% temporary reduction in their salaries, and
- Reducing the Board from five to four non-executive directors.

The Board looks forward to a return to better times but in the meantime it must act within the constraints of the current environment to ensure employees are remunerated in a manner that encourages active participation, measurable contribution, overall satisfaction and retention.

Employee benefits are assessed on a regular basis against benchmarking data evidenced within the broader mining industry and reviewed given the context above.

The Hon. Dean C Brown, AO
Chairman of the Board
Chairman, Remuneration Committee

The Directors of Hillgrove Resources and its Consolidated Entities present the Remuneration Report for the Company for the year ended 31 December 2015, which forms part of the director's report and has been audited in accordance with section 308 (3C) of the *Corporations Act 2001*.

1.0 Introduction

1.1 SCOPE

This Remuneration Report sets out, the remuneration arrangements in place for key management personnel of Hillgrove Resources Limited (Hillgrove or the Company) during the financial period ended 31 December 2015 (2015 Financial Year – CY15).

1.2 KEY MANAGEMENT PERSONNEL

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and its entities, and comprise the Non-executive Directors, the Executive Director and Key Management Personnel (KMP) Executives. Details of the KMP as at year end, those that departed during the year, or any changes after year end, are set out in the table below.

Non-executive Directors	**Title (at year end)**	**Change in 2015 Financial Year**
The Hon. Dean Brown, AO	Chairman Chairman Remuneration Committee Member Audit and Risk Committee Chairman Nomination Committee	Full Year Appointed as Remuneration Committee Chairman 30 July 2015
Mr J E Gooding	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee [(1)]	Full Year Resigned as Remuneration Committee Chairman 30 July 2015 Appointed to Nomination Committee 30 July 2015
Mr M W Loomes (Non-independent)	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Full Year
Mr P Baker	Director Chairman Audit and Risk Committee Member Nomination Committee Member Nomination Committee [(1)]	Full Year Committee Chairman 30 May 2015 Appointed to Nomination Committee 30 July 2015
Executive Directors		
Mr S P McClare	CEO and Managing Director Member Treasury Committee	Appointed 27 May 2015
KMP Executives		
Mr P Kiley	Chief Financial Officer and Company Secretary Member Treasury Committee	Appointed 1 December 2015 [(2)]
Mr L Wallace	General Manager, Kanmantoo	Appointed 1 August 2015

(1) *Following the departure of Mr D N Sneddon the Board decided the remaining four Non-Executive Directors should sit on all of the Board committees.*

(2) *Employed on a contract basis from 12 June 2015 to 30 November 2015 and as an employee from 1 December 2015.*

Key Management Personnel: Departures during the 2015 Financial Year

Name	**Title**	**Description**
Mr D N Snedden	Director Chairman Audit and Risk Committee Chairman Treasury Committee Member Remuneration Committee Member Nomination Committee	Resigned 30 May 2015
Mr G C Hall	CEO and Managing Director Member Treasury Committee	Resigned 26 May 2015
Mr R L Middleton	Chief Financial Officer	Resigned 8 September 2015
Ms S Smith	Company Secretary and Group Finance Manager	Resigned 31 August 2015

REMUNERATION REPORT (AUDITED) *(continued)*

2.0 Remuneration Governance

This section of the Remuneration Report describes the role of the Board, the Remuneration Committee, and the use of consultants when making remuneration decisions.

2.1 ROLE OF THE BOARD AND THE REMUNERATION COMMITTEE

The Board is responsible for the Company's remuneration strategy and policy. Consistent with this responsibility, the Board has established a Remuneration Committee which comprises a majority of independent non-executive Directors.

The role of the Remuneration Committee is set out in its Charter, which was last revised and approved by the Board on 28 March 2014. In summary the role of the Remuneration Committee is to:

- Review and approve the Company's remuneration strategy and policy;
- Consider and propose to the Board the remuneration of the CEO and consider and approve the remuneration of all designated senior executives;
- Review and approve Hillgrove Resources' short term incentive (STI) and long term incentive (LTI) schemes, including amounts, terms and offer processes and procedures;
- Determine and approve equity awards in accordance with policy and shareholder approvals, including testing of vesting and termination provisions; and
- Review and make recommendations to the Board regarding remuneration of Non-executive Directors.

Further information on the Remuneration Committee's role, responsibilities and membership is contained in the Corporate Governance Statement which is available on the Company's website www.hillgroveresources.com.au.

The Remuneration Committee Charter and Remuneration and Benefits Policy can be viewed in the Corporate Governance section of the Company's website www.hillgroveresources.com.au.

2.2 USE OF REMUNERATION CONSULTANTS

From 1 July 2011, all proposed remuneration consultancy contracts (within the meaning of section 206K of the *Corporations Act 2001*) are subject to prior approval by the Board or Remuneration Committee in accordance with the *Corporation Act 2001*.

During the year ended 31 December 2015, no remuneration consultancy contracts were entered into by the Company and no disclosure is required under section 300A (1) (h) of the *Corporations Act 2001*.

3.0 Non-executive Director Remuneration

3.1 NON-EXECUTIVE DIRECTOR REMUNERATION PHILOSOPHY/POLICY

Advisor/Consultant	Service Provided in CY15
Fees are set by reference to key considerations	Fees for Non-executive Directors are based on the nature of the directors' work and their responsibilities. The remuneration rates reflect the complexity of the Company's and the extent of the geographical regions in which the Company operates. In determining the level of fees, survey data on comparable companies is considered. Non-executive Directors' fees are recommended by the Remuneration Committee and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of Non-executive Directors.
Remuneration is structured to preserve independence	To preserve independence and impartiality, Non-executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with references to measures of Company performance. The Company does not have a minimum shareholding requirement for Directors.

Advisor/Consultant	Service Provided in CY14
Aggregate Board and Committee Fees are approved by shareholders	The total amount of fees paid to non-executive directors in the year ended 31 December 2015 is within the aggregate amount approved by shareholders at the AGM in 2009 of $450,000 a year. The individual amounts paid to directors have not increased since January 2011.

3.2 NON-EXECUTIVE DIRECTOR FEES AND OTHER BENEFITS

Elements	Details	
Board/Committee fees per annum*	Board Chairman Fee	$120,000 (1)
	Board NED Base Fee	$60,000 (1)
Post-employment Benefits	**Details**	
Superannuation	Superannuation contributions are made at a rate of 9.5% of base fee (but only up to the Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. Contributions are included in the base fee.	
Other Benefits	**Details**	
Equity Instruments	Non-executive directors do not receive any performance related remuneration or performance rights.	
Other fees/benefits	No payments were made to non-executive directors during the 2015 financial year for extra services or special exertions. Directors are entitled to be reimbursed for approved Company related expenditure e.g. flights and airfares to attend Board meetings.	

(1) *Effective 1 December 2015 and in light of the low commodity price environment, the Board agreed to a temporary 20% reduction in fees, which reduced the Chairman's fee from $150,000 to $120,000 and the NED fee from $75,000 to $60,000.*

* *Fees include all committee memberships with no extra payments made for number or position.*

3.3 NON-EXECUTIVE DIRECTOR TOTAL REMUNERATION - SHORT-TERM NED BENEFITS

The table below compares the 12 month period of CY15 to the 11 month period of CY14, whilst CY15 looks to be higher it is lower on an annualised basis.

Non-Executive Directors	Year*	Fees (1)	Non-monetary benefits	Total
The Hon. Dean Brown, AO	**CY15**	**$147,500**	**-**	**$147,500**
	CY14	$137,500	-	$137,500
Mr J E Gooding	**CY15**	**$73,750**	**-**	**$73,750**
	CY14	$68,750	-	$68,750
Mr M W Loomes	**CY15**	**$73.316**	**-**	**$73,316**
(Non-independent)	CY14	$68,750	-	$68,750
Mr P Baker	**CY15**	**$73,750**	**-**	**$73,750**
	CY14	$13,365	-	$13,365
Mr D N Snedden	**CY15**	**$31,250**	**-**	**$31,250**
(Resigned 31 May 2015)	CY14	$68,750	-	$68,750

(1) *Effective 1 December 2015, the Board agreed to a 20% fee reduction in the light of the economic conditions and low commodity price environment, which reduced the Chairman's fee from $150,000 to $120,000 and the NED fee from $75,000 to $60,000.*

4.0 Executive Remuneration

4.1 EXECUTIVE KMP REMUNERATION FRAMEWORK

Hillgrove Resources' executive remuneration strategy is designed to attract, retain and motivate a highly qualified and experienced group of executives. The Company has reduced its Executive and Corporate team size over the past years, resulting in the remaining smaller team undertaking much broader roles. Hence remuneration levels reflect the broad experience needed in these roles. The Board believes this is particularly important while focussing on tight cost control, lower commodity prices and a difficult resources market.

Fixed remuneration components are determined having regard to the specific skills and competencies of the senior executive with reference to both internal and external relativities, particularly local market conditions. The 'at risk' components of remuneration are strategically directed to encourage management (and all participating executives) to strive for superior performance by rewarding for the achievement of targets that are challenging, clearly defined, understood and communicated, risk balanced, and within the ambit of accountability of the relevant executive.

REMUNERATION REPORT (AUDITED) *(continued)*

Executive KMP will be considered for three (3) categories of remuneration, illustrated as follows:

Executive KMP Remuneration Objectives

Shareholder value creation through equity components	An appropriate balance of 'fixed' and 'at-risk' components	The creation of reward differentiation to drive performance values and behaviours	Attract, motivate and retain executive talent

Total Target Remuneration is set by reference to the relevant geographic market

Fixed	At Risk	
Total Fixed Remuneration (TFR)	**Short Term Incentives (STI)**	**Long Term Incentives (LTI)**
Fixed Remuneration is set based on relevant market relativities, reflecting responsibilities, performance, qualifications, experience and location.	STI performance criteria are set by reference to Company, Departmental and individual performance targets relevant to the specific position.	LTI targets are linked to both external (relative Total Shareholder Return (TSR)) out performance measures and internal EPS targets.
Remuneration will be delivered as:		
Base salary plus any fixed elements, including superannuation or equivalents.	Cash.	Equity is held subject to service and performance for 3 years from grant date. The equity is 'at risk' until vesting. Performance is tested once at the vesting date.
Strategic Intent and Market Positioning		
TFR will generally be positioned at the Median level compared to relevant market based data, but will consider individual experience, expertise and performance in the role.	Performance incentive is directed to achieving challenging targets. TFR + STI is intended to be at or about the median of relevant benchmark. A "gate opener" principle based on target EBITDA is used.	LTI is intended to align Executive KMP with shareholder value and returns. TFR + STI + LTI is intended to be positioned in the 1st quartile.

Total Target Remuneration (TTR)

TTR is intended to be positioned at the 1st quartile compared to relevant market based comparisons.

4.2 REMUNERATION COMPOSITION MIX AND TIMING OF RECEIPT

4.2.1 Remuneration mix

The Company endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and 'at risk'. The broad remuneration composition mix of the Company's Executive KMP can be illustrated as follows:

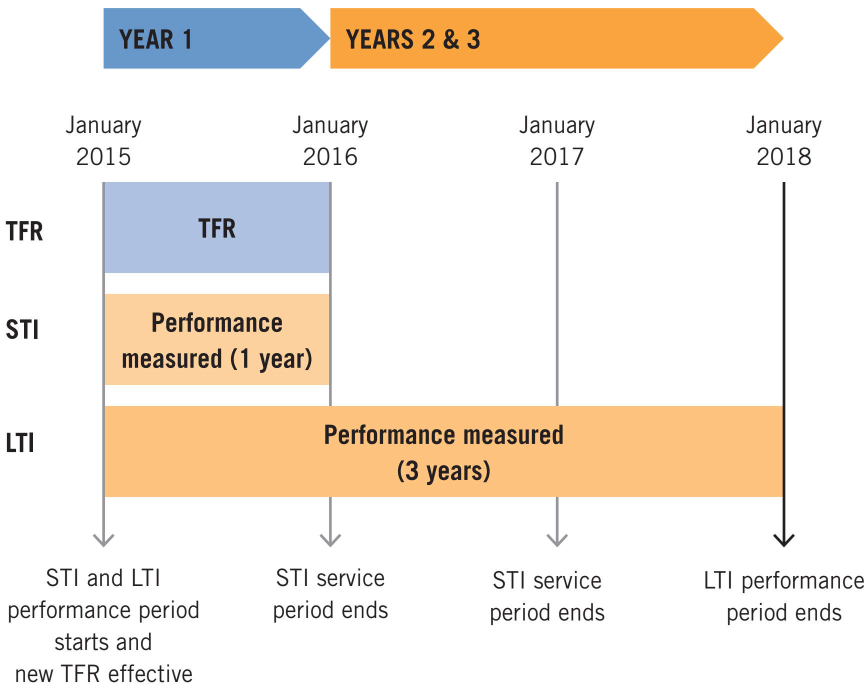
Remuneration Mix (Actual) CY 2015

Position	TFR (Cash)	STI (Cash)	LTI (Equity)
CEO/MD	100%	Up to 60% of TFR	Up to 60% of TFR
Senior Executives (KMP)	100%	Up to 50% of TFR	Up to 50% of TFR

Note KMPs are classified as Executives for the purposes of remuneration disclosures under the Corporations Act, however not all KMPs are members of the Company's Executive Committee.

4.2.2 Remuneration – timing of receipt of the benefit

The three complementary components of Executive KMP remuneration are 'earned' over multiple time ranges. This illustrated in the following chart.



4.3 TOTAL FIXED REMUNERATION

Total Fixed Remuneration (TFR) includes all remuneration and benefits paid to an Executive KMP calculated on a Total Employment Cost (TEC) basis. In addition to base salary and superannuation, retirement benefits are paid in line with the statutory Superannuation Guarantee legislation prevailing.

