



**Interim Report
for the Half Year Ended
30 June 2015**

**Hillgrove Resources Limited
and its Controlled Entities**

ACN 004 297 116

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Note: All dollars in this report are Australian unless otherwise noted.

Directors' Report

The Directors present their report on the consolidated entity consisting of Hillgrove Resources Limited ("Hillgrove" or the "Company") and its controlled entities (the "Group" or the "Consolidated Entity") for the six month period to 30 June 2015.

Directors

The directors of the Company during this period were:

- The Hon. Dean Brown, AO.
- Douglas Snedden (resigned 27 May 2015).
- John Gooding.
- Maurice Loomes.
- Philip Baker.
- Gregory Hall (resigned 26 May 2015).
- Steven McClare (appointed 27 May 2015).

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 and developing value from its exploration tenements in Australia.

Operating and Financial Review

The Kanmantoo Copper Mine located in South Australia is an open-cut operation that as at the end of February 2013 hosted a Mineral Resource of 31.3 million tonnes (4.02Mt Measured, 22.27Mt Indicated, 5.00Mt Inferred) grading 0.78% copper and 0.20g/t gold (*refer About Hillgrove at end of report*). Following construction of the plant in late 2011, further capital enhancements and continuous improvements have increased plant throughput from a nominal 2.4 Mtpa to between 3.0Mtpa and 3.5Mtpa to produce approximately 90,000 dry metric tonnes of copper concentrate per annum, containing approximately 20,000tpa copper and associated gold and silver over the current life of mine. Sales of copper concentrate are made to Freepoint Metals and Concentrates LLC under a 100% copper concentrate offtake agreement.

Hillgrove has exploration tenements adjacent to the Kanmantoo Copper Mine which are the subject of a current exploration program to extend the mine life. In addition, Hillgrove has two exploration projects in the Indonesian archipelago, Sumba Island, where low-sulphidation epithermal gold mineralisation within a series of large hydrothermal alteration systems has been identified, and Bird's Head in West Papua where copper-gold mineralisation associated with an interpreted porphyry complex and associated extensive hydrothermal alteration system has been identified.

Kanmantoo Copper Mine

Kanmantoo Copper Mine in South Australia is located 55 kilometres from Adelaide which has simplified the provision of infrastructure. A main highway passes close to the project and being approximately 90 kilometres by road to Port Adelaide enables the trucking of copper concentrate to the port. The mine site is connected to the electricity grid and has mains water and licences available, although much of the process water is supplied by the District Council of Mount Barker's treated waste water program.

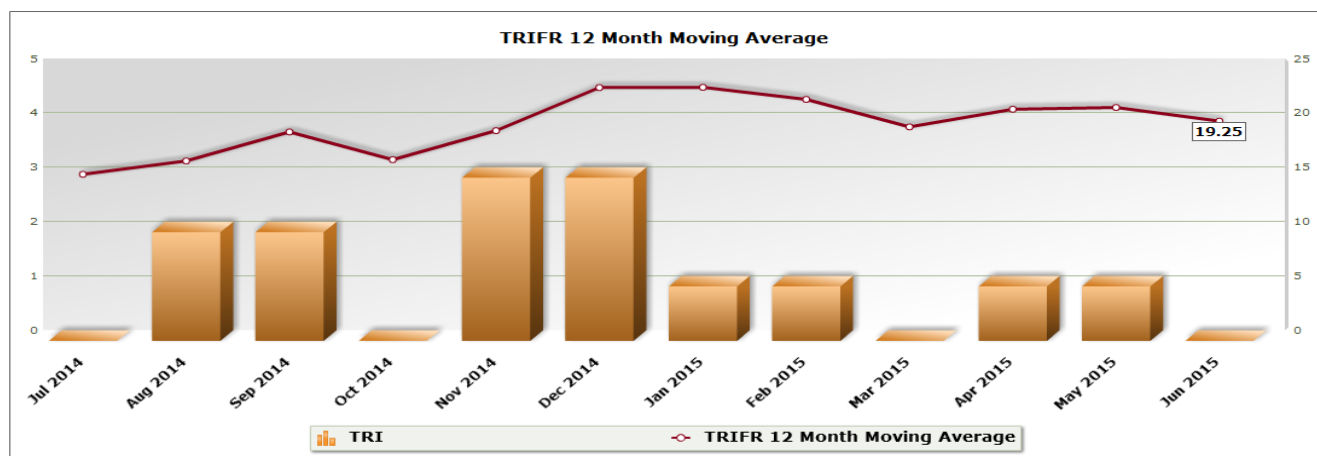
Hillgrove's direct workforce is approximately 190 employees, along with some 60 specialised mining contractors for equipment supply and maintenance, blast hole drilling and explosives supply. The owner operated mining system implemented during 2013 has continued to operate effectively and safely during the half year. The combination of experienced Hillgrove employees and ongoing training of locally based employees, along with specialised contract skills, allows a high level of quality control in the critical areas of drilling, blasting and dilution control during mining operations.

By the end of the half year to 30 June 2015, the 12 month Total Recordable Injury Frequency Rate (TRIFR) was 19.2 (31 July 2014: 13.0), a modest increase after the dramatic drop achieved following the move to owner operator in the prior year. Whilst the improvement is pleasing, there is considerable work underway to implement in full the integrated risk management system.

Directors' Report (continued)

Operating and Financial Review (continued)

TOTAL RECORDABLE INJURY FREQUENCY RATE

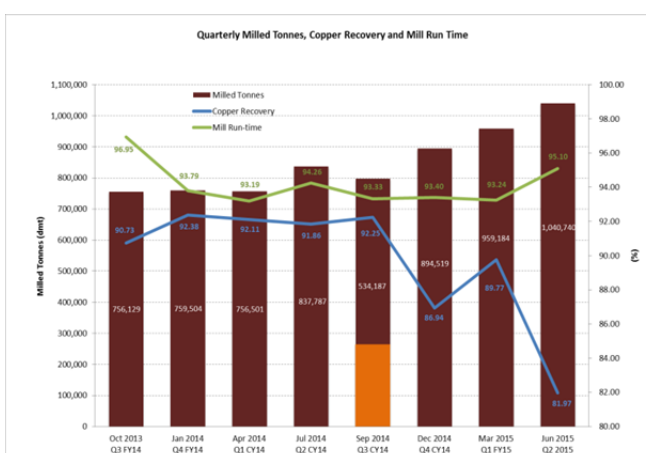
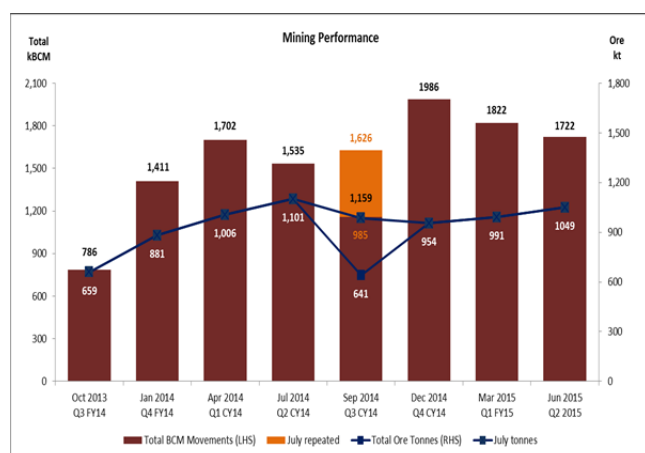