There were no increases to TFR during the last two years due to economic conditions and company performance. Salaries remain at 2013 levels. The Remuneration Committee has reviewed the STI plan achievements through 2015 and determined there will be no STI awards for 2015 (refer below).

4.4 VARIABLE 'AT RISK' REMUNERATION

As set out in the Section 4.2, variable remuneration forms a portion of the CEO/MD and other Executive KMP remuneration opportunity. Apart from being market competitive the purpose of variable remuneration is to direct executives behaviours towards maximising Hillgrove Resources' value and return to shareholders, by targeting short, medium and long term performance measures. The key aspects are summarised below.

REMUNERATION REPORT (AUDITED) *(continued)*

4.4.1 Short Term Incentives (STI)

STI Programme	
Purpose	The STI arrangements are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the Remuneration Committee and approved by the Board. All STI awards to the CEO/MD and other KMP are approved by the Remuneration Committee and the Board.
Performance Target Areas	The key performance objectives of the Company vary by level but are currently directed to achieving ambitious targets, complemented by the achievement of individual performance goals and Company performance. The performance targets for FY2015 (ending 31 December 2015) were set in the following areas: ■ Safety, Environment and Community ■ Operational Performance ■ Financial Performance ■ Capital Management Initiatives ■ Planning and Exploration ■ Marketing and Investor Relations Any anomalies or discretionary elements are approved and validated by the Board.
Rewarding Performance	Based on the performance target areas set out above, a number of targets are set for each area which generally includes a Threshold, Target and Stretch target. An STI measure can only start to be accumulated provided the Threshold level is achieved. A “gate opener” principle applies whereby an STI will only start to be awarded to the CEO and KMPs if a threshold level of EBITDA is achieved. All targets are set having regard to prior year performance, market conditions and Board approved budgets. Specific targets are not provided in detail due to commercial sensitivity. Validation of performance against the measures set for the CEO/MD and KMPs involves a review calculation and recommendation by the CEO, reviewed and approved by the Remuneration Committee with final Board sign-off. The actual STI awards for KMP in 2015 are as set out in the following table.

Executive KMP STI Opportunity and Actual 2015 STI awarded – covering the financial year to 31 December 2015 (FY15).

	Position	Maximum STI % of FY15 TFR	STI awarded as a % of potential	Actual STI award in 2015 ($)
Executive Directors				
Mr S McClare	CEO and Managing Director	60%	0%	$0
KMP Executives				
Mr P Kiley	Chief Financial Officer and Company Secretary	50%	0%	$0
Mr L Wallace	General Manager, Kanmantoo Copper Mine	50%	0%	$0
Mr R L S Middleton (1)	Chief Financial Officer	50%	0%	$0
Ms S Smith (2)	Company Secretary and Group Finance Manager	20%	0%	$0

(1) Resigned 8 September 2015

(2) Resigned 31 August 2015

REMUNERATION REPORT (AUDITED) *(continued)*

4.4.2 Long Term Incentives (LTI)

The LTI provides an annual opportunity for selected executives and key staff to receive an equity award deferred for three years that is intended to align a significant portion of an executives overall remuneration to shareholder value over the longer term. All LTI awards remain at risk and subject to clawback (forfeiture or lapse) until vesting and must meet or exceed relative TSR performance hurdles over the vesting period, along with other performance criteria.

Long Term Incentives (LTI)	
Purpose	To retain key executives and align their remuneration opportunity with shareholder value.
Types of equity awarded	LTI has been provided under the Company's Executive Long Term Incentive Plan. See Section 5.1 for further details. Under the LTI selected senior executives and key staff are offered performance rights (to acquire ordinary shares of Hillgrove Resources Limited).
Time of grant	In 2016 equity grants will be made after the 2016 AGM.
Time restrictions	Equity grants awarded to the CEO/MD and other KMPs are tested against the performance hurdles set at the end of three years. If the performance hurdles are not met at the vesting date, performance rights lapse, subject to Board evaluation. A service and performance requirement is imposed on all equity grants.
Performance hurdles and vesting schedule	There were no equity grants made in 2015. The most recent equity grants were made in 2014 and were subject to the following performance conditions which were applied equally, with 50% against Total Shareholder Return (TSR) ranked against the S&P/ASX Small Resources Index and 50% against Cumulative Earnings per Share (EPS) with the following performance conditions:

Ranking of TSR Against S&P/ASX Small Resources Index (3 Years)	
Performance	% of equity to vest
< 50th percentile	0%
at the 50th percentile	50%
50th to 75th percentile	Additional 2% vesting on a straight line interpolation for each percentile ranking above the 50th percentile
> 75th percentile	100%

Ranking of EPS (3 Years)	
HGO EPS Cumulative	% of equity to vest
< $0.03 per share	0%
At $0.03 per share	50%
$0.03 - $0.04 per share	Additional 5.0% on a straight line interpolation for each increment in EPS of $0.001 above $0.03 per share
> $0.04 per share	100%

Performance rights vest as shares if the time restrictions and relevant performance hurdles are met. Special provisions, in accordance with company policies, may apply in the event of termination of employment or a Change of Control.

Voting rights	There are no voting rights attached to performance rights.
LTI Allocation	The size of individual LTI grants for the CEO/MD and other KMPs is determined in accordance with the Board approved remuneration strategy mix. See Section 4.2. The target LTI $ value for each executive once determined is then converted into a number of performance rights based on a valuation methodology determined at the grant date, as follows: **Performance right allocation** = LTI $ value determined /Hillgrove Resources share price at grant date.

REMUNERATION REPORT (AUDITED) *(continued)*

Vesting Outcomes – Performance rights granted 2009 – 2014

Grant Date	Vesting Dates	Vesting Conditions	Vesting Conditions Tested	Exercise Price	Relative TSR percentile ranking	% Vested TSR Hurdle	% Vested KPI Hurdle Service
24/09/10	Sep 2013	TSR Hurdle, KPI, Service	✔	0.00	26.3	0%	70%
03/10/10	Sep 2013	TSR Hurdle, KPI, Service	✔	0.00	26.3	0%	0%
24/06/11	May 2014	TSR Hurdle, 2 KPI's, Service	✔	0.00	74.1	98%	60%
21/11/11	May 2014	TSR Hurdle, 2 KPI's, Service	✔	0.00	75	100%	60%
10/10/12	Oct 2015	TSR Hurdle, Service	✔	0.00	Below median	50%	0%
19/12/12	Jul 2013- Dec 2014	KPI [(1)], Service	✔	0.00	N/A	N/A	88.3%
21/06/13	Jun 2014	Service	✔	0.00	N/A	N/A	100%
22/07/13	Jul 2016	TSR Hurdle, Service	✘	0.00	TBD	TBD	TBD
24/06/14	Mar 2017	TSR and EPS Hurdle, Service	✘	0.00	TBD	TBD	TBD
14/07/14	Mar 2017	TSR and EPS Hurdle, Service	✘	0.00	TBD	TBD	TBD

(1) KPI's – unit cost reduction and production performance targets.

4.5 OTHER REMUNERATION ELEMENTS AND DISCLOSURES RELEVANT TO EXECUTIVE KMP

Specific 'clawback' provisions proposed under *Corporations Act 2001* amendments will be automatically complied with upon legislation, if relevant.

4.5.1 Hedging and Margin Lending Prohibition

Under the Hillgrove Resources Limited – Trading Policy and in accordance with the *Corporations Act 2001*, equity granted under the Company's equity incentive schemes must remain at risk until vested, or until exercised if performance options or performance rights. It is a specific condition of grant that no schemes are entered into, by an individual or their associates, that specifically protects the unvested value of shares, options or performance rights allocated.

The Company, as required under the ASX Listing Rules, has a formal policy setting down how and when employees may deal in Hillgrove Resources securities.

Hillgrove Resources Limited's **Share Trading Policy** is available on the Company's website www.hillgroveresources.com.au under Investor Centre, Corporate Governance.

4.6 RELATIONSHIP BETWEEN PERFORMANCE AND EXECUTIVE KMP REMUNERATION

4.6.1 Hillgrove Resources Financial Performance (31 January 2012 to 31 December 2015)

	12 months to 31 January			11 months to	12 months to
	2012	2013	2014	31 Dec 2014	31 Dec 2015
Sales Revenue ($M)	11.6	115.4	139.2	166.8	**139.5**
Underlying EBITDA ($M)	(8.9)	17.1	37.8	52.3	**18.8**
Reported net profit / (loss) ($M)	(8.5)	(11.8)	1.5	3.8	**(127.4)** [(1)]
Return on equity (ROE) % [(2)]	-4.0%	-5.3%	0.7%	1.6%	**-67.7%** [(1)]
Basic earnings per share (EPS) (cents)	(1.0)	(1.2)	1.1	2.6	**(75.4)** [(1)]
Diluted EPS (cents)	(1.0)	(1.2)	1.1	2.5	**(75.4)** [(1)]
Share price as at 31 December (cents) [(3)]	172	100	70	45	**16**
Total shareholder return (TSR) % (Annual)	-27.9%	-43.2%	-30.4%	-35.3%	**-64.4%**

(1) Includes one off impairment charge of $112.9m.

(2) Based on average total equity

(3) After 8 for 1 share consolidation effective on 17 September 2014.

4.6.2 Hillgrove Resources Performance and relationship to Executive KMP remuneration

No STI's or LTI's were granted during 2015.

REMUNERATION REPORT (AUDITED) *(continued)*

4.7 KMP EXECUTIVE REMUNERATION TABLES – AUDITED

As the table below compares the 12 month period of CY15 to the 11 month period of CY14.

		Fixed Remuneration					
		Short-term		Long-term			Total
	Year	Salary and Fees	Non-monetary benefits	Super-annuation Benefits	Termination Benefits	Long Service Leave	
Directors							
The Hon. D C Brown	CY15	122,500	-	25,000	-	-	147,500
	CY14	110,300	-	27,200	-	-	137,500
Mr J E Gooding	CY15	73,750	-	-	-	-	73,750
	CY14	68,750	-	-	-	-	68,750
Mr M W Loomes	CY15	66,955	-	6,361	-	-	73,316
	CY14	62,851	-	5,899	-	-	68,750
Mr P Baker	CY15	67,351	-	6,398	-	-	73,749
	CY14	12,206	-	1,159	-	-	13,365
Mr D N Snedden	CY15	28,539	-	2,711	-	-	31,250
	CY14	62,851	-	5,899	-	-	68,750
Mr E J Zemancheff	CY15	-	-	-	-	-	-
	CY14	17,163	-	7,837	-	-	25,000
Total	**CY15**	**426,050**	**-**	**46,831**	**-**	**-**	**472,881**
	CY14	**396,972**	**-**	**53,893**	**-**	**-**	**450,865**
Executive Directors							
Mr S McClare	CY15	435,088	-	30,006	-	-	465,094
	CY14	368,750	-	25,416	-	-	394,166
Mr G C Hall	CY15	408,219 (1)	-	15,630	-	-	423,849
	CY14	502,995	-	24,088	-	-	527,083
Total	**CY15**	**843,307**	**-**	**45,636**	**-**	**-**	**888,943**
	CY14	**871,745**	**-**	**49,504**	**-**	**-**	**921,249**
Other key management personnel							
Mr P G Kiley	CY15	26,227	-	2,492	-	-	28,719
	CY14	-	-	-	-	-	-
Mr L A Wallace	CY15	283,675	-	26,949	-	-	310,624
	CY14	276,760	-	16,923	-		293,683
Mr R L S Middleton	CY15	330,557 (2)	-	12,485 (2)	-	-	343,042
	CY14	377,667	-	16,500	-	-	394,167
Mrs S Smith	CY15	184,417 (3)	-	22,500 (3)	-	-	206,917
	CY14	209,706	-	25,416	-	-	235,122
Total	**CY15**	**824,876**	**-**	**64,426**	**-**	**-**	**889,302**
	CY14	**864,133**	**-**	**58,839**	**-**	**-**	**922,972**
KMP Total	**CY15**	**2,094,233**	**-**	**156,893**	**-**	**-**	**2,251,126**
	CY14	**2,132,850**	**-**	**162,236**	**-**	**-**	**2,295,086**

(1) Includes $136,349 termination pay.

(2) Includes $55,039 salary and $485 superannuation paid on termination.

(3) Includes $33,417 salary and $2,500 superannuation paid on termination.

REMUNERATION REPORT (AUDITED) *(continued)*

4.7 KMP EXECUTIVE REMUNERATION TABLES – AUDITED *(continued)*

		Variable Remuneration				Total	Proportion of Total Remuneration	
		Short-term	Equity Compensation		Total		Performance Related	Equity Related
	Year	Bonus	Value of Option	Value of Performance Shares			%	%
Directors								
The Hon. D C Brown	CY15	-	-	-	-	147,500	0%	0%
	CY14	-	-	-	-	137,500	0%	0%
Mr J E Gooding	CY15	-	-	-	-	73,750	0%	0%
	CY14	-	-	-	-	68,750	0%	0%
Mr M W Loomes	CY15	-	-	-	-	73,316	0%	0%
	CY14	-	-	-	-	68,750	0%	0%
Mr P Baker	CY15	-	-	-	-	73,749	0%	0%
	CY14	-	-	-	-	13,365	0%	0%
Mr D N Snedden	CY15	-	-	-	-	31,250	0%	0%
	CY14	-	-	-	-	68,750	0%	0%
Mr E J Zemancheff	CY15	-	-	-	-	-	0%	0%
	CY14	-	-	-	-	25,000	0%	0%
Total	**CY15**	**-**	**-**	**-**	**-**	**472,881**	**-**	**-**
	CY14	**-**	**-**	**-**	**-**	**450,865**	**-**	**-**
Executive Directors								
Mr S P McClare	CY15	-	87,500	-	87,500	552,594	0%	0%
	CY14	93,375	13,069	-	106,444	500,610	18%	2%
Mr G C Hall	CY15	-	(451,423) (2)	-	(451,423)	(27,574)	0%	0%
	CY14	110,000	182,273	-	292,273	819,356	13%	22%
Total	**CY15**	**-**	**(363,923)**	**-**	**(363,923)**	**525,020**	**-**	**-**
	CY14	**203,375**	**195,342**	**-**	**398,717**	**1,319,966**	**-**	**-**
Other key management personnel								
Mr P G Kiley	CY15	-	-	-	-	28,719	0%	0%
	CY14	-	-	-	-	-	-	-
Mr L A Wallace	CY15	-	-	-	-	310,624	0%	0%
	CY14	31,431	-	-	31,431	325,114	10%	0%
Mr R L S Middleton	CY15	-	(265,446) (4)	-	(265,446)	77,596	0%	0%
	CY14	93,375	105,965	-	199,340	593,507	15%	17%
Mrs S Smith	CY15	-	(82,644)	-	(82,644)	124,273	0%	0%
	CY14	30,243	30,970	-	61,213	296,337	10%	10%
Total	**CY15**	**-**	**(348,090)**	**-**	**(348,090)**	**541,212**	**-**	**-**
	CY14	**155,049**	**136,935**	**-**	**291,984**	**1,214,958**	**-**	**-**
KMP Total	**CY15**	**-**	**(712,013)**	**-**	**(712,013)**	**1,539,113**	**-**	**-**
	CY14	**358,424**	**332,277**	**-**	**690,701**	**2,985,787**	**-**	**-**

(4) The value of the performance rights forfeited on termination.

5.0 Equity plan disclosures

5.1 EMPLOYEE SHARE SCHEMES OPERATED BY THE GROUP

Plan Details	Type of Instruments	Details	Purpose
Employee share plan and share issues	General Employee Share Plan (GESP)		To incentivise and align part of employee remuneration to shareholder value
Hillgrove Resources Option and Performance Rights Plan	Option and Performance Rights Plan (OPRP)	Refer 4.4.2	To provide equity incentive subject to meeting predetermined service and performance conditions.

5.2 ESS GRANTS TO KMP

5.2.1 Analysis of share-based payments granted as remuneration

Details of vesting profile of the performance rights granted as remuneration to each Key Management Personnel are set out below:

			Performance Rights			
Key Executives	**Grant Date**	**Number granted**	**Number vested in financial year**	**Number forfeited in financial year**	**Balance at year end**	**Intrinsic value at year end**
Mr S P McClare	19/12/12	125,000	(87,000)	(37,500)	-	-
	14/07/14	300,000	-	-	300,000	$48,000
	22/07/13	312,500	-	-	312,500	$50,000
	TOTAL	**737,500**	**(87,500)**	**(37,000)**	**612,500**	**$98,000**
Mr P Kiley	**TOTAL**	**-**			**-**	**-**
Mr L A Wallace	14/07/14	112,500	-	-	93,750	$15,000
	22/07/13	93,750	-	-	112,500	$18,000
	19/12/12	31,250		(31,250)	-	-
	TOTAL	**237,500**	**-**	**(31,250)**	**206,250**	**$33,000**
Mr G C Hall	24/06/14	437,500	-	(437.500)	-	-
	22/07/13	875,000	-	(875,000)	-	-
	TOTAL	**1,312,500**	**-**	**(1,312,500)**	**-**	**-**
Mr R L S Middleton	14/07/14	300,000	-	(300,000)	-	-
	22/07/13	312,500	-	(312,500)	-	-
	19/12/12	103,125		(103,125)	-	-
	TOTAL	**715,625**	**-**	**(715,625)**	**-**	**-**
Mrs S Smith	14/07/14	112,500		(112,500)	-	-
	22/07/13	93,750	-	(93,750)	-	-
	10/10/12	25,000	-	(25,000)	-	-
	TOTAL	**231,250**	**-**	**(231,250)**	**-**	**-**

1. *Intrinsic value at year end is the difference between the exercise price and the share price on 31 December 2015.*

REMUNERATION REPORT (AUDITED) *(continued)*

5.2.2 Exercise of options granted as remuneration

During the financial year, the following shares were issued or purchased on the exercise of options previously granted as part of remuneration:

Key Executives	Number of shares after share consolidation	Amount paid $/share	Total Amount paid	Intrinsic value of benefit based on year end value of HGO shares
Executive Directors				
Mr S P McClare	87,500	$0.00	$0.00	$14,000
TOTAL	**87,500**	**$0.00**	**$0.00**	**$14,000**

1. *The value of performance exercised and forfeited during the year is calculated as the market price of shares of the company on the ASX as at close of trading on the date the options were exercised or forfeited after deducting the price paid or payable to exercise the option.*
2. *Intrinsic value at year end is the difference between the exercise price and the share price on 31 December 2015.*

During the financial year 87,500 performance rights held by executive KMP were exercised. There are no amounts unpaid on the shares issued as a result of the exercise of the performance rights in prior years.

5.2.3 Movement of performance rights granted as remuneration

The movement during the reporting period in the number of rights over ordinary shares in Hillgrove Resources Limited held, directly, indirectly or beneficially, by each executive KMP, including their personally–related entities, is as follows:

	Held at 31/12/14	Granted as remuneration	Exercised/ Forfeited	Held at 31/12/15	Vested number	Vested and exercisable at 31/12/15
Executive Director						
Mr S P McClare	737,500	-	125,000	612,500	-	-
Other KMP						
Mr P Kiley	-	-	-	-	-	-
Mr L A Wallace	237,500	-	31,250	206,250	-	-

5.2.4 Performance rights provided to current executive KMP as remuneration – unvested as at 31 December 2015

	Grant Date	Vesting Dates	Tranche	Number Granted as at 31/12/15	Grant Date Fair Value	Total Value of Rights Granted
Mr S P McClare	14/07/14	Mar 2017	Tranche 1	150,000	0.4496	67,440
			Tranche 2	150,000	0.6384	95,760
	22/7/13	Jul 2016	Tranche 1	312,500	0.4496	140,500
	Total			**612,500**		**303,700**
Mr P Kiley	**Total**			**-**		**-**
Mr L A Wallace	14/07/14	Mar 2017	Tranche 1	56,250	0.4496	25,290
			Tranche 2	56,250	0.6384	35,910
	22/7/13	Jul 2016	Tranche 1	93,750	0.4496	42,150
	Total			**206,250**		**103,350**

REMUNERATION REPORT (AUDITED) *(continued)*

5.3 KMP EQUITY INTERESTS

In accordance with the Corporations Act (section 205G (1)), the Company is required to notify the interests (shares and rights to shares) of directors to the ASX.

In the interests of transparency and completeness of disclosure we have provided this information for each director (as required under the Corporations Act) and all other Key Management Personnel as well.

	HGO Ordinary Shares	Options over HGO Ordinary Shares	Total Intrinsic Value of HGO securities as at year end [1]
Non-Executive Directors			
Hon. D C Brown	367,678	-	-
Mr J E Gooding	23,490	-	-
Mr M W Loomes	986,875	-	-
Mr P Baker	100,000	-	-
Executive Directors			
Mr S P McClare	852,273	612,500	$98,000
KMP Executives			
Mr P Kiley	-	-	-
Mr L A Wallace	23,864	206,250	$33,000

1. *Intrinsic value at year end is the difference between the exercise price and the share price on 31 December 2015.*

5.4 MOVEMENT IN EQUITY HELD

The movement during the reporting period in the number of ordinary shares of Hillgrove Resources Limited held, directly, indirectly or beneficially, by each specified Director and executive KMP, including their personally-related entities:

	Held as at 31/12/14	Received on Exercise of Rights	Net Other Changes [2]	Held as at 31/12/15
Directors				
The Hon. D C Brown	116,031	-	251,647	367,678
Mr J E Gooding	18,456	-	5,034	23,490
Mr M W Loomes	196,875	-	790,000	986,875
Mr P Baker	-	-	100,000	100,000
Mr S P McClare	662,500	87,500	102,273	852,273
Other KMP				
Mr P Kiley [1]	-	-	-	-
Mr L A Wallace	23,864			23,864

(1) *Employed on a contract basis from 12 June 2015 to 30 November 2015 and as an employee from 1 December 2015.*

(2) *Net Other Changes result from a combination of the directors participating in the right issue in June 2015, and on market share purchases.*

REMUNERATION REPORT (AUDITED) *(continued)*

6.0 Service Contracts and Employment Agreements

6.1 SERVICE CONTRACTS

The Company does not enter into service contracts for KMP Executives. The following sets out details of the employment contracts for Executive KMPs as at 31 December 2015.

Employee	Mr S P McClare	Mr P G Kiley	Mr L A Wallace
Position	Chief Executive Officer and Managing Director	Chief Financial Officer and Company Secretary	General Manager, Kanmantoo Copper Mine
Commencement	25 May 2015	12 June 2015	1 August 2015
Fixed Remuneration	$425,000 p.a. (1) reviewed periodically	$400,000 p.a. reviewed periodically	$330,000 p.a. reviewed periodically
Short-term Incentive	Up to 60% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Long-term Incentive	Up to 60% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Contract Length	Indefinite	Indefinite	Indefinite
Notice periods for resignation or termination	6 months	3 months	3 months
Redundancy Benefit	National Employment Standards and Group Redundancy Policy	National Employment Standards and Group Redundancy Policy	National Employment Standards and Group Redundancy Policy
Death or Total and Permanent Disability Benefit	No specific benefit	No specific benefit	No specific benefit
Change of Control	No effect	No effect	No effect
Termination for serious misconduct	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI
Statutory entitlements	All leave and benefits due per National Employment Standards	All leave and benefits due per National Employment Standards	All leave and benefits due per National Employment Standards
Post-Employment restraints	For 6 months: Must not interfere in Company business: Recruit employees: Make adverse comments or actions by either party.	No adverse comments or actions by either party	No adverse comments or actions by either party

(1) On 25 May 2015 Mr McClare was appointed on fixed remuneration of $500,000 pa. In the light of the economic conditions and low commodity price environment, on 1 December 2015, Mr McClare agreed to a temporary 15% salary reduction from $500,000 pa to $425,000 pa.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded in accordance with that Class Order to the nearest thousand dollars.

AUDITORS INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 44.

Signed in accordance with a resolution of the Directors:

Dated at Sydney this 31th day of March 2016

The Hon. Dean C Brown, AO
Chairman

Mr Steve McClare
Managing Director

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Hillgrove Resources Limited
5-7 King William Road
P.O. Box 372
UNLEY SA 5061

31 March 2016

Dear Board Members

Hillgrove Resources Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Hillgrove Resources Limited.

As lead audit partner for the audit of the financial statements of Hillgrove Resources Limited for the financial year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

HILLGROVE
RESOURCES

ANNUAL FINANCIAL REPORT

31 DECEMBER 2015

These financial statements are the consolidated financial statements for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Hillgrove Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hillgrove Resources Limited
Ground Floor, 5-7 King William Road
Unley, South Australia 5061

The financial statements were authorised for issue by the Directors on 31 March 2016. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investors' Centre on our website www.hillgroveresources.com.au

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
Revenue	4	**139,501**	166,768
Other income	5	**160**	439
Expenses	6	**(158,245)**	(147,798)
Impairment charges	6	**(112,915)**	(13,795)
Interest and finance charges	6	**(3,856)**	(3,906)
Profit / (Loss) before income tax		**(135,355)**	1,708
Income tax benefit	7	**7,999**	2,079
Profit / (Loss) for the year attributable to owners		**(127,356)**	3,787
Other comprehensive income			
Items that may not be reclassified to profit or loss			
Other financial assets	24	**389**	199
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	24	**(28)**	493
Unrealised gain/(loss) on cash flow hedges taken to equity	26	**19,220**	9,552
Income tax relating to components of other comprehensive income	26	**(5,766)**	(2,865)
Other comprehensive income for the period (net of income tax)		**13,815**	7,379
Total comprehensive income for the period		**(113,541)**	**11,166**
Total comprehensive income for the period is attributable to:			
Equity holders of Hillgrove Resources Limited		**(113,541)**	11,166
Non-controlling interests		**-**	-
Total comprehensive income		**(113,541)**	11,166
Earnings per share for profit attributable to the ordinary equity holders of the Company:		**Cents**	**Cents**
Basic earnings per share	8	**(75.36)**	2.54
Diluted earnings per share	8	**(75.36)**	2.48