Operations – Mining

At the beginning of the half year, 89% of future copper production was contained in the Giant Pit. The cut-back of the Giant Pit over the main orebody (originally Main pit and then a cut back called Kavanagh) continued to advance as a priority. During the high strip ratio of the cut back (high waste stripping for minimal ore), there was \$10.2 million of pre-stripping undertaken in the half year and small sources of ore from satellite deposits were either stockpiled as transition/oxide or processed as primary ore. As the Giant Pit has progressed deeper through the weathered zones, the ore is now a primary sulphide that can be processed conventionally. At the beginning of the half year, the Emily Star Pit had reached primary ore and further cutbacks were being assessed. By half year end, mining had been completed in the Emily Star Pit, which reconciled positively for copper metal produced against the original Reserve estimate, albeit with lower grade and increased ore tonnes.

Mining continued in the Nugent Pit until the early part of the half year with geotechnical stability, grade and tonnes all being below expectations. Once the pit reached the geotechnical domain dominant in the Giant Pit, “goodbye cuts” with high vertical walls were taken but this did not offset the significant earlier losses of metal. The pit was then readied for backfilling with waste from the Giant cutback. This backfilling provides a short haul option for the waste and increases productivity for the fleet in addition to the potential to extract further ore as backfilling progresses.

Total material moved for the half year to 30 June 2015 was 10,935kt (31 July 2014: 10,003kt), and total ore mined was 2,039kt (31 July 2014: 2,197kt).



* Due to move to 31 December year end, July was included again in the September quarter for comparison purposes.

Directors' Report (continued)

Operating and Financial Review (continued)

Operations – Processing

The processing plant continued to outperform with record mill throughput, and was able to partially mitigate the impacts of lower grades. Recovery was below plan as a result of lower overall head grade, the treatment of tarnished older lower grade stockpiles, transitional ore and the initial controlled potential sulphidisation (CPS) plant trial.

Mill throughput and reliability were maintained at a high level during the half year to 30 June 2015 with a total of 2,000kt primary and oxide ore processed at an average head grade of 0.53% copper (31 July 2014: 1,595kt processed at 0.78% copper head grade), with ongoing process control and improvements continuing to reduce milling costs per tonne of feed ore. With the substantially increased mill throughput, the quantity of ore processed is higher than plan and has allowed both low grade stockpiles and low grade mined to be processed. Whilst this lowers the headline grade processed and in some cases raises the C1 cost of production (if the historic attributable mining cost was high), it does allow processing at incremental rates and generates revenue.

Recovery at Kanmantoo is sensitive to feed grade as there is a relatively consistent tail grade. Recovery has been maintained despite plant throughput rates in excess of 4.0Mtpa being achieved. These are excellent rates resulting from the many improvements made on a plant originally designed for 2.4Mtpa. Recovery for the half year to 30 June 2015 was 86% (31 July 2014: 92%), due to the mineralogy of the ore being processed, lower head grade, processing of transitional (oxidised) material and the initial CPS trial. The copper recovery in areas of primary sulphide remained consistently above 90%, as per historic results.

Copper production for the half year to 30 June 2015 was 9,151t copper contained within concentrates (31 July 2014: 11,438t copper contained within concentrates).

C1 costs for the half year to 30 June 2015 increased to US\$2.12 per lb copper produced (A\$2.71 per lb) which compares to the half year to 31 July 2014 US\$2.03 per lb (\$2.16 per lb). Whilst mining costs have stabilised and processing costs have continued to fall, the C1 cost was predominantly driven by the divisor of the copper volume produced, which was adversely affected by the lower head grade. The C1 cost expressed in US dollars has benefited from favourable movements in the foreign exchange rate.

CPS Plant

The \$3.0 million capital project for the construction of the CPS plant undertaken in the latter half of 2014 and early 2015 was completed on time and on budget. The plant was successfully commissioned in May 2015. The new plant enables controlled conditioning and processing of oxide ore in a batch process and assists higher recovery and rates through the primary flotation circuit. Originally two seven day batch trials were planned during FY15, and then four months of full production batch processing of oxide ore from November 2015 to February 2016.

The first seven day batch trial was completed during the period and the second trial has since been successfully completed. Rather than four months of full production, it is now likely the CPS parcels will be batched in discrete samples throughout the year as the concentrate has proven to be both saleable and suitable for shipping in a conventional manner.

Offtake and Shipping

Hillgrove has a 100% life of mine offtake agreement with Freeport Metals and Concentrates LLC ("Freeport"). Copper concentrate is trucked from the mine site to Port Adelaide, and is then sold on a CIF basis (cost, insurance, freight) to Freeport. In the half year to 30 June 2015, four shipments totalling 42,434wmt of copper concentrate were shipped, all of which went to smelters in China.

Directors' Report (continued)

Operating and Financial Review (continued)

Environment and Community

Kanmantoo management has continued to actively engage with local communities and landowners around the mine, along with key groups in the immediate regional centres. The Kanmantoo Callington Community Consultative Committee (KCCCC), being the local communities' primary interaction with the mine, held two formal meetings during the half year, including a visit to the Kanmantoo Copper Mine by the dust working party. In addition to the planning and launch of a dedicated KCCCC website, key areas of discussion included: nuisance dust management, noise, traffic, and discussions regarding possible expansions to the north of the current Giant Pit and master planning for the local area.

Along with the above meetings, Kanmantoo hosted or was involved in eight additional site visits and community functions during the period directly related to community engagement.

Hillgrove approaches its community and social responsibilities seriously and believes the KCCCC (on which the Company is represented) is continuing to develop into a model of leading practice engagement to achieve mutual outcomes.

The environment team continued its significant program of monitoring, reporting and permitting for the mine site. Rehabilitation of old farming/grazing land continued as part of the ongoing commitment to restore (off-set) native vegetation on the Mining Lease. An off-lease direct seeding program also commenced. This task involved removing 100mm of topsoil which contains an excess of nutrients and weeds. Native seeds generated by Kanmantoo's own Seed Production Area (SPA) are then sown onto the subsoil. This rehabilitation is performed in strips so as not to expose too much area to weathering effects at one time. Along with this, significant plantings of native understorey vegetation were undertaken to assist regeneration in the significant northern woods on the lease.

Refinancing of Debt Facilities

On 25 May 2015 Hillgrove announced it had secured a Pre-Export Facility of US\$14 million (plus a further US\$6 million subject to conditions) with Ventures Australia LLC, a subsidiary of Freepoint Commodities LLC, and a deferral and extension of the existing price participation obligations with Freepoint Metals & Concentrates LLC ("Freepoint"). Freepoint have a long standing relationship with Hillgrove, providing early seed capital for the Kanmantoo project together with a life of mine Offtake Agreement. In addition, Macquarie Bank Limited has provided a \$20 million Performance Bond Facility, primarily for the existing environmental and electrical infrastructure bonds. Both facilities have terms until 30 June 2018, with balances reducing from March 2016 for the Pre-export Facility and from March 2017 for the Bond Facility.

Commodity Price Hedging

Hillgrove has continued its active approach to hedging to support the revenue stream from falls in the copper price, providing strong support for Kanmantoo's sales revenue and cash flows. Consistent with this strategy, favourable copper pricing and exchange rate conditions in April and May 2015 provided the opportunity to place additional hedging, with 6,500mt of copper hedging added at \$7,917/mt (\$3.59/lb) and 7,500mt added at \$7,911/mt (\$3.59/lb).

This is an excellent outcome for Hillgrove with the pricing of the additional hedging placed in the top 18% (approximately) of Australian dollar copper prices experienced since late 2011. This program has now provided Hillgrove with 24,200mt of copper hedging at an average price of \$7,738/mt (\$3.51/lb). With this total hedging, Hillgrove has committed coverage for approximately 50% of payable copper out to December 2017, with high amounts in the next six months and smaller amounts in the tail, underpinning cash flow from operations during the second half of 2015 into 2016.

In addition Hillgrove was able to complete 1,125 ounces of gold hedging at an average price of \$1,556/ounce in order to further support the revenue stream to March 2016.

Directors' Report (continued)

Operating and Financial Review (continued)

Equity Raising

In June 2015 Hillgrove successfully completed an equity raising of \$10.08 million under a fully underwritten pro-rata non-renounceable rights issue of 40,310,719 new fully paid ordinary shares to its shareholders on a three for 11 basis, at a fixed price of \$0.25 per share. Subscriptions under the offer totalled 20,052,600 new shares for an amount of \$5.01 million, which represented approximately 50% of entitlements. The underwriters, Freepoint and Wilson HTM Corporate Finance Ltd subscribed for 70% and 30% respectively of the shortfall.

Kanmantoo Mine Life Extension

The first stage of mine life extension is being targeted through the optimisation of the 2013 Reserve Model, based on cost savings to date and planned initiatives. The reduction in mining cost, significant reduction in processing costs and targeted lower overhead/corporate costs have enabled potential mine life extensions of two years to be evaluated.

The second stage of mine life extension involves a \$5 million exploration programme. The initial phase of this programme focussed on a detailed ground gravity survey. This survey identified a target several hundred metres to the east of the historic aeromagnetic information. This target was modelled to remove the impact of the open pit void and the near surface interference. A 433m long reverse circulation hole (KTRC995) was successfully drilled to intercept the target. The results identified 28m @ 0.61% Cu, 0.14g/t Au and 2.6g/t Ag.

The second phase will test both the up and down dip extent of mineralisation and also determine the lateral extent from the Giant Pit through the areas to the North. This work is likely to commence in early 2016 when the Giant cutback strip ratio reduces and copper production increases.

Indonesia

In 2013 action was taken to wind back expenditure at Hillgrove's Indonesian assets at Bird's Head in West Papua and Sumba Island in order to preserve cash, whilst continuing to pursue interest in the projects from potential investors. Hillgrove retained exploration care and maintenance teams at the project offices during the half year, with assistance from our Jakarta based joint venture partners. Hillgrove is continuing to pursue interested parties. Although the Board has taken the decision to simplify and consolidate Hillgrove, with a focus on Kanmantoo, the assets still have value and the Company will continue to pursue options to realise this value.

Outlook

The focus will be on progressing the cutback of the Giant Pit to gain access to the large orebody for the remainder of the current life of mine plan. This was to be the last major cutback under the current plan, however the reduced operating costs and refinancing has allowed for the planning of an additional cutback and mine life extension. The best immediate value is to access as quickly as possible the proven reliable, consistent grade and quality of the main Kanmantoo orebody.

To supplement copper production during the Giant Pit cutback, the CPS plant will be operating. The upper levels of all pits contain significant amounts of oxide ore and during stripping operations it has been stockpiled. The CPS plant will process the stockpiled oxide and transition ore from time to time during the remainder of this year.

Metal production and costs remain within the guidance provided for 2015:

- Copper production for the half year to 30 June 2015 was 9,151t copper contained within concentrates and remains within the full year guidance of 18,500t to 20,500t.
- Gold production for the half year to 30 June 2015 was 2,756ozs of gold contained within concentrates and remains within full year guidance of 5,000oz to 6,000oz.
- C1 costs for the half year to 30 June 2015 of US\$2.12 per lb copper produced (\$2.71 per lb) remains within full year guidance of US\$2.00 to US\$2.25 per lb.

Further reductions in corporate overheads and continuous improvements in site costs, productivity and throughput are planned. Focus will be on the continued optimisation of both ore mining and processing, and increases in mill capability to increase copper production and lower costs over the target mine life to 2021. Further exploration success may see the mine life extended beyond this date.

Directors' Report (continued)

Operating and Financial Review (continued)

Strategy and Growth

Hillgrove announced on 25 May 2015 that Mr Steven McClare had been appointed as the new Chief Executive Officer and Managing Director and Mr Greg Hall would step down after two and a half years. This followed the Board's renewed strategic focus on mine-site operations at Kanmantoo and the simplification and cost reduction initiatives across the Company.

The strategic focus of the Company is on further improvements in performance and extensions of the mine life of the Kanmantoo Copper Mine, expansion of the Kanmantoo region resource through exploration, significant reduction in costs and creation of value for shareholders.

With a successful hedging programme in place and belief in the long term underlying strength of the copper market, the Board believes this is the right time to position the Company for sustained copper production into the future. Expenditure on the Giant Pit cutback, exploration and the CPS plant together with lower costs and improved mine economics and the re-alignment of the debt maturity profile have all set up the prospect for strong returns and opportunities for a longer mine life.