The Consolidated Statement of Profit and Loss is to be read in conjunction with the notes to the financial statements set out on pages 50 to 78.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Current assets			
Cash and cash equivalents	9	**6,100**	8,854
Trade and other receivables	10	**3,434**	5,012
Other financial assets	11	**-**	229
Inventories	12	**6,904**	32,664
Derivative financial instruments	26	**10,212**	1,477
Total current assets		**26,650**	48,236
Non-current assets			
Property, plant and equipment	13	**145,630**	211,386
Intangible assets		**2**	4
Exploration and evaluation expenditure	14	**792**	31,330
Deferred tax assets	15	**15,577**	13,058
Derivative financial instruments	26	**9,382**	-
Total non-current assets		**171,383**	255,778
Total assets		**198,033**	**304,014**
Current liabilities			
Trade and other payables	16	**31,477**	29,703
Provisions	17	**2,504**	1,316
Borrowings	18	**3,826**	18,363
Employee benefits payable	19	**2,360**	2,595
Derivative financial instruments	26	**-**	1,269
Total current liabilities		**40,167**	53,246
Non-current liabilities			
Provisions	20	**6,660**	8,434
Borrowings	21	**15,116**	673
Employee benefits payable	22	**126**	126
Derivative financial instruments	26	**-**	1,285
Total non-current liabilities		**21,902**	10,518
Total liabilities		**62,069**	**63,764**
Net assets		**135,964**	**240,250**
Equity			
Contributed equity	23	**216,272**	206,860
Reserves	24	**16,122**	2,464
Retained earnings / (accumulated losses)	25	**(96,430)**	30,926
Total equity		**135,964**	**240,250**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 50 to 78.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance 31 January 2014	**206,860**	**(3,320)**	**24,999**	**228,539**
Restatement due to change in accounting policy (Note 36)	-	(2,140)	2,140	-
Restated total equity 1 February 2014	206,860	(5,460)	27,139	228,539
Profit / (Loss)	-	-	3,787	3,787
Transactions with owners:				
Other comprehensive income	-	7,379	-	7,379
Share based compensation	-	545	-	545
Balance 31 December 2014	206,860	2,464	30,926	240,250
Profit / (Loss)	-	-	(127,356)	(127,356)
Transactions with owners:				
Contributions of equity	9,412	-	-	9,412
Other comprehensive income	-	13,815	-	13,815
Share based compensation	-	(157)	-	(157)
Balance 31 December 2015	**216,272**	**16,122**	**(96,430)**	**135,964**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 50 to 78.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**119,379**	149,898
Cash payments in the course of operations		**(106,720)**	(103,230)
Net cash generated by operating activities	*29*	**12,659**	46,668
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		**(1,042)**	(284)
Payments for property, plant and equipment		**(21,589)**	(29,843)
Proceeds on sale of other financial assets		**235**	152
Proceeds on disposal of plant and equipment		**454**	-
Net cash used in investing activities		**(21,942)**	(29,975)
Cash flows from financing activities			
Proceeds from issue of shares	*23*	**10,078**	-
Transaction costs on 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)
Net cash from / (used) in financing activities		**6,529**	(24,291)
Net decrease in cash and cash equivalents		**(2,754)**	(7,598)
Cash and cash equivalents at the beginning of financial period		**8,854**	16,452
Cash and cash equivalents at the end of the financial period	*9*	**6,100**	**8,854**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 50 to 78.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. The financial statements are for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, Hillgrove Resources Limited is a for-profit entity.

(i) Going concern

For the year ended 31 December 2015, the Group incurred a loss after tax of $127,356,000 (2014: profit after tax of $3,787,000), derived net cash inflows from operating activities of $12,659,000 and incurred net cash outflows from investing activities of $21,942,000 (2014: inflows from operating activities of $46,668,000 and outflows from investing activities of $29,975,000).

As at 31 December 2015 the Group's current liabilities exceeded its current assets by $13,517,000 (2014: $5,010,000). The net current liabilities position is principally as a result of actual annual copper production for the year ended 31 December 2015 of 17,306Mt being below the forecast lower end estimate of 18,500Mt. The lower than estimated cash inflows resulting from the lower than estimated production has led to a build-up of current trade and other payables to $31,477,000 (2014: $29,703,000) at 31 December 2015 as the business further developed the Kanmantoo asset during the planned cut-back phase of the Giant Pit.

During December 2015 the Group submitted a Life of Mine plan ('LOM plan') to its financiers. The LOM plan indicated that copper production would be at its lowest point during February 2016 as the business continued the planned cut-back phase of the Giant Pit. As a consequence current liabilities continued to increase during February 2016 and the Group breached its trade creditor financial covenant, namely to at all times keep its trade creditors (excluding other payables) at or below $25,000,000, as at 29 February 2016.

Subsequent to 29 February 2016, the Group obtained a waiver from its financier that removed the Group's requirement to maintain the balance of trade creditors below the previously agreed $25,000,000. The waiver required the Group to achieve 95%, (formerly 85%), of its payable copper production target, as set out in its LOM plan,for the three month period from 1 March to 31 May 2016.

During March 2016,and based on current production, the Group determined that the LOM plan which required intensified mining on a smaller footprint, was too aggressive and the 95% of its payable copper production target would not be achieved. As a consequence of these operational issues the Group has further revised its LOM plan ("revised LOM plan') to a lower target in line with recent performance. On the basis of the revised LOM plan the Group's revised cash flow forecasts indicate that the ability of the Group to continue to meet its liabilities and obligations as and when they fall due over the next 12 months from the date of this financial report will be dependent upon the continued financial support of its financier and the Group's ability to source additional funding and/or to reduce its cash outflows through a significant cost reduction program and/or asset sales.

The Group's financier has previously indicated that should the Group not be able to achieve its production targets as set out in the LOM plan, the Group would be required to source additional funding via either a capital raising or alternative finance arrangements. In the opinion of the Directors the ability of the Group to source additional funding via either a capital raising or alternative finance arrangements in the current market is restricted. Accordingly, Management has commenced a cost reduction program and are in the process of seeking assistance from all key stakeholders of the Group. A number of cost savings initiatives have been identified as being necessary for the Company and Group to continue as going concerns, and consequently discussions with each of the key stakeholder groups are currently underway as follows:

1. Employees have been asked to take a specified reduction in salaries and wages until 31 December 2017 (but not below any award rate);
2. The South Australian Government has been asked to defer receipt of certain amounts payable by the Group.
3. Large trade creditors representing approximately 68% of total trade creditors have been asked to take a specified reduction in contracting rates or to consider other initiatives which will have the same positive effect on the Group's cash flow. As at the date of signing this report the Group has a number of large trade creditors outside normal payment terms, albeit agreed with those creditors.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of Preparation *(continued)*

(i) Going concern *(continued)*

Consequently, the Group requires the continued support of its large trade creditors until copper production improves to allow the Group to generate sufficient cash flows to settle its liabilities and obligations as and when they fall due. Management has to date focussed its efforts on managing its three major mine contractor trade creditors with regular and ongoing communication programs in place focussed on mutually meeting the needs of the trade creditors as well as managing the Group's cash balance; and

4. Other trade creditors are being asked to provide a similar level of assistance as the large trade creditors by way of a specified reduction in contracting rates/prices. As at the date of signing this report the Group has a significant number of outstanding trade creditors not attributable to the three main mining contractor trade creditors which are outside normal payment terms. The continued support of these trade creditors in managing the Group's cash balance throughout 2016 is required.

5. The Group's financier has been asked to agree to the above initiatives and to continue to support the Group as it seeks to agree and implement the cost reduction program. The Group will require the ongoing support of its financier if it is to continue as a going concern for a period of at least 12 months from the date of signing the financial report.

These key stakeholder discussions have advanced and stakeholders have indicated their favourable response to ensure the continued operation of the Kanmantoo Mine.

Whilst the outcome of these initiatives is not expected to be known until at least 12 April 2016, the date which key stakeholder groups have been requested to confirm their responses, Management and the Board expect the Group's key stakeholders will continue to support the Group by way of the assistance being sought in the manner as outlined above. In this respect, the directors remain confident that there remains significant value in the project and the best path forward is in the revised LOM Plan, which with the cooperation and support of all stakeholders, will result in the best outcome being achieved.

Unless the Group is able to obtain the agreement of all the relevant stakeholders to all of the matters set out above within the agreed period of time, then there is a material uncertainty as to whether the Company and Group will be able to continue as going concerns and therefore whether they will be able to realise their assets and extinguish their liabilities in the normal course of business.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classification of liabilities that might be necessary should the Company and Group not be able to continue as going concerns.

For further information refer to Events Subsequent to Reporting Date on page 25.

(ii) Compliance with International Financial Reporting Standards

Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of Hillgrove Resources Limited comply with International Financial Reporting Standards (IFRSs).

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets to fair value through other comprehensive income and financial assets and liabilities (including derivative instruments) at fair value through profit or loss – as explained in note (e) below.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hillgrove Resources Limited (the ''parent entity'') as at 31 December 2015 and the results of all subsidiaries for the period then ended. Hillgrove Resources Limited and its subsidiaries together are referred to in this financial report as the Group. Subsidiaries are all entities controlled by the Group. Control is achieved when the Group has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of consolidation *(continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and each component of other comprehensive income are attributed to owners of Hillgrove Resources Limited and to the non-controlling interests where applicable.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Parent Entity

The financial information for the parent entity, Hillgrove Resources Limited, disclosed in Note 35 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates are accounted for at cost in the financial statements of Hillgrove Resources Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Hillgrove Resources Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

For the purpose of presenting consolidated financial statements, the assets and liabilities of Hillgrove Resources Limited's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

(d) Impairment of assets

The Group's non-current assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows called cash generating units or CGUs. Assets that have suffered an impairment charge are reviewed for possible reversal of the impairment at each reporting date.

The specific methods and assumptions used to estimate the discounted future cash flows of the Group's CGU are outlined in more detail in Note 2 "Critical accounting estimates and judgements".

(e) Financial Instruments

The Group measures financial instruments, such as over-the-counter derivatives, at fair value at each balance sheet date. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which are detailed further in Note 26.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular cash flow risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Financial Instruments *(continued)*

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 26. Movements on the hedging reserve in other comprehensive income are shown in Note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(g) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded in accordance with that Class Order to the nearest thousand dollars.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Ore reserve estimates

The Group's disclosed reserves are its best estimate of product that can be economically and legally extracted from the relevant mining properties. Estimates are developed after taking into account a range of factors including quantities, ore grades, production techniques and recovery rates, exchange rates, forecast commodity prices and production costs.

The Group's estimates are supported by geological studies and drilling samples to determine the quantity and grade of each ore body. Significant judgement is required to generate an estimate based on the geological data available.

Changes in reported reserves can impact the carrying value of property, plant and equipment including deferred mining expenditure, provision for mine rehabilitation, recognition of deferred tax assets and the amount of depreciation and amortisation charged to the profit or loss.

There has not been a change to the last estimate of the Ore Reserve since November 2013 which was prepared in accordance with the JORC Code 2012 Edition.

(b) Recoverability of non-current assets

In accordance with the Group's accounting policy in Note 1, non-current assets are assessed for impairment when there is an indication that their carrying amount may not be recoverable. The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs of disposal estimated on the basis of discounted present value of future cash flows. The estimates of discounted future cash flows for each CGU are based on significant assumptions including;

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Recoverability of non-current assets *(continued)*

- Estimates of the quantities of ore reserves and the timing of access to those reserves;
- Potential extension of the existing ore reserves based on exploration drilling results to date;
- Future production levels based on plant throughput and recoveries;
- Future copper, gold and silver prices based on broker consensus pricing;
- Future exchange rates for the Australian dollar to US dollar based on forward curve data;
- Future operating costs of production including capital expenditure and rehabilitation;
- The discount rate most appropriate to the CGU (9.5% real).

The ultimate recoupment of costs capitalised and carried forward for exploration and evaluation activities is dependent on successful development and commercial exploitation, or sale of the respective areas. Exploration projects in Indonesia which are in an advanced exploration stage continue to be held on care and maintenance. During the year the full $29.9 million carrying value for the Indonesian exploration assets was written down. In addition, an impairment provision was made for $1.4 million in respect of exploration expenditure at the Wheal Ellen and Kitticoola tenements which are outside the Kanmantoo CGU.

An impairment charge of $14.8 million against the Kanmantoo operations was recorded at half year 30 June 2015 in light of the weaker prevailing economic climate and declining commodity prices. A further assessment of the discounted future cash flows for the Kanmantoo CGU at year end has resulted in an additional impairment charge of $55.0 million bringing the full year impact to $69.8 million (Note 13) and reducing the Kanmantoo carrying value to approximately $146 million. Key rate and price assumptions are provided in note 6d.

(c) Recoverability of deferred tax assets

The Group's ability to recognise deferred tax assets relies on assumptions about the generation of future taxable profits. These taxable profit estimates are based on estimated future production, commodity prices, exchange rates, operating costs, rehabilitation costs and capital expenditures and as a consequence of the impairment write downs in the current year, the Group has not recognised all of the potential tax benefits as a deferred tax asset.

(d) Pre-strip mine development and deferred mining costs

The Group capitalises pre-strip mining costs associated with the development of pit structures prior to normal production. The amount deferred is calculated according to the waste removal ratio when that ratio is significantly higher than the normal waste removal ratio expected to be experienced during ore production, as indicated by the mine plan. Capitalised pre-strip mining costs are classified under Mine Development within Property Plant and Equipment in the balance sheet and are being amortised to the Income Statement over the remaining life of the Kanmantoo mine.

Deferred mining costs represent the mining costs which are normalised for the impact of waste removal ratios and copper grades over the productive life of specific pits. Costs are usually deferred in the upper benches of the pit when the waste removal ratio is generally higher and the copper grade is generally lower than the average of all the ore-producing benches in the pit. The deferred costs are returned to the cost of production as the relevant pit reaches its floor depth.

At 31 December 2014, deferred mining costs of $2.8 million remained from the Emily and Nugent pit cutback and were shown as a current asset on the balance sheet under the general heading of Inventories. These costs were unwound to cost of production during the first 5 months of 2015. The Kanmantoo mine is currently developing the Giant pit cutback which is a much larger undertaking and full scale production from the Giant pit benches will not commence until 2017. At 31 December 2015, deferred mining costs were $17.0 million and are shown as a non-current asset on the balance sheet under the general heading of Property, Plant and Equipment.

(e) Net realisable value of inventories

Inventory is recognised at the lower of cost and net realisable value.