Review of consolidated financial results

For the six months ended 30 June 2015, the net loss after tax was \$44.9 million compared to net profit of \$5.8 million in the comparative period. The loss includes impairment charges of \$29.9 million for Indonesian exploration assets and \$10.4 million (after tax) for Kanmantoo assets, which results in an underlying loss of \$4.9 million.

Income Statement

	Half Year	Half Year	
\$ million	June 2015	July 2014	Change
Revenue from sale of concentrates	72.0	92.5	(20.5)
Other income	-	-	-
Cost of production - cash	(51.2)	(53.4)	2.2
Long term stockpile written off - cash	(0.1)	(4.6)	4.5
Materials and services costs	(2.8)	(2.6)	(0.2)
Employee expenses	(2.2)	(3.0)	0.8
Royalties	(0.9)	(1.1)	0.2
Corporate and other administration costs	(1.6)	(1.5)	(0.1)
Net foreign exchange gains/ (losses)	(0.8)	0.7	(1.5)
EBITDA	12.4	27.0	(14.6)
Underlying EBITDA*	12.5	31.6	(19.1)
Cost of production – non cash	(17.1)	(17.8)	0.7
Long term stockpile written off – non cash	(0.1)	(1.3)	1.2
Other depreciation and amortisation expenses	(0.3)	(0.4)	0.1
Impairment losses	(44.7)	-	(44.7)
Gains/ (losses) on derivative financial instruments	(0.4)	0.4	(0.8)
Net financing expenses	(1.7)	(1.8)	0.1
(Loss)/ profit before income tax	(51.9)	6.1	(58.0)
Income tax benefit/ (expense)	7.0	(0.3)	7.3
(Loss)/ profit after income tax	(44.9)	5.8	(50.7)
Underlying (loss)/ profit*	(4.9)	7.7	(12.6)

* Refer to table below for detail of underlying EBITDA and Underlying Profit

Directors' Report (continued)

Operating and Financial Review (continued)

Income Statement (continued)

Underlying Profit	6 months to 30 June 2015			6 months to 31 July 2014		
\$ million	Gross	Tax	Net	Gross	Tax	Net
Statutory (loss)/ profit after tax			(44.9)			5.8
Impairment - long term stock piles written off	0.2	(0.1)	0.1	5.9	(1.8)	4.1
(Gains)/losses on financial derivatives	0.4	(0.1)	0.3	(0.4)	0.1	(0.3)
Impairment Losses	44.7	(4.4)	40.3	-	-	-
	45.3	(4.6)	40.7	5.5	(1.7)	3.8
Prior period tax adjustments			(0.7)			(1.9)
Underlying (loss)/ profit			(4.9)			7.7

Underlying EBITDA \$ million	6 months to 30 June 2015	6 months to 31 July 2014
Reported EBITDA	12.4	27.0
Impairment – long term stockpiles written off	0.1	4.6
Underlying EBITDA	12.5	31.6

The decrease in net profit after tax by \$50.7 million on the previous period, resulting in a loss of \$44.9 million in the current period was primarily due to:

- Impairment of non-current assets

In accordance with the Consolidated Entity's accounting policies and processes regular impairment testing is carried out to ensure assets are not carried at more than their recoverable amount. As the recoverable amount can vary with market conditions, impairment testing is done at a point in time 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 have decided to impair the full \$29.9 million carrying amount of the Indonesian exploration assets, which are currently on care and maintenance. The directors believe the projects still have potential value and will continue to pursue options to realise this value.

In view of the prevailing weaker economic climate, a more conservative valuation approach has been adopted resulting in a \$14.8 million impairment charge against the Company's Kanmantoo operations, which will reduce Kanmantoo's carrying value to approximately \$200 million.

- Revenue generated in the six months to 30 June 2015 from the sale of copper concentrate of \$72.0 million was a decrease of \$20.5 million on the comparative period (31 July 2014: \$92.5 million). The revenue of \$72.0 million for the six months was generated at an average realised price of \$3.61/lb (US\$2.85/lb). Cash revenue received from the sale of concentrates was \$24.7 million lower than the previous corresponding half year. This mainly reflects the lower volume of concentrate sold (39,818 dmt sold to June 2015 vs 50,709 dmt sold for half year July 2014) as the current half year was heavily reliant on ore sourced from the more technically difficult, lower grade Nugent and Emily Star satellite pits whereas the majority of revenue in 2014 was derived from a more reliable source in the Kavanagh pit at lower stripping ratios.

As a result payable copper metal sold was about 23% down in volume to 9,151t from 11,438t with only a slight decrease in average realised price as the Company was largely protected from lower average spot prices through its forward sale contracts. The gold and silver by-product revenue also decreased by about \$1.1 million from the previous corresponding half year.

Directors' Report (continued)

Operating and Financial Review (continued)

Income Statement (continued)

Mining from Nugent and Emily Star has now been completed and revenue in the second half of 2015 will be derived from a combination of primary ore from the upper levels of the Giant Pit cutback area plus ore processed from existing oxide stockpiles through the CPS process, with these second half revenues also protected by the Company's forward sale contracts.

- Deferred mining costs in the statement of financial position as at 31 December 2014 of \$2.8 million mainly relating to the Nugent and Emily Star pits were fully allocated to the cost of production during the six month period to 30 June 2015. As at 30 June 2015, deferred mining costs capitalised amounted to \$5.5 million. This related to the pre-strip for the Giant Pit and is not expected to unwind within the next 12 months. Hence it has been included as mine development in property, plant and equipment.
- During the period the long term stock piles were written down by \$0.2 million (cash and non-cash) compared to \$5.9 million in the comparative period. The lower write down was due to the smaller drop in copper spot prices.
- Direct employee costs decreased by \$0.8 million during the period due to the write back of short term incentives which were not paid and lower share option expense.
- Net foreign exchange losses are due to the revaluation of the US\$ borrowing facility and the timing between recording and receiving revenue.
- Depreciation and amortisation expenses decreased to \$17.6 million from \$17.8 million in the previous period, mainly due to lower production.
- During the six month period, there was a loss on financial derivatives of \$0.4 million in comparison to a gain of \$0.4 million in the previous period. The loss was the hedge ineffectiveness portion resulting from change in designation dates.
- Income tax benefit is mainly due to the loss incurred during the period and finalisation of prior year tax return. No income tax benefit was booked for the impairment of the Indonesian exploration assets.