The cost of inventory is determined using the allocation of costs between production and development activities. Costs and activities are monitored at each stage of the production process and allocated to physical units.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(e) Net realisable value of inventories *(continued)*

Net realisable value (NRV) is based on the estimated amount expected to be received when the inventory is completely processed and sold. The estimation of NRV of inventories involves judgements about the quantity of metal that can be recovered, future commodity prices, production costs and selling costs.

Ore that was mainly stockpiled during the initial period of production at Kanmantoo mine was written down by $11.8 million in 2015 and $13.8 million in 2014.

(f) Restoration, rehabilitation and environmental obligations

Expenditures related to ongoing restoration, rehabilitation and environmental obligation activities are accrued and expensed as incurred and included in the relevant exploration activity cost or as part of the cost of exploration activities. These expenditures are estimated either on the basis of detailed cost estimates or are in accordance with statutory provision requirements.

Provision is made for the costs of decommissioning and site rehabilitation costs when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs as outlined in Note 17 and 20.

The provision recognised represents management's best estimate of the costs that will be incurred, but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine.

3. FINANCIAL REPORTING BY SEGMENT

Through its ownership of the Kanmantoo copper mine, the Group has one operating segment being in the resources industry, in Australia. The Group also has exploration tenement interests overseas, but these tenements are fully written down, under minimal care and maintenance and therefore are considered to be immaterial, not requiring separate segment disclosure.

4. REVENUE FROM SALE OF CONCENTRATES

	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
Revenue from sale of concentrates	**139,501**	166,768
Total revenue	**139,501**	**166,768**

Revenue is measured at the fair value of the consideration received or receivable.

The Group sells copper concentrate and sales of the metals contained in the product are recognised when a group entity has delivered the concentrate to the customer. Delivery does not occur until the product has either been sold at the port to the customer or has been loaded onto a ship on the basis of a CIF sale. The market price of the copper metal in the concentrate is declared by the customer one calendar month prior to the month of shipment. The price can be declared as either one of: one month before the month of shipment or synthetically spread adjusted to five months after the month of arrival at the discharge port.

Concentrate sales revenue represents gross proceeds receivable from the customer. Buyer deductions such as treatment charges, refining charges, price participation and bismuth penalty charges are classified as costs of production.

Revenue also includes the net value realised from the close out of commodity forward sale contracts designated as cash flow hedges.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

5. OTHER INCOME

	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
Interest	**154**	294
Other income	**6**	145
Total other income	**160**	**439**

6. EXPENSES

Profit before income tax includes the following expenses:

(a) Expenses per Profit or Loss

	Note	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
Costs of production	*(i)*	103,468	125,035
Depreciation and amortisation		36,347	35,793
Inventory movement		9,617	(19,350)
Cost of goods sold		**149,432**	**141,478**
Government royalties		1,586	2,017
Corporate and other costs	*(ii)*	4,283	4,931
Loss on sale of fixed asset and investments		492	20
Foreign exchange losses		2,497	916
Net (gain)/loss on derivative financial instruments		(45)	(1,564)
Total Expenses per Profit or Loss		**158,245**	147,798

(i) Cash costs of production

Cash costs of production represent costs for mining, processing, transport of concentrate to port, site overheads and treatment / refining charges.

(ii) Corporate and other costs

Corporate and other costs reflect the costs incurred in running the corporate head office, including relocation and redundancy costs associated with the closure of the Sydney office, together with Indonesian care and maintenance costs.

(b) Interest and finance charges

	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
Discount on unwind of rehabilitation provision	1,135	683
Bank fees and charges	968	1,019
Interest on borrowings	1,470	2,071
Interest payable on financial liabilities	283	133
Total Interest and finance charges	**3,856**	3,906

(c) Other required disclosures

	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
Employee benefits (excluding share-based payments)	24,564	24,048
Share based payments	(157)	545
Operating leases (included in cost of goods sold)	20,525	24,039

(d) Impairment charges

	31 Dec 2015 $'000	31 Dec 2014 $'000
Net realisable value of inventories (note 2e)	11,797	13,795
Property, plant and equipment (Kanmantoo CGU)	69,816	-
Exploration assets	31,302	-
	112,915	13,795

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit (CGU) or area of interest to which the asset belongs.

The Group's CGUs and area of interests at 31December 2015 are as follows:

CGU/area of Interest
Kanmantoo (CGU)
Wheal Ellen (area of interest)
Kitticoola (area of interest)
Kanmantoo regional (area of interest)
Birds Head (area of interest)
Sumba Island (area of interest)

(i) Kanmantoo CGU

In accordance with the Consolidated Entity's accounting policies and processes, the Company evaluated its Kanmantoo CGU at 31December 2015, to determine whether there were any indications of impairment. Where an indicator of impairment exists, an estimate of the recoverable amount is performed.

After consideration of the potential indicators which could impact the valuation of the Kanmantoo CGU, the Board assessed the carrying value of assets and concluded that there were indicators of impairment based on future copper prices, long term exchange rates, future costs and Hillgrove's market capitalisation relative to book value. Accordingly, an impairment charge of $69.8 million was recognised in relation to the Kanmantoo Mine CGU.

6. EXPENSES *(continued)*

The recoverable amount of the Kanmantoo CGU has been determined using the fair value less costs of disposal method on the basis of discounted present value of future cash flows. It should be noted that discounted cash flow calculations included significant judgements and assumptions in making estimates of an assets 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 view 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:

(A) 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+
December 2015	$3.42	$3.58	$3.75	$3.26

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.

(B) Reserves and resources

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

(C) Production activity and operating and capital costs

The Kanmantoo CGU has 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.

Exploration, evaluation and development costs are assessed for impairment when facts and circumstances suggest that the carrying amounts of assets may exceed their recoverable amount.

(ii) Impairment of Indonesian exploration assets

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on successful development and commercial exploitation, or sale of the respective areas.

Exploration projects located at the Birds Head and Sumba Island areas of interest are currently in care and maintenance while seeking interested parties as potential joint venture partners. When assessing whether facts and circumstances suggest that the carrying amount exceeds the recoverable amount:

- based on the Company's decision to focus on its Kanmantoo operations,
- given no future expenditure has been budgeted to be spent on these projects, and

in the absence of an active interested third party the Company concluded that the recoverable value of both the Birds Head and Sumba Island areas of interest at 31 December 2015 is nil. Accordingly, an impairment loss of $29.9 million was recognised.

(e) Assurance services

The following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
(i) Audit services		
Fees paid to Deloitte Touche Tohmatsu:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**285,582**	224,694
Audit of hedge accounting adoption	**-**	52,000
Fees paid to other firms:		
Audit and review of financial reports (Crowe Horwath)	**18,040**	17,061
	303,622	293,755
(ii) Taxation Services		
Services by Deloitte Touche Tohmatsu:		
Tax compliance services, including review of income tax returns and fuel tax credits	**74,475**	16,500
Research and Development concession claims	**-**	100,000
Services by other firms:		
Tax Compliance services, including income tax returns (Crowe Horwath)	**9,710**	7,545
Research and development concession claims (Shinewing)	**102,069**	-
	186,254	124,045
(iii) Other Services		
Fees paid to other firms:		
Other services (PricewaterhouseCoopers)	**-**	4,500
	-	4,500

7. INCOME TAX EXPENSE

	12 months to 31 Dec 2015 $'000	11 months to 31 Dec 2014 $'000
(a) Income tax expense		
Deferred income tax expense comprises:		
- (Increase) in deferred tax assets	**(9,823)**	802
- (Decrease)/increase in deferred tax liabilities	**3,829**	(580)
	(5,994)	222
Adjustments for income tax of prior periods	**(2,005)**	(2,301)
Income tax benefit attributable to profit from continuing operations	**(7,999)**	(2,079)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit / (loss) from continuing operations before income tax expense / (benefit)	**(135,355)**	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
- Tax losses not recognised (Indonesia)	**9,247**	223
- Accounting loss on sale of available for sale assets	**114**	3
- Tax losses not recognised (Australia)	**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)
Income tax (benefit)/expense	**(7,999)**	**(2,079)**
(c) Amounts recognised directly in equity		
Deferred tax – (credited)/debited directly to equity	**5,480**	(2,866)

(d) Tax consolidation legislation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Hillgrove Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Hillgrove Resources Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The entities in the tax-consolidated group entered into a tax sharing agreement and a tax funding agreement. On adoption of the legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity. The entities have also entered a tax funding agreement under which the wholly-owned entities fully compensate the head entity for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to it under the tax consolidation legislation.

The tax-consolidated group is entitled to claim special tax deductions for qualifying expenditures such as the Research and Development Tax incentive regime in Australia. This allowance is accounted for as a tax credit, which means the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets. In calculating the tax expense for the current period the Group has estimated the eligible Research and Development costs for the year ended 31 December 2015 as $15.4 million resulting in a reduction of current tax expense and current tax payable of $1.5 million.

8. EARNINGS PER SHARE

Classification of securities as ordinary shares

Ordinary shares have been classified as ordinary shares and included in basic earnings per share.

Classification of securities as potential shares

Outstanding performance rights have been classified as potential ordinary shares and included in diluted earnings per share.

	12 months to 31 Dec 2015	11 months to 31 Dec 2014
	$'000	$'000
(a) Basic earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**(127,356)**	3,787
Profit attributable to ordinary equity holders of the Company	**(127,356)**	**3,787**
(b) Diluted earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company.	**(127,356)**	3,787
Profit attributable to ordinary equity holders of the Company	**(127,356)**	**3,787**

	Number	Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	**168,995,974**	147,654,799
Number for diluted earnings per share		
Ordinary shares	**168,995,974**	147,654,799
Adjustment for calculation of diluted earnings per share:		
Options on issue	**-**	3,683,305
	168,995,974	151,338,104

	Cents	Cents
(a) Basic earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	(75.36)	2.54
(b) Diluted earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	(75.36)	2.48

Prior year earnings have been updated to reflect the 2015 rights issue.

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

9. CASH AND CASH EQUIVALENTS

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Cash at bank and on hand	**298**	592
Restricted cash	**5,598**	8,070
Bank guarantees	**204**	192
	6,100	8,854

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash cannot be accessed without prior consent from financiers.

Bank guarantees relate to amounts required for the security deposit of the lease at Australia Square Tower. The maximum exposure to credit risk and interest rate risk at the reporting date is the carrying amount of each class of asset reported above. The maximum exposure to foreign exchange risk is $1,895 (31 December 2014: $2,669).

10. TRADE AND OTHER RECEIVABLES

	31 Dec 2015 $'000	31 Dec 2014 $'000
Trade receivables	**1,385**	2,000
Prepayments	**785**	905
Other receivables	**373**	988
GST receivable	**891**	1,119
	3,434	5,012

Trade receivables are recognised initially at the value of the invoice sent to the customer. For concentrate sales, the Group has a single customer under the terms of an offtake agreement. First payment is received within three days of a minimum tonnage arriving at Port Adelaide, based on 85% of the value. First provisional payment for an additional 10% of the value is received three days after ship loading. Second provisional payment for the remaining 5% is made 45 days after ship loading. Sales are generally denominated in US dollars. Revenue is recognised using spot exchange rates on the date of the sale, with trade receivables subsequently being translated at the exchange rate applicable on the date when settled. Unsettled balances at periods ends are revalued using the appropriate end of period exchange rate.

11. OTHER FINANCIAL ASSETS

	31 Dec 2015 $'000	31 Dec 2014 $'000
Listed equity securities – at fair value through other comprehensive income	-	229

The maximum exposure to price risk at the reporting date is the carrying amount of the investments shown above. Information about the Group's and parent entity's exposure to price risk is provided in Note 26.

	31 Dec 2015 $'000	31 Dec 2014 $'000
At beginning of period	**229**	**192**
Additions	-	-
Disposals (sale and redemption)	**(286)**	(162)
Revaluation surplus/(short fall) transfer to equity	**57**	199
At end of period	**-**	**229**

12. INVENTORIES

	31 Dec 2015 $'000	31 Dec 2014 $'000
Concentrates	**1,043**	1,424
ROM stockpile	**1,486**	2,773
Oxide and transition ore	**492**	21,524
Stores and consumables	**3,883**	4,111
Deferred mining costs *	**-**	2,832
	6,904	**32,664**

* *Included in Property, Plant and Equipment at 31 December 2015 - see Note 2(d).*

Inventory is recognised at the lower of cost and net realisable value.

Pursuant to an inventory net realisable value assessment, the carrying value of Oxide and transition ore was written down by $11.8 million during the year (2014: $13.8 million).

13. PROPERTY, PLANT AND EQUIPMENT

	31 Dec 2015 $'000	31 Dec 2014 $'000
Land and building		
At cost	**9,362**	9,941
Accumulated depreciation	**(267)**	(112)
	9,095	9,829
Plant and equipment		
At cost	**87,170**	105,005
Accumulated depreciation and impairment	**(51,685)**	(38,951)
	35,485	66,054
Motor vehicles		
At cost	**1,323**	1,167
Accumulated depreciation	**(761)**	(601)
	562	566
Mine development		
At cost	**164,600**	194,119
Accumulated depreciation and impairment	**(81,126)**	(59,182)
	83,474	134,937
Deferred Mining Costs*		
At cost	**17,014**	-
	17,014	-
Total property, plant and equipment	**145,630**	**211,386**

* *Included in inventories at 31 December 2014 - see Note2(d).*

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Reconciliations of the carrying amounts for each class of asset are set out below:

	31 Dec 2015 $'000	31 Dec 2014 $'000
Land and Building		
Carrying amount at beginning of period	**9,829**	9,541
Additions	**-**	400
Disposals	**(579)**	-
Depreciation	**(155)**	(112)
Carrying amount at end of period	**9,095**	9,829
Plant and equipment		
Carrying amount at beginning of period	**66,054**	76,341
Additions	**3,309**	3,203
Disposals	**(76)**	(15)
Depreciation	**(12,740)**	(13,475)
Impairment losses	**(21,062)**	-
Carrying amount at end of period	**35,485**	66,054
Motor vehicles		
Carrying amount at beginning of period	**566**	743
Additions	**199**	2
Disposals	**(46)**	-
Depreciation	**(157)**	(179)
Carrying amount at end of period	**562**	566
Mine development		
Carrying amount at beginning of period	**134,937**	139,055
Additions	**20,414**	23,574
Disposals	**(439)**	(4)
Depreciation	**(21,945)**	(25,214)
Impairment losses	**(48,754)**	-
Reduce provision for rehabilitation	**(739)**	(2,474)
Carrying amount at end of period	**83,474**	134,937
Deferred Mining Costs		
Carrying amount at beginning of period	**-**	-
Additions	**17,014**	-
Carrying amount at end of period	**17,014**	-
Total property, plant and equipment	**145,630**	**211,386**

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and costs incurred in bringing assets into use. Costs for repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred, except when repair work demonstrably extends the useful life of the asset in question in which case it is added to the cost of the asset.

The straight line method of depreciation to allocate cost, net of residual values, is used for buildings and motor vehicles over estimated useful lives of 10 years and 4 years respectively. Freehold land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Plant and equipment and Mine development are depreciated based on units of production, proportionate to the forecast output of the mine. Changes in factors such as estimates of proven and probable reserves that affect the unit of production calculations are applied on a prospective basis.

Mine development includes the Kanmantoo mine rehabilitation asset (see Note 2(f)).

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(d)).

14. EXPLORATION AND EVALUATION EXPENDITURE

	31 Dec 2015 $'000	31 Dec 2014 $'000
Exploration, evaluation and expenditure	**792**	31,330
Balance at beginning of financial period	**31,330**	30,550
Additions	**791**	284
Impairment losses (Refer Note 2(b))	**(31,302)**	-
Movement due to foreign exchange revaluation	**(27)**	496
Carrying amount at end of period	**792**	31,330

The Group accumulates certain costs associated with exploration activities on specific areas of interest where the Group has rights of tenure and where exploration and evaluation activities in the area of interest have not reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves.

15. DEFERRED TAX

	31 Dec 2015 $'000	31 Dec 2014 $'000
Deferred tax asset (DTA)		
DTA amounts recognised in profit or loss		
Employee benefits	**668**	879
Rehabilitation provisions	**479**	434
Tax revenue losses (incl. R&D credits)	**21,973**	17,455
Property, plant & equipment	**18,694**	8,256
Other	**890**	1,035
	42,704	28,059
DTA / (DTL) amounts recognised directly in equity		
Derivatives	**(6,449)**	(683)
Other	**369**	563
Set-off deferred tax liabilities pursuant to set-off provision	**(21,047)**	(14,881)
Net deferred tax assets	**15,577**	13,058
Deferred tax liability (DTL)		
DTL amounts recognised in profit or loss		
Deferred mining costs	**5,104**	850
Property, plant & equipment	**15,705**	14,031
Other	**238**	-
	21,047	14,881
Amount offset to deferred tax assets pursuant to set-off	**(21,047)**	(14,881)
Net deferred tax liabilities	**-**	-
Movements in net deferred tax balance		
Opening balance	**13,058**	13,845
Credited / (charged) to profit or loss	**5,994**	(222)
Credited / (charged) directly in equity	**(5,480)**	(2,866)
Over / (under) provision in prior years	**2,005**	2,301
Closing balance	**15,577**	13,058

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable future taxable amounts will be available to utilise those temporary differences and losses. Unused tax losses and offsets for which no deferred tax asset has been recognised are approximately $89,788,000 (tax benefit at the Australian tax rate of 30%; $26,936,000).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets of $2,403,000 (2014: $1,414,000) and deferred tax liabilities of $8,614,000 (2014: $850,000) are expected to be recovered in less than 12 months of the balance sheet date.

16. TRADE AND OTHER PAYABLES

	31 Dec 2015 $'000	31 Dec 2014 $'000
Trade payables	**24,749**	21,640
Other payables and accruals	**6,728**	8,063
	31,477	29,703

Information about the Group's exposure to liquidity risk is provided in Note 26.

17. PROVISIONS – CURRENT

	31 Dec 2015 $'000	31 Dec 2014 $'000
Rehabilitation provision	1,944	1,137
Make good provision	560	179
	2,504	1,316
Movement in provisions		
Carrying value at the beginning of the period	1,316	404
(Reduce)/increase provision recognised	382	-
Transfer from/(to)non-current provisions	806	912
Balance at end of period	2,504	1,316

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to repair land disturbed by exploration activities. The current balance is in respect of the Kanmantoo mine and Comet Vale tenement, which are expected to occur over the next 12 months. The make good provision of $0.6 million is in respect of repairs to damaged equipment and repairs to vehicles.

18. BORROWINGS – CURRENT

	31 Dec 2015 $'000	31 Dec 2014 $'000
Secured		
Pre-export facility	3,832	-
Bank loan – Mezzanine facility	-	10,000
Bank loan – Project Finance	-	8,000
Less transaction costs on loans	(479)	(49)
	3,353	17,951
Unsecured		
Lease liabilities	473	412
	473	412
Total current borrowings	3,826	18,363

During the year the Company repaid $18.0 million of debt owing on its Mezzanine and Project finance facilities and secured a Pre-export Facility of US$14.0 million with Ventures Australia LLC, a subsidiary of Freepoint Commodities LLC. The repayments of this facility commence in March 2016 and will be completed in June 2018.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost in relation to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities. Where the Group has an unconditional right to defer settlement of the liability at least 12 months after the reporting period, that part of the deferred settlement is classified as a non-current liability.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Leases of property, plant and equipment where the Group substantially holds all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the liability balance outstanding. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the asset's useful life and the lease term. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight line basis over the lease period.

19. EMPLOYEE BENEFITS PAYABLE – CURRENT

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Employee benefits payable	**2,360**	2,595

The current provision for employee benefits includes accrued annual leave and long service leave. The portion of the current provision relating to eligible long service leave is classified as current since the Group does not have an unconditional right to defer settlement beyond 12 months.

Unpaid liabilities for wages and salaries, including non monetary benefits, annual leave and sick leave taken, and superannuation costs which are expected to be settled within 12 months of the reporting date are recognised in other payables.

20. PROVISIONS – NON CURRENT

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Rehabilitation provision	**6,660**	8,434
Movement in provisions		
Carrying value at the beginning of the period	**8,434**	11,363
Discount on unwind of rehabilitation provision	**1,136**	683
Transfer (to)/from current provisions	**(806)**	(912)
Expenditure charged to provision	**(1,570)**	(279)
(Reduce)/increase provision recognised	**(534)**	(2,421)
Balance at end of period	**6,660**	**8,434**

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to repair land disturbed by exploration and mining activities. Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs.

The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the statement of profit or loss and shown as a financial cost.

21. BORROWINGS – NON-CURRENT

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Secured		
Pre-export facility	**15,330**	-
Less transaction costs on loans	**(718)**	-
	14,612	-
Unsecured		
Lease liabilities	**504**	673
	504	673
Total non-current borrowings	**15,116**	**673**

22. EMPLOYEE BENEFITS PAYABLE – NON CURRENT

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Long service leave	**126**	126

23. CONTRIBUTED EQUITY

Share capital

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Issued and paid up capital for 188,109,342 fully paid shares (31 December 2014: 147,711,123)	**216,272**	206,860

23. CONTRIBUTED EQUITY *(continued)*

Ordinary Shares Issued – movements during the period

	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
	No. of shares	No. of shares	$'000	$'000
Opening balance	**147,711,123**	1,179,889,221	**206,860**	206,860
Share placement	**40,310,719**	-	**10,078**	-
Employee share schemes/issues	**87,500**	1,790,550		-
Less – transaction costs		-	**(951)**	-
Deferred tax credit recognised directly in equity		-	**285**	-
Share consolidation (8 to 1)		(1,033,969,799)		-
Adjustment for rounding		1,151		-
Balance at end of period	**188,109,342**	147,711,123	**216,272**	206,860

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Terms and Conditions

Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings. In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

24. RESERVES

	31 Dec 2015 $'000	31 Dec 2014 $'000
Employee Share Options reserve	**2,490**	2,647
Other financial assets revaluation reserve	**(1,238)**	(1,627)
Cash flow hedges	**15,047**	1,593
Foreign currency translation	**(177)**	(149)
	16,122	2,464
Movements:		
Employee share options reserve		
Balance 31 December 2014	**2,647**	2,102
Share based compensation expense	**(157)**	545
Balance 31 December 2015	**2,490**	2,647
Other financial assets revaluation reserve		
Balance 31 December 2014	**(1,627)**	314
Restatement due to change in accounting policy	**-**	(2,140)
Revaluation net of amounts transferred to statement of other comprehensive income	**57**	199
Profit and loss charge on disposal	**332**	-
Balance 31 December 2015	**(1,238)**	(1,627)
Cash flow hedges		
Balance 31 December 2014	**1,593**	(5,094)
Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges	**29,057**	1,899
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	**(9,837)**	7,653
Deferred tax	**(5,766)**	(2,865)
Balance 31 December 2015	**15,047**	1,593
Foreign currency translation		
Balance 31 December 2014	**(149)**	(642)
Currency translation differences arising during the period	**(28)**	493
Balance 31 December 2015	**(177)**	(149)

Nature and purpose of reserves

(i) Other financial asset revaluation reserve

Changes in the fair value of investments, such as equities, classified as other financial assets, are taken to the other financial assets revaluation reserve.

(ii) Employee share option reserve

The employee share option reserve is used to recognise the fair value of share performance rights issued to employees but not exercised.

(iii) Hedge reserve

The cash flow hedge reserve represents the effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges, net of taxes. The amounts are recognised in the profit or loss in the same periods the hedged item is recognised in the profit or loss.

(iv) Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in Other Comprehensive Income as described in Note 1(c)(ii) and accumulated in the foreign currency translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

25. RETAINED EARNINGS

	31 Dec 2015 $'000	31 Dec 2014 $'000
At beginning of the period	**30,926**	24,999
Profit attributable to members of the parent entity	**(127,356)**	3,787
Restatement due to change in accounting policy	**-**	2,140
Retained profits at end of the period	**(96,430)**	30,926

No dividend was paid during the current period (31 December 2014: Nil). The Company has $21.3 million of franking credits available for future periods (31 December 2014: $21.3 million).

26. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as commodity swaps and options to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, commodity price and foreign exchange risks and ageing analysis for credit and liquidity risk.

Risk management is carried out by senior management under direction of the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas.

The derivatives held by the Group are summarised below:

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Current asset		
Copper forwards	10,132	1,477
Gold forwards	2	-
Forward exchange contracts	78	-
	10,212	1,477
Non-current asset		
Copper forwards	9,382	-
Current liability		
Copper forwards	-	(822)
Gold forwards	-	(9)
Forward exchange contracts	-	(438)
	-	(1,269)
Non-current liability		
Copper swaps	-	(1,285)
Net asset / (liability)	**19,594**	**(1,077)**

Hedge accounting is applied to all the derivatives in the above table, except for forward exchange contracts.

(a) Market risk

(i) Copper – Price and foreign exchange risk management

The Group has exposure to copper commodity prices arising from sales contracts that commit the Group to supply copper concentrate in future years. The prices for copper concentrate supplied under these contracts will be determined at the time of delivery with respect to the price of copper, gold and silver which is quoted in US dollars. The copper price component represents greater than 90% of the copper concentrate sales.

The Group has a policy of maintaining an appropriate level of hedging for up to the next three years to manage its commodity price and US dollar exposure, with the objective of providing more predictable revenue cash flows. The Group has entered into copper commodity swaps contracted in Australian dollars to hedge both the US dollar copper price risk and AUD/USD exchange rate risk. Hedge accounting is applied by hedging the copper component of concentrate sales. The copper component is a separately identifiable and reliably measurable component of copper concentrate, and is hedged on a one-to-one basis with the copper commodity swaps.

(ii) Gold – Price and foreign exchange risk management

The Group has exposure to gold commodity prices arising from sales contracts that commit the Group to supply copper concentrate in future years. The price for the gold component of copper concentrate supplied under these contracts will be determined at the time of delivery with respect to the price of gold which is quoted in US dollars.

The following tables detail the Group's copper and gold commodity derivative contracts outstanding at the reporting date.