Cash flow overview

\$ million	June 2015	July 2014	Change
Net cash inflows from operating activities	7.3	38.0	(30.7)
Net cash used in investing activities	(15.1)	(25.4)	10.3
Net cash inflows/ (outflows) from financing activities	7.6	(16.9)	24.5
Net decrease in cash held	(0.2)	(4.3)	(4.1)
Cash and cash equivalents at the end of half year	8.6	12.1	(3.5)

Operating activities

Net cash inflows from operating activities for the six months ended 30 June 2015 were \$7.3 million, which is \$30.7 million lower than the prior period cash flow of \$38.0 million. Payments to suppliers, employees and contractors increased by \$6.0 million which, after the slight decrease in trade creditors is taken into account, reflects the higher outgoings associated with the rises in tonnes mined and tonnes milled compared to the previous corresponding half.

\$ million	June 2015	July 2014	Change
Receipts from customers	62.0	86.7	(24.7)
Payment to suppliers, employees and contractors	(54.7)	(48.7)	(6.0)
Net cash inflows from operating activities	7.3	38.0	(30.7)

Directors' Report (continued)

Operating and Financial Review (continued)

Investing activities

Cash flows used in investing activities amounted to \$15.1 million in the current six months compared to an outflow of \$25.4 million in the previous corresponding period. The decrease is in respect of capital works such as the Tailings Storage Facility extension and pre-strip from new pits of \$14.9 million in comparison to \$25.0 million in the previous period. The major TSF expenditure was for the remainder of the base layer and first lift which was completed in December 2014. There is only modest expenditure required for future lifts and hence the decrease in expenditure during this six month period.

Financing activities

\$ million	June 2015	July 2014	Change
Net proceeds from issue of shares	9.3	-	9.3
Net proceeds from borrowings	17.2	-	17.2
Repayment of borrowings	(18.0)	(15.1)	(2.9)
Net interest paid	(0.9)	(1.8)	0.9
Net cash inflows/ (outflows) from financing activities	7.6	(16.9)	24.5

Cash flows relating to financing activities were an inflow of \$7.6 million, compared to an outflow of \$16.9 million in the comparative period. The inflows of \$7.6 million are due to capital raising via a rights issue of \$9.3 million, proceeds from borrowings of \$17.2 million reduced by repayment of \$18.9 million of debt and interest during the six month period. The Company anticipates it will fund the Giant Pit cut back and its exploration programme with cash flow from operations.

Statement of financial position

Total equity decreased by \$33.9 million reflecting the increase in contributed equity from the rights issue of \$9.2 million, increase in reserves of \$1.8 million due to revaluation of the unexpired hedging position as at 30 June 2015 offset by the loss for the period of \$44.9 million.

Property, plant and equipment

During the six month period the carrying value of property, plant and equipment decreased by \$13.1 million to \$198.3 million. This was mainly due to the impairment of the carrying value of the Kanmantoo mine by \$14.8 million, depreciation of \$17.6 million offset by additions of \$19.7 million which included the cost of capitalising material to the Tailings Storage Facility and pre-stripping of the Giant Pit.

Impairment of non-current assets

In accordance with the Consolidated Entity's accounting policies and processes regular impairment testing is carried out to ensure assets are not carried at more than their recoverable amount. As the recoverable amount can vary with market conditions, impairment testing is done at a point in time (close of business 30 June 2015) 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.

In view of the prevailing weaker economic climate, a more conservative valuation approach has been adopted resulting in a \$14.8 million impairment charge against the Kanmantoo operations which will reduce Kanmantoo's carrying value to approximately \$200 million.

Impairment of Indonesian Exploration Assets

Exploration expenditure capitalised in the statement of financial position decreased during the period by \$29.3 million from \$31.3 million to \$2.1 million due mainly to an impairment charge against the Indonesian assets.

Based on the Board's decision to simplify and consolidate the Group's focus onto its Kanmantoo operations, the directors have decided to impair the full \$29.9 million amount of the Indonesian exploration assets, which are currently on care and maintenance. The directors believe that these projects still have potential value and will continue to pursue options to realise this value.

Directors' Report (continued)

Operating and Financial Review (continued)

Borrowings

Total borrowings (current and non-current) as at 30 June 2015 are \$17.8 million of which debt is \$18.2 million (31 December 2014 was \$19.0 million of which debt is \$18.0 million); total borrowings include lease liabilities and deduction of borrowing costs.

During the period 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 million with Ventures Australia LLC, a subsidiary of Freepoint Commodities LLC.

Contributed equity

Contributed equity increased by \$9.2 million as a result of the rights issue of 40,310,719 shares at 25 cents per share less transactions costs.

Events subsequent to the balance sheet date

As at 30 June 2015 the Company was in breach of certain undertakings under the debt finance facility agreements. These breaches were considered technical in nature and have subsequently been waived by the financiers through waiver letters.

The debt was not due and payable on 30 June 2015 as a result of these breaches, nor has it been due and payable at any time since that date. However, as the Company was in breach of these undertakings as at 30 June 2015, AASB 101 *Presentation of Financial Statements* requires the non-current portion of the debt be re-classified as a current liability until the breaches had been remedied or waived by the financiers. Had the statement of financial position been prepared post the waiver letters \$15.9 million of the total debt of \$16.8 million as at 30 June 2015 would be classified as non-current.

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.

Auditor's 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 14.

This report is made in accordance with a resolution of the directors:

Dated at Sydney this 31st day of August 2015



The Hon. Dean Brown, AO
Chairman



Mr Steven McClare
Managing Director



Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Board of Directors
Hillgrove Resources Limited
Level 17 Australia Square Tower
264-278 George Street
SYDNEY NSW 2000

31 August 2015

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 review of the financial statements of Hillgrove Resources Limited for the half-year ended 30 June 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 review;
and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

A stylized, handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to be "Jason Thorne".