26. FINANCIAL RISK MANAGEMENT *(continued)*

	2015			2014		
	Quantity	Average Contract Price	Fair Value $'000	Quantity	Average Contract Price	Fair Value $'000
Commodity positions at reporting date						
Copper forwards (tonnes)						
Maturing less than 1 year	**8,479**	**7,722**	**10,132**	16,271	7,845	655
Maturing 1-2 years	**7,997**	**7,797**	**9,382**	4,240	7,501	(1,285)
	16,476		**19,514**	20,511		(630)
Gold forwards (ounces)						
Maturing less than 1 year	**285**	**1,471**	**2**	1,215	1,467	(3)
Maturing 1-2 years	**-**	**-**	**-**	285	1,471	(6)
	285		**2**	1,500		(9)
Forward exchange contracts at reporting date						
	Amount	Average Contract Exch Rate	Fair Value $'000	Amount	Average Contract Exch Rate	Fair Value $'000
USD dollar to AUD contracts						
Maturing less than 1 year	**4,227,605**	**0.7169**	**78**	10,078,199	0.8647	(438)
			19,594			(1,077)

The following table summarises the impact of applying hedge accounting for the copper swaps;

Cash flow hedges - swaps to hedge copper price risk

		2015	2014
Nominal amount of the hedging instrument	*tonnes*	**16,476**	18,531
Carrying amount of the hedging instrument			
Assets	*$'000s*	**19,594**	1,477
Liabilities	*$'000s*	**-**	2,107
Line item in the statement of financial position where the hedging position is located	Derivative Financial Instruments (Note 26)		
Changes in FV of hedging instrument used for calculating hedge ineffectiveness	*gain/(loss) $'000s*	**21,262**	7,541
Changes in FV of hedging item used for calculating hedge ineffectiveness	*gain/(loss) $'000s*	**20,995**	8,049
Cash flow hedge reserve at 31 December	*gain/(loss) $'000s*	**21,495**	2,271
Change in value of hedging instrument recognised in other comprehensive income (pre-tax)	*gain/(loss) $'000s*	**29,057**	7,653
Amount reclassified from the cash flow hedge reserve to profit or loss (pre-tax)	*(gain)/loss $'000s*	**(9,837)**	(1,899)
Line item in the statement of profit or loss	Revenue from sale of concentrates		
Cumulative hedge ineffectiveness from designation date recognised in profit or loss	*gain/(loss) $'000s*	**378**	(5)
Line item in the statement of profit or loss that includes hedge ineffectiveness	Net gain/loss on derivative financial instruments		

26. FINANCIAL RISK MANAGEMENT *(continued)*

The fair value of the copper and gold commodity derivative contracts in AUD will be impacted by fluctuations in the spot AUD price for each commodity. Fluctuations in the spot AUD price for each commodity reflect movements in either the underlying spot USD price for the commodity and/or movements in the spot AUD/USD exchange rate.

The fair value of foreign exchange contracts in AUD will be impacted by fluctuations in the spot AUD/USD exchange rate.

The following table details the Group's sensitivity as at 31 December 2015 to a 10% increase / decrease in the above variables:

	2015		2014	
	Profit or loss	Equity	Profit or loss	Equity
Copper forwards at reporting date				
Increase in USD copper price of 10%	-	**(10,553)**	(1,558)	(14,213)
Decrease in USD copper price of 10%	-	**10,553**	1,558	14,213
Decrease in AUD/USD exchange rate of 10%	-	**(11,703)**	59	(15,742)
Increase in AUD/USD exchange rate of 10%	-	**9,575**	(54)	12,875
Gold forwards at reporting date				
Increase in AUD gold price of 10%	-	**(41)**	-	(109)
Decrease in AUD gold price of 10%	-	**41**	-	109
Forward exchange contracts at reporting date				
Increase in AUD/USD exchange rate of 10%	**683**	-	690	-
Decrease in AUD/USD exchange rate of 10%	**(489)**	-	(843)	-

(b) Interest rate risk management

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following borrowings:

	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
	Weighted average interest rate		$'000	
Borrowings	**8.5%**	7.7%	**18,942**	19,036

The percentage of total borrowings which are at variable rates is 0% (31 December 2014: 94%).

An analysis by maturities is provided in (e) below. Both receivables and payables are non-interest bearing.

Details of borrowings have been provided in Note 18 and 21. At 31 December 2015, if interest rates had increased/decreased by 100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been decreased/increased by $0 (31 December 2014: $91,000). This is due to borrowings being fixed at 8.5%.

(c) Foreign exchange risk

The Group sells copper concentrate, the sales value of which is affected by the prevailing US$ exchange rate. The Group has entered into copper commodity derivatives contracted in A$ to hedge both the US$ copper price risk and the US$ exchange rate risk, with the exposure being the US$ of the unhedged portion of future sales. Sales of copper concentrate in the year ended 31 December 2015 totalled $139,500,540 (31 December 2014: $166,768,030).

Management has considered the potential impact of foreign exchange risk on the unhedged revenue stream and deemed it not to be material.

26. FINANCIAL RISK MANAGEMENT *(continued)*

The impact of A$/US$ exchange rate on the fair value of the copper commodity derivatives and the gold embedded derivative have been detailed above.

The Group has US$ denominated trade receivables of US$1,011,788 (31 December 2014: US$1,640,418). The carrying amount of the trade receivables in A$ will be impacted by the A$/US$ exchange rate.

The following table details the Group's sensitivity as at 31 December 2015 and 31 December 2014:

	31 December 2015		31 December 2014	
	Impact on profit or loss			
$'000	Increase	Decrease	Increase	Decrease
Impact of 10% increase/decrease in A$/US$ exchange rate on US$ denominated trade receivables	**(126)**	**138**	(182)	222

The Group and parent entity also hold bank accounts denominated in US$ and IDR (Indonesian Rupiah) which had carrying values of Nil and $1,895 respectively at 31 December 2015 (31 December 2014: $Nil and $2,669 respectively). Management has considered the impact of foreign exchange risk on the cash balance and it is deemed not to be material.

(d) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, derivative financial instruments and receivables. The Group holds its cash with Westpac Banking Corporation and Macquarie Bank. The Group considers these to be appropriate financial institutions.

The Group has trade receivables of A$1,384,874 (31 December 2014: A$2,000,022). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

GST refunds are receivable from a government agency and are deemed to have no significant credit risk.

For banks, financial institutions and third party debtors, management assesses the credit quality of the counter party, taking into account its financial position, past experience and other relevant factors. The Group has a policy placing no more than 35% of its cash balance with any one financial institution. This excludes any amounts held by Macquarie Bank relating to the finance of the Kanmantoo process facility. The Group also only places term deposits with AAA and AA rated banks.

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity risk is managed on a Group basis. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in liquid markets.

The Group monitors its cash flow on a weekly basis to ensure adequate funds are in place for exploration and production activities. The Group and the parent entity had no undrawn borrowing facilities at the reporting date.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes future interest on borrowings.

26. FINANCIAL RISK MANAGEMENT *(continued)*

	Less than 1 year	1 to 2 year(s)	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
31 December 2015 ($'000)						
Trade and other payables	**31,477**	-	-	-	-	-
Borrowings	**5,903**	**9,589**	**7,637**	-	-	-
Copper Commodity Swaps*	-	-	-	-	-	-
Total	**37,380**	**9,589**	**7,637**	-	-	-
31 December 2014 ($'000)						
Trade and other payables	29,703	-	-	-	-	-
Borrowings	18,912	283	267	195	43	-
Copper Commodity Swaps*	1,333	1,423	-	-	-	-
Total	**49,948**	**1,706**	**267**	**195**	**43**	-

(f) Fair value estimation

The Group carries derivative financial instruments (copper commodity swaps and options, and gold embedded derivative) at fair value on the balance sheet at the reporting date. The fair values of derivative financial instruments (Note 26(a)(i) and (ii)) are determined to be of Level 2 on the fair value hierarchy definition below.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The carrying amount of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair value.

26. FINANCIAL RISK MANAGEMENT (continued)

The following table details the techniques used for measuring the fair value of the instruments and their level as at 31 December 2015 and 31 December 2014:

Instrument Type	Fair value 31 Dec 2015 ($'000)	Fair value 31 Dec 2014 ($'000)	Level	Valuation techniques and key inputs
Copper commodity swaps	**19,514**	(630)	2	Future cash flows are estimated using copper forward rates, US$/A$ forward exchange rates and the contracted rates. Cash flows are discounted at a rate that reflects the time value of money and credit risk (entity and counter party credit risk).
Gold derivative/ Gold embedded derivative	**2**	(9)	2	Future cash flows are estimated using gold forward rates, US$/A$ forward exchange rates and the contracted rates. Cash flows are discounted at a rate that reflects the time value of money and credit risk (entity and counter party credit risk).
Foreign currency forward	**78**	(438)	2	Future cash flows are estimated using US$/A$ forward exchange rates and the contracted rates. Cash flows are discounted at a rate that reflects the time value of money and credit risk (entity and counter party credit risk).
Listed equity securities	**-**	229	1	Quoted price in an active market.

27. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b)(i).

Name of controlled entity	Country of incorporation	Class of share	Equity holding 31 Dec 2015 %	Equity holding 31 Dec 2014 %
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 Holdings 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.

Transactions with non-controlling interests

There were no transactions with non-controlling interests during the period.

28. COMMITMENTS

(a) Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:

	31 Dec 2015 $'000	31 Dec 2014 $'000
Within one year	**272**	217
One year or later and no later than five years	**264**	459
	536	676

The group leases various offices under non-cancellable operating leases expiring within five years of the reporting date. The leases have varying terms, CPI escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(b) Capital commitments

At 31 December 2015 there were no contracted for capital commitments (31 December 2014: Nil).

29. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as set out in Note 9.

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities

	31 Dec 2015 $'000	31 Dec 2014 $'000
Operating profit after income tax	**(127,356)**	3,787
Add/(less) items classified as investing/financing activities		
Loss on sale of investments	**381**	9
Net loss on sale of fixed assets	**111**	15
Net interest expense	**2,560**	2,437
Add/(less) non-cash items		
Depreciation and amortisation	**36,347**	35,793
Impairment asset write downs	**101,118**	-
Inventory NRV write downs	**11,797**	13,795
Employee share options	**(157)**	545
Unrealised FX losses	**1,162**	-
Unrealised (gain) / losses on financial derivatives	**(1,113)**	1,374
Discount on unwind of rehabilitation provision	**1,136**	683
Allocation of deferred mining costs to costs of goods sold	**2,784**	3,509
Net cash generated by operating activities before change in assets and liabilities	**28,770**	61,947
Changes in operating assets and liabilities		
Increase in receivables, prepayments and inventories	**(7,946)**	(20,323)
Increase in trade creditors and accruals	**1,555**	7,101
Increase in net deferred tax assets	**(7,999)**	(2,078)
Increase / (decrease) in provisions	**(1,721)**	21
Net cash generated by operating activities	**12,659**	**46,668**

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	12 months to 31 Dec 2015	11 months to 31 Dec 2014
Short-term employee benefits	**2,094,233**	2,132,850
Post-employment benefits	**156,893**	162,236
Share based payments	**(712,013)**	690,701
	1,539,113	2,985,787

Further detail regarding key management personnel compensation can be found in the Remuneration Report.

31. RELATED PARTY TRANSACTIONS

(a) Parent entities

The parent entity within the Group is Hillgrove Resources Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 27.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 30.

(d) Related parties

Loans to controlled entities are netted on consolidation.

The parent Company is the banker for the Group and re-allocated via loan account all costs that related to the controlled entities. Some assets and liabilities previously recognised in the parent Company, mainly consisting of property, plant, equipment and exploration related assets, have also been transferred to the controlled entities via loan account. All these transactions were recorded at cost.

32. EVENTS AFTER THE REPORTING PERIOD

Following a two-day trading halt on the ASX on the 31 March 2016, Hillgrove announced that since February 2016 it had not achieved the budgeted production levels at its Kanmantoo copper / gold mine for the following reasons:

- As advised in late 2015, the independent evaluation of the orebody led to the deferral of revenue;
- To address this deferral the previous life of mine plan was amended, which intensified mining in a smaller footprint;
- Following detailed implementation, planning and analysis of recent actual performance, it has been determined that the planned mining sequence was too aggressive; and

as a result of this, the life of mine (LOM) plan has been revised to one which has a simpler sequence and is based upon currently achieved mining rates, but which brings forward waste removal and in consequence defers copper production.

In February 2016, as a consequence of this lower production, current liabilities increased during the month and Hillgrove was in breach of its month end, $25,000,000 trade creditor financial covenant. Subsequent to the end of February, Hillgrove obtained a waiver from its financiers that removed the $25,000,000 month end limit for February 2016.

The waiver required the Group to achieve 95% (formerly 85%) of its payable copper production target, as set out in its LOM plan, for the three month period from March to May 2016. During March 2016 Hillgrove determined that, for the reasons outlined above, the LOM plan was too aggressive and the 95% of its payable copper production target would not be achieved.

As a consequence Hillgrove revised its LOM plan to lower targets in line with recent performance. While this revised LOM plan still shows Kanmantoo will generate significant value and has exploration potential, the anticipated near term production levels coupled with the need to continue the pre-strip and cut-back of the Giant pit are likely to result in a cash shortfall in 2016 and 2017 at current performance levels and commodity prices unless cost-reduction measures are implemented to improve cash flow from operations.

The Board has agreed a process to address the anticipated cash flow shortfall. As part of this, an independent review of the Company's revised plans and forecasts is to be undertaken and a range of measures are being implemented to reduce costs and generate proceeds from asset sales. Hillgrove has begun discussions with its key stakeholders including employees, major contractors, suppliers and service providers, financiers and the South Australian Government to seek their assistance with this process to ensure the Company can bridge any cashflow gaps this year and into 2017.

32. EVENTS AFTER THE REPORTING PERIOD *(continued)*

These key stakeholder discussions have advanced and stakeholders have indicated their favourable response to ensure the continued operation of the Kanmantoo Mine.

If Hillgrove can successfully implement the package of measures with these stakeholder groups, it should be able to generate sufficient cashflow from operations to continue operating the Kanmantoo Mine. Considerable progress had been made in these stakeholder discussions. The Company's financiers are generally supportive of the pre-emptive action being taken.

The directors remain confident that there is significant value in the mine and believe that the best outcome for the company as a whole is achieved by implementing the revised LOM plan and reducing costs with the cooperation and support of all stakeholders.

For further information refer to Going Concern Note (a) (i) on page 50.

33. CONTINGENT LIABILITIES

Guarantees

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	**2,087**	2,477
Environmental bond required under the mining and rehabilitation plan for Kanmantoo	**10,180**	16,750
Security bonds on rental properties	**198**	192
	12,465	19,419

The Electranet and Environment bonds were provided by Macquarie Bank limited under the Performance Bond facility agreement.