Jason Thorne
Partner
Chartered Accountants

Condensed Consolidated Income Statement For the half year ended 30 June 2015

	Note	Half Year	
		June 2015 \$'000	July 2014 \$'000
Revenue from sale of concentrates		72,003	92,458
Other income		78	228
Cost of production		(68,285)	(71,065)
Long term stockpile written off		(203)	(5,934)
Materials and services costs		(2,824)	(2,643)
Employee benefit expenses		(2,241)	(3,009)
Royalties expense		(847)	(1,125)
Net foreign exchange (losses)/ gains		(822)	690
Impairment losses	3	(44,718)	-
Unrealised (losses)/ gains on financial derivatives	4	(412)	443
Gains/(losses) on disposal of property, plant and equipment		6	(15)
Depreciation and amortisation expenses		(268)	(420)
Corporate and other administration costs		(1,561)	(1,473)
Financing expenses		(1,756)	(2,031)
(Loss)/ profit before income tax		(51,850)	6,104
Income tax benefit/ (expense)		6,992	(270)
(Loss)/ profit for the half year		(44,858)	5,834
(Loss)/ profit for the half year is attributable to:			
Equity holders of Hillgrove Resources		(44,858)	5,834
Non-controlling interest		-	-
		(44,858)	5,834
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share		(29.99)	3.95
Diluted earnings per share		(29.99)	3.87

The above condensed consolidated income statement should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Comprehensive Income For the half year ended 30 June 2015

	Half Year	
	June 2015	July 2014
	\$'000	\$'000
(Loss)/profit for the half year	(44,858)	5,834
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Other financial assets	8	136
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange losses on translation of foreign operations	(28)	(91)
Unrealised gains on cash flow hedges taken to equity	2,457	11,237
Income tax relating to components of other comprehensive income	(737)	(3,324)
Other comprehensive income for the half year (net of tax)	1,700	7,958
Total comprehensive (loss)/ income for the half year	(43,158)	13,792
Total comprehensive (loss)/ income for the half year is attributable to:		
Equity holders of Hillgrove Resources	(43,158)	13,792
Non-controlling interest	-	-
	(43,158)	13,792

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position

As at 30 June 2015

	Note	30 June 2015 \$'000	31 Dec 2014 \$'000
Current assets			
Cash and cash equivalents		8,598	8,854
Trade and other receivables		3,736	4,107
Prepayments		344	905
Other financial assets		-	229
Inventories	5	30,698	32,664
Derivative financial instruments	4	1,113	1,477
Total current assets		44,489	48,236
Non-current assets			
Property, plant and equipment	6	198,275	211,386
Intangible assets	7	1	4
Exploration expenditure	8	2,071	31,330
Derivative financial instruments	4	570	-
Deferred tax asset		19,313	13,058
Total non-current assets		220,230	255,778
Total assets		264,719	304,014
Current liabilities			
Trade creditors and accruals		27,876	29,703
Provisions		1,379	1,316
Borrowings	9,14	17,298	18,363
Employee benefits payable		2,263	2,595
Derivative financial instruments	4	1,015	1,269
Total current liabilities		49,831	53,246
Non-current liabilities			
Provisions		7,801	8,434
Borrowings	10	515	673
Employee benefits payable		136	126
Derivative financial instruments	4	81	1,285
Total non-current liabilities		8,533	10,518
Total liabilities		58,364	63,764
Net assets		206,355	240,250
Equity			
Contributed equity	11	216,054	206,860
Reserves		4,233	2,464
(Accumulated losses)/ retained earnings		(13,932)	30,926
Total equity		206,355	240,250

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity

For the half year ended 30 June 2015

Consolidated	Contributed equity \$'000	Reserves \$'000	(Accumulated losses)/ retained earnings \$'000	Total equity \$'000	Non- controlling interests \$'000	Total equity \$'000
Balance 1 February 2014 *	206,860	(3,320)	24,999	228,539	-	228,539
Restatement due to change in accounting policy	-	(2,140)	2,140	-	-	-
Restated total equity 1 February 2014	206,860	(5,460)	27,139	228,539	-	228,539
Total comprehensive income for the half-year	-	7,958	5,834	13,792	-	13,792
Transactions with owners:						
Share based compensation	-	279	-	279	-	279
Balance 31 July 2014	206,860	2,777	32,973	242,610	-	242,610
Balance 1 January 2015	206,860	2,464	30,926	240,250	-	240,250
Total comprehensive income for the half year	-	1,700	(44,858)	(43,158)	-	(43,158)
Transactions with owners:						
Issue of ordinary shares pursuant to rights issue	9,194	-	-	9,194	-	9,194
Share based compensation	-	69	-	69	-	69
Balance 30 June 2015	216,054	4,233	(13,932)	206,355	-	206,355

* As at 31 December 2014, the financial year end was changed from 31 January to 31 December.

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows

For the half year ended 30 June 2015

	Half-year	
	June 2015	July 2014
	\$'000	\$'000
Cash flows from operating activities		
Cash receipts in the course of operations	62,064	86,762
Cash payments in the course of operations	(54,784)	(48,726)
Net cash generated from operating activities	7,280	38,036
Cash flows from investing activities		
Payments for exploration, evaluation and development	(402)	(343)
Payments for property, plant and equipment	(14,915)	(25,098)
Proceeds from sale of other financial assets	235	-
Proceeds on disposal of property, plant and equipment	11	-
Net cash used in investing activities	(15,071)	(25,441)
Cash flows from financing activities		
Proceeds from the issue of shares	10,078	-
Transaction costs from the issue of shares	(830)	-
Proceeds from borrowings	18,051	-
Transaction costs of borrowings	(896)	-
Repayment of borrowings	(18,000)	(15,140)
Interest paid	(938)	(1,942)
Interest received	70	180
Net cash provided by/ (used in) financing activities	7,535	(16,902)
Net decrease in cash held	(256)	(4,307)
Cash at beginning of the half year	8,854	16,452
Cash at end of the half year	8,598	12,145

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the half year ended 30 June 2015

1. Basis of preparation

This condensed consolidated interim financial report for the half year reporting period ended 30 June 2015 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2014 and any public announcements made by Hillgrove Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

a. Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business.

At 30 June 2015, the Group's current liabilities exceed its current assets by \$5.3 million (31 December 2014: \$5.0 million). This was a result of the Company being in breach of certain undertakings under the debt finance facility agreements. These breaches were considered technical in nature and have since been waived by the financiers through waiver letters.

The debt was not due and payable on 30 June 2015 as a result of these breaches, nor has it been due and payable at any time since that date. However, as the Company was in breach of these undertakings as at 30 June 2015, AASB 101 *Presentation of Financial Statements* requires the non-current portion of the debt be re-classified as a current liability until the breaches had been remedied or waived by the financiers. Had the statement of financial position been prepared post the waiver letters \$15.9 million of the total debt of \$16.8 million as at 30 June 2015 would be classified as non-current.

b. Changes in accounting policy

The accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year and corresponding interim reporting periods except as noted below:

c. Impact of standards issued but not yet applied by the entity

IFRS 9 *Financial Instruments* (2014) and all related amendments will come into effect on 1 January 2018. IFRS 9 is not expected to have a material impact on the Company.

d. Critical accounting judgements and key sources of estimation uncertainty

Recoverability of property, plant and equipment

The carrying value of property, plant and equipment is assessed for impairment whenever there is an indicator that the asset may be impaired. As the carrying amount of the net assets of the Company is greater than its market capitalisation, management has determined that this is an indicator of impairment.

Determining whether property, plant and equipment is impaired requires an estimation of the recoverable value of the cash generating unit ("CGU") to which property, plant and equipment has been allocated. Impairment is recognised when the carrying amount exceeds the recoverable amount.

During the period the Company reviewed the recoverable value of its Kanmantoo CGU to determine whether there was any impairment loss. In its impairment assessment, the Company determined the recoverable amount based on a fair value less costs to dispose ("FVLCTD") calculation, as this is higher than its Value in Use ("VIU"). The accounting standards require that an asset's recoverable amount is the higher of its FVLCTD and VIU.

The FVLCTD assessment was undertaken using a discounted cash flow approach. Cash flow projections are based on the CGUs life of mine plan and include the conversion of any identified resources into reserves. In assessing the FVLCTD, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessment of the time value of money and risks specific to the asset. The post-tax discount rate is applied to post-tax cash flows.

Notes to the Financial Statements

For the half year ended 30 June 2015

1. Basis of preparation (continued)

d. Critical accounting judgements and key sources of estimation uncertainty (continued)

Certain key assumptions are used for CGU impairment testing.

The below assumptions are used when determining cash flow projections for the Kanmantoo CGU:

Assumption	2015	2016	2017	2018	Long term
Real copper price per tonne (US\$)	5,758	6,346	6,382	6,405	5,950
Real gold price per ounce (US\$)	1,191	1,185	1,176	1,158	1,075
AUD:USD foreign exchange rate	0.77	0.76	0.75	0.74	0.72

Broker consensus and other observable market data were used as the basis to determine the above price and foreign exchange assumptions. A real post-tax discount rate of 9.5% is applied to projected post-tax real cash flows.

A salvage value related to the CGUs processing plant of \$20.0 million has been included in the recoverable value estimate and is based on the original purchase agreement of the processing plant, adjusted for the period of use after acquisition.

Recoverability of deferred tax assets

At 30 June 2015, the Group has recognised \$20.5 million of unused tax losses and research and development tax credits. The utilisation of losses is dependent on the generation of future taxable profit. Current forecasts indicate the utilisation of the unused losses and tax credits is dependent on the successful extension of mine life beyond the current permitted life of 2019. The Group considers it probable there will be sufficient future taxable profit with which to utilise the recognised tax assets.

2. Financial reporting by segment

Management has determined the operating segments based on the reports reviewed by the Executive and Board. The Group is organised into business units based on geography and has two reportable operating segments:

Australia: Mineral exploration and mining production.

Indonesia: Mineral exploration in Sumba and Birds Head.

Within the Australia reportable reporting segment management reviews its production operations separately to its other operations and the segments have been further dissected into Copper and Other Operations.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

There are no transactions other than cash funding between reportable segments.

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

2. Financial reporting by segment (continued)

	Australia			Indo- nesia	Consol- idated	Australia		Indo- nesia	Consol- idated
	Copper	Other Operations	Copper			Other Operations			
	\$'000	\$'000	\$'000			\$'000			
	30 June 2015					31 July 2014			
Revenue from sale of concentrates	72,003	-	-	72,003	92,458	-	-	-	92,458
Other income	1	-	3	4	17	28	-	-	45
Cost of production - cash	(51,229)	-	-	(51,229)	(53,320)	-	-	-	(53,320)
Long term stockpile written off - cash	(65)	-	-	(65)	(4,607)	-	-	-	(4,607)
Materials and services costs	(2,824)	-	-	(2,824)	(2,643)	-	-	-	(2,643)
Employee benefit expenses	(1,151)	(966)	(124)	(2,241)	(1,379)	(1,500)	(130)	-	(3,009)
Royalties expense	(847)	-	-	(847)	(1,125)	-	-	-	(1,125)
Net foreign exchange (losses)/ gains	(822)	-	-	(822)	690	-	-	-	690
Corporate and other administration costs	(638)	(644)	(279)	(1,561)	(619)	(724)	(130)	-	(1,473)
EBITDA	14,428	(1,610)	(400)	12,418	29,472	(2,196)	(260)	-	27,016
Depreciation and amortisation expenses	(250)	(16)	(2)	(268)	(392)	(23)	(4)	-	(419)
Unrealised (losses)/ gains on financial derivatives	(412)	-	-	(412)	443	-	-	-	443
Impairment losses	(14,768)	-	(29,950)	(44,718)	-	-	-	-	-
Gains/(losses) on disposal of property, plant & equipment	10	(4)	-	6	(15)	-	-	-	(15)
Cost of production - non-cash	(17,056)	-	-	(17,056)	(17,746)	-	-	-	(17,746)
Long term stockpile written off - non-cash	(138)	-	-	(138)	(1,327)	-	-	-	(1,327)
EBIT	(18,186)	(1,630)	(30,352)	(50,168)	10,435	(2,219)	(264)	-	7,952
Net financing expense	(1,365)	(317)	-	(1,682)	(1,510)	(338)	-	-	(1,848)
EBT	(19,551)	(1,947)	(30,352)	(51,850)	8,925	(2,557)	(264)	-	6,104
Income tax benefit/ (expense)				6,992					(270)
Net (loss)/ profit after tax	(19,551)	(1,947)	(30,352)	(44,858)	8,925	(2,557)	(264)	-	5,834

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

2. Financial reporting by segment (continued)

	Australia		Indo- nesia	Consol -idated	Australia		Indo- nesia	Consol -idated
	Copper	Other Operations			Copper	Other Operations		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	30 June 2015				31 December 2014			
Segment assets	233,895	30,813	11	264,719	248,098	25,922	29,994	304,014
Additions to non-current assets	20,372	62	-	20,434	27,342	130	-	27,472
Segment liabilities	56,111	1,949	304	58,364	51,588	12,119	57	63,764

Revenue from major products and services

All external revenue recognised in the segment note relates to copper concentrate.

Geographical information

During the half year, Hillgrove's external revenues were derived from the United States, with the final destination of China for copper concentrate.

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

	30 Jun 2015	31 Dec 2014
	\$'000	\$'000
Australia	200,345	212,739
Indonesia	2	29,981
	200,347	242,720

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

Information about major customers

The Kanmantoo Copper Mine has an offtake agreement for the life of the mine with Freeport Metals & Concentrates LLC (formerly known as JP Morgan Metals & Concentrates LLC) for 100% of the copper concentrate produced. This provides the Company with certainty with regard to the sale of its product, along with reduced counter party risk as the offtake agreement is supported by a Freeport guarantee for the performance of the agreement.

3. Impairment Losses

	30 Jun 2015	31 Jul 2014
	\$'000	\$'000
Impairment of non-current assets	14,768	-
Impairment of exploration assets	29,950	-
	44,718	-

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.