The security bonds on rental properties and tenements are provided by Westpac Banking Corporation.

The consolidated entity has obligations to restore land disturbed under exploration and mining licences. The consolidated entity has bank guarantees set aside for the maximum obligations to the state government departments. These bank guarantees may be forfeited if the consolidated entity does not meet its obligations under these licence agreements.

The Directors are of the opinion that further provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The consolidated entity had no other contingent liabilities at 31 December 2015.

34. SHARE-BASED PAYMENTS

Options and Performance Rights Plan (OPRP)

Share based compensation benefits are provided by the Options and Performance Rights Plan (OPRP).The securities issued under this plan are referred to as performance rights throughout the financial statements.

The Options and Performance Rights Plan (OPRP) is designed to provide long-term incentives for senior managers and above (including Executive Directors) to deliver ongoing improvements in shareholder returns.

Under the plan, participants are granted rights which vest and are exercised three years after offer, subject to the achievement of certain pre-set performance measures and service conditions. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Rights granted under the plan carry no dividend or voting rights. When exercisable, each performance right is convertible into one fully paid ordinary share in Hillgrove Resources Limited. The granting and exercise price of the rights is nil.

The ability for rights to vest and be automatically exercised under the OPRP is dependent on the following:

a) The satisfaction of all the Performance Conditions (KPI's);

b) The invitee achieving an Annual Performance Appraisal Rating of 50% of more;

c) The invitee complying with all Company policy and procedures (e.g. no disciplinary action against the invitee between offer and vesting); and

d) The invitee meeting the Service Condition (continued employment) for the rights.

Collectively the above conditions are referred to as the Vesting Conditions.

Fair value of performance rights granted in the year

The assessed fair value at grant date of performance rights granted to individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Binominal Approximation or Monte Carlo simulation model (as appropriate). Both models take into account the exercise price, the term, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights. Expected volatility is based on the Group's three year rolling daily standard deviation using Hillgrove's closing share price for the six years prior to the grant.

There were no performance rights granted during 2015, the weighted fair value of performance rights granted during 2014 was 61.7 cents per right.

Movements in performance rights during the year

	31 December 2015		31 December 2014	
	Number of performance rights	Weighted average exercise price ($)	Number of performance rights	Weighted average exercise price ($)
Balance at beginning of year	**4,462,500**	**-**	23,610,000	-
Granted during the year	**-**	**-**	14,840,000	-
Forfeited during the year	**(2,561,250)**	**-**	(210,000)	-
Exercised during the year	**(87,500)**	**-**	(2,540,000)	-
Expired during the year	**-**	**-**	-	-
Share consolidation (8 to 1)	**-**	**-**	(31,237,500)	-
Balance at end of year	**1,813,750**	**-**	4,462,500	-
Exercisable at end of year	**-**	**-**	-	-

34. SHARE-BASED PAYMENTS

(continued)

Performance rights outstanding at the end of the year

At the end of the year there are 1,813,750 performance rights outstanding that have been issued under the OPRP. The exercise price of these performance rights are Nil (31 December 2015: Nil), and the weighted average remaining contractual life at the end of the period was 0.9 years (31 December 2014:1.8 years).

The 6,250,000 share options outstanding that have been issued to Macquarie Bank Limited under the Mezzanine finance arrangement (with an exercise price of $1.08) lapsed during the period.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Performance rights issued under the OPRP	**(157)**	545

35. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

	Parent	
	31 Dec 2015	31 Dec 2014
	$'000	$'000
Loss after income tax	**(33,498)**	(2,886)
Total comprehensive income	**(38,244)**	(2,194)
Balance Sheet		
Total current assets	**426**	757
Total assets	**223,729**	258,067
Total current liabilities	**1,089**	11,563
Total liabilities	**1,096**	11,580
Shareholders Equity		
Contributed equity	**216,272**	206,860
Reserves	**1,253**	1,020
Retained profits	**5,108**	38,607
Total equity	**222,633**	**246,487**

The parent company has issued a guarantee for the payment of all debts and monetary liabilities of its subsidiary Hillgrove Copper Pty Limited relating to the financing of the Kanmantoo Copper Mine.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1. Investments in subsidiaries are accounted for at cost, less any impairment.

Contingent liabilities

	31 Dec 2015	31 Dec 2014
	$'000	$'000
Security bond on rental properties	**198**	192

36. STANDARDS AND INTERPRETATIONS IN ISSUE

(i) Mandatory standards adopted in the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The adoption of these mandatory standards has not had a significant impact on the Group's accounting policies or the amounts reported during the year.

(ii) Early adoption of standards

In the previous financial year, the Group elected to early adopt AASB 9 Financial Instruments (AASB 9 (2010) as amended). AASB 9 requires that an entity classify its financial assets as subsequently measured at either amortised cost or fair value depending on the entity's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The adoption of this standard has no material impact on the measurement of the Group's financial assets and, therefore, has no impact on the Company's earnings per share for the current period or the prior period.

The adoption of AASB 9 did not impact the original carrying amount of the Company's financial assets, previously measured under AASB 139. Under the adoption of AASB 9, cash and cash equivalents, trade receivables and other receivables continue to be measured at amortised cost.

36. STANDARDS AND INTERPRETATIONS IN ISSUE *(continued)*

(ii) Early adoption of standards *(continued)*

Impact on statement of financial position at 1 February 2014

$'000	As at 1 Feb 2014 as previously reported	AASB 9 adjustments	As at 1 Feb 2014 as restated
Contributed equity	206,860	-	206,860
Retained earnings	24,999	2,140	27,139
Reserves	(3,320)	(2,140)	(5,460)
Total effect of equity	228,539	Nil	228,539

Impact on statement of financial position at 31 December 2014

$'000	As at 1 Dec 2014 as previously reported	AASB 9 adjustments	As at 1 Dec 2014 as restated
Contributed equity	206,860	-	206,860
Retained earnings	30,926	-	30,926
Reserves	2,464	-	2,464
Total effect of equity	240,250	-	240,250

(iii) Standards and interpretations in issue but not yet adopted

At the date of authorisation of the financial statements, the standards and interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 (2014) 'Financial Instruments', and the relevant amending standards.	1 January 2018	31 December 2018
AASB 2014-3 'Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	31 December 2016
AASB 2014-4 'Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	31 December 2016
AASB 2014-9 'Equity Method in Separate Financial Statements'	1 January 2016	31 December 2016
AASB 2014-10 'Sale or Contribution of Assets between an Investor and its Associate of Joint Venture'	1 January 2016	31 December 2016
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2017	31 December 2017
AASB 2015-1 'Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	31 December 2016

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 46 to 78 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the financial period ended on that date; and

(b) subject to the disclosures in Note 1 (a) (i) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Dated at Sydney this 31th day of March 2016

The Hon. Dean C Brown, AO
Chairman

Mr Steve McClare
Managing Director

Deloitte.

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Independent Auditor's Report
to the members of Hillgrove Resources Limited

Report on the Financial Report

We were engaged to audit the accompanying financial report of Hillgrove Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 46 to 79.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a)(ii), the directors also state, in accordance with Accounting Standard AASB 101 "Presentation of Financial Statements", that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on conducting the audit in accordance with Australian Auditing Standards. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Hillgrove Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Basis for Disclaimer of Opinion

We draw attention to Note 1(a)(i) 'Going Concern' in the financial report which indicates that the consolidated entity incurred a net loss of $127,356,000 during the year ended 31 December 2015 and, as at that date, the consolidated entity's current liabilities exceeded its current assets by $13,517,000. Further we draw attention to Note 32 which outlines certain events which have occurred subsequent to balance date, in particular revisions to the Life of Mine plan announced to the Australian Securities Exchange on 31 March 2016 which result in an anticipated cash flow shortfall in 2016 and 2017. Both Notes 1(a)(i) and 32 also outline a number of initiatives the directors intend to undertake to ensure the company and the consolidated entity are able to continue as going concerns. These initiatives include ensuring the continued financial support of the financier, sourcing additional funding, asset sales and/or reducing the cash outflows through a significant cost reduction program. The significant cost reduction program requires support from key stakeholder groups comprising employees, the South Australian Government, large trade creditors, other trade creditors and the financiers.

At the date of this report, we have not been able to obtain sufficient appropriate audit evidence to support the achievement of the initiatives described in Notes 1(a)(i) and 32.

Further, the statement of financial position as at 31 December 2015 includes the recognition of property, plant and equipment, deferred tax assets, derivative financial instruments and capitalised exploration and evaluation expenditure which are expected to be realised in future years. The ability to recover the carrying values of these assets is dependent on successfully implementing the initiatives outlined in Note 1(a)(i) 'Going Concern', and the company and the consolidated entity continuing as going concerns.

These conditions, along with other matters as set forth in Note 1(a)(i), indicate the existence of material uncertainties which cast significant doubt about the ability of the company and the consolidated entity to continue as going concerns and whether they will realise their assets and discharge their liabilities in the normal course of business.

Given the above circumstances, in our opinion, the uncertainties are so material and pervasive that we are unable to express an opinion on the financial report taken as a whole.

Disclaimer of Auditor's Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion as to whether the financial report of Hillgrove Resources Limited:

(a) is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) complies with International Financial Reporting Standards as disclosed in Note 1(a)(ii).

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 28 to 42 of the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Hillgrove Resources Limited for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 31 March 2016

SHAREHOLDER INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australia Securities Exchange Limited in respect of listed public companies only.

As at the reporting date the most recent Shareholder information available for disclosure is as follows:

(a) Voting rights and classes of equity securities

As at 16 March 2016, the Company has 188,109,342 listed fully paid ordinary shares. Each fully paid share carries on a poll, one vote.

The company also has 1,813,750 unquoted options on issue which are held by 14 holders.

(b) The number of shareholdings holding less than a marketable parcel of ordinary shares was 1,773

(c) Distribution schedule of Fully Paid Ordinary Shares as at 16 March 2016

Size of holding	Number of shareholders
1 - 1,000	**515**
1,001 - 5,000	**1,801**
5,001 - 10,000	**628**
10,001 - 100,000	**1,001**
100,001 and over	**133**
	4,078

(d) Securities exchange listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited.The ASX code is HGO.

(e) Company Secretary

Mr Paul Kiley is the Company Secretary.

(f) On-market buy-back

There is no current on-market buy-back.

(g) Substantial shareholders as at 16 March 2016

An extract of the Company's register of Substantial Shareholders (who hold 5.0% or more of the issued capital) in accordance with Form 604 Notices is set out below:

Name	Issued capital
Portfolio Services Pty Limited, Platinum Partners Value Arbitrage Fund LP and Platinum Partners Liquid Opportunity Master Fund LT – Ariadne Australia Limited	15.3%
IOOF Holdings – Perennial Investment Partners Limited	12.5%
Freepoint Metals and Concentrates LLC	12.3%

SHAREHOLDER INFORMATION FOR LISTED PUBLIC COMPANIES
(continued)

Twenty largest listed shareholders

The twenty largest shareholders hold 62.0% of the total ordinary shares issued.
The 20 largest listed shareholders as at 16 March 2016 are listed below:

	Shareholder	No. of ordinary shares held	% of issued shares
1	Bell Potter Nominees Ltd	23,167,216	12.3%
2	Citicorp Nominees Pty Limited	21,443,430	11.4%
3	HSBC Custody Nominees (Australia) Limited	11,458,233	6.1%
4	HSBC Custody Nominees (Australia) Limited – A/C 3	6,554,859	3.5%
5	BNP Paribas Noms Pty Ltd	6,476,570	3.4%
6	Portfolio Services Pty Ltd 1	5,840,415	3.1%
7	National Nominees Limited	5,771,941	3.1%
8	Portfolio Services Pty Ltd 2	5,764,252	3.1%
9	Portfolio Services Pty Ltd 3	5,671,775	3.0%
10	ABN Amro Clearing Sydney Nominees Pty Ltd	3,968,226	2.1%
11	Citicorp Nominees Pty Limited	3,511,462	1.9%
12	J P Morgan Nominees Australia Limited	3,236,817	1.7%
13	W Donnelly Services Pty Ltd	2,260,000	1.2%
14	Mr Leslie Kroll	2,250,000	1.2%
15	Tuwele Pty Ltd	1,578,000	0.8%
16	HSBC Custody Nominees (Australia) Limited – GSCOECA	1,549,753	0.8%
17	Horrie Pty Ltd	1,490,000	0.8%
18	Ajava holdings Pty Ltd	1,315,000	0.7%
19	Sighet Pty Limited	1,296,000	0.7%
20	Mr Christopher Philip Martin Benson	1,100,000	0.6%
		115,703,949	**61.5%**

(h) Interests in mining tenements

Tenement	Location	Percentage
ML 6345	Kanmantoo, South Australia	100%
EL 3298	Kanmantoo, South Australia	100%
EML 6340	Kanmantoo, South Australia	100%
EL 5628	Kanmantoo, South Australia	100%
EL 5627	Wheal Ellen, South Australia	100%
ELA 86/11	Aclare South Australia	100%
PM 53	Kitticoola, South Australia	100%
ML 755	Armidale, New South Wales	100%
ML 996	Enmore, New South Wales	100%
IUP 322/2009	Sumba, Indonesia	80%
IUP 40/2010	Bird's Head, Indonesia	80%

(i) Other information

Hillgrove Resources Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Competent Persons

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.

Hillgrove Resources Limited confirms it is not aware of any new information or data that materially affects the information included in the previously released reports. In the case of estimates of Mineral Resources or Ore Reserves, the company confirms that all material assumptions and technical parameters underpinning the estimates in the previously released reports continue to apply and have not materially changed.

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