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

3. Impairment Losses (continued)

The Group's CGUs and area of interests at 30 June 2015 are as follows:

CGU/area of Interest	Reportable segment
Kanmantoo (CGU)	Australia - copper
Wheal Ellen (area of interest)	Australia - other operations
Kitticoola (area of interest)	Australia - other operations
Kanmantoo regional (area of interest)	Australia - copper
Birds Head (area of interest)	Indonesia
Sumba Island (area of interest)	Indonesia

(a) Impairment of non-current assets

In accordance with the Consolidated Entity's accounting policies and processes, the Company evaluated its Kanmantoo CGU at 30 June 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 \$14.8 million was recognised in relation to the Kanmantoo Mine CGU, as at 30 June 2015.

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:

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

- Copper price (real) – Bloomberg consensus, ranging from US\$2.47 to US\$2.94 per pound;
- AUD:USD exchange rate – forward curve as at 30 June 2015 (beginning at 0.765 in July 2015);
- Real post-tax discount rate – 9.5%.

Copper prices and the AUD:USD exchange rate have been particularly volatile towards and subsequent to 30 June 2015. The Company considers the above assumptions remain reasonable in a period of such volatility, though any sustained change in market prices and rates that are materially different from the above assumptions could result in a different set of valuation assumptions applied to future valuations.

(ii) Reserves and resources

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

(iii) Production activity and operating and capital costs

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.

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

3. Impairment Losses (continued)

(b) 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 30 June 2015 is nil. Accordingly, an impairment loss of \$29.9 million was recognised.

4. Derivative Financial Instruments

	30 Jun 2015 \$'000	31 Jul 2014 \$'000
Unrealised (losses)/gains on financial derivatives	(412)	443
	30 Jun 2015 \$'000	31 Dec 2014 \$'000
Current Assets		
Copper swaps	1,088	1,477
Foreign currency forwards	25	-
	1,113	1,477
Non-Current Assets		
Copper swaps	570	-
Current Liabilities		
Copper swaps	(883)	(822)
Gold derivative	-	(9)
Foreign currency forwards	(132)	(438)
	(1,015)	(1,269)
Non-Current Liabilities		
Copper swaps	(81)	(1,285)

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

5. Current assets – Inventories

	30 Jun 2015	31 Dec 2014
	\$'000	\$'000
Concentrates	1,803	1,424
ROM stockpile	2,326	2,773
Oxide and transition ore	22,289	21,524
Stores and consumables	4,280	4,111
Deferred mining costs	-	2,832
	30,698	32,664

Deferred mining costs represent the mining costs which are normalised for the impact of strip ratios and copper grades over the life of specific pits, which are deferred to the statement of financial position during a period where the strip ratio is higher and the copper content is lower in the initial phase of the pit. The mining costs will be reallocated to the cost of production progressively during periods where either the strip ratio is lower or the copper content is higher.

As at 30 June 2015, deferred mining costs amounted to \$5.5 million (31 December 2014: \$2.8 million). This related to the removal activities in the Giant Pit and is not expected to unwind within the next 12 months. Hence the deferred mining costs were recognised as mine development in property, plant and equipment.

6. Non-current assets – Property, plant and equipment

	30 Jun 2015	31 Dec 2014
	\$'000	\$'000
Land and buildings		
At cost	9,948	9,941
Accumulated depreciation	(195)	(112)
	9,753	9,829
Furniture, fittings & office equipment		
At cost	1,381	1,386
Accumulated depreciation	(1,297)	(1,295)
	84	91
Plant & equipment		
At cost	106,581	103,619
Accumulated depreciation	(48,863)	(37,656)
	57,718	65,963
Motor vehicles		
At cost	1,217	1,167
Accumulated depreciation	(652)	(601)
	565	566
Mine development		
At cost	210,263	194,119
Accumulated depreciation	(80,108)	(59,182)
	130,155	134,937
Total property, plant and equipment	198,275	211,386

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

6. Non-current assets – Property, plant and equipment (continued)

	30 Jun 2015 \$'000	31 Dec 2014 \$'000
Land and Building		
Carrying amount at beginning of the period	9,829	9,541
Additions	-	400
Depreciation	(76)	(112)
Carrying amount at end of the period	9,753	9,829
Furniture, fittings and office equipment		
Carrying amount at beginning of the period	91	145
Additions	24	38
Disposals	(4)	-
Depreciation	(27)	(92)
Carrying amount at end of the period	84	91
Plant and equipment		
Carrying amount at beginning of the period	65,963	76,196
Additions	3,015	3,165
Disposals	(53)	(15)
Depreciation	(6,532)	(13,383)
Impairment losses (Refer Note 3)	(4,675)	-
Carrying amount at end of the period	57,718	65,963
Motor vehicles		
Carrying amount at beginning of the period	566	743
Additions	94	2
Depreciation	(95)	(179)
Carrying amount at end of the period	565	566
Mine development		
Carrying amount at beginning of the period	134,937	139,055
Additions	16,583	23,574
Disposals	(439)	(4)
Depreciation	(10,833)	(25,214)
Reduce provision for rehabilitation	-	(2,474)
Impairment losses (Refer Note 3)	(10,093)	-
Carrying amount at end of the period	130,155	134,937
Total property, plant and equipment	198,275	211,386

Mine development includes \$5.5 million of deferred mining costs from the Giant Pit (Refer Note 5).

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

7. Non-current assets – Intangible assets

	30 Jun 2015 \$'000	31 Dec 2014 \$'000
Software		
At cost	1,015	1,015
Accumulated amortisation	(1,014)	(1,011)
	1	4
Reconciliation of the carrying amount for software is set out below		
Carrying amount at beginning of year	4	279
Additions	-	8
Depreciation	(3)	(283)
Carrying amount at end of year	1	4

Software includes capitalised development costs being an internally generated intangible asset.

Amortisation of \$2,997 (31 July 2014: \$167,756) is included in depreciation and amortisation expense in profit or loss.

8. Non-current assets – Exploration expenditure

	30 Jun 2015 \$'000	31 Dec 2014 \$'000
Balance at beginning of the financial year	31,330	30,550
Additions	718	284
Impairment losses (Refer Note 3)	(29,950)	-
Movement due to foreign exchange revaluation	(27)	496
Carrying amount at end of year	2,071	31,330

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.

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

9. Current liabilities – borrowings

	30 Jun 2015 \$'000	31 Dec 2014 \$'000
Secured		
Bank Loan – Mezzanine facility	-	10,000
Bank Loan – Project finance	-	8,000
Loan – Freepoint Pre Export Facility (Refer Note 14)	18,229	-
Less transaction costs on loans	(1,435)	(49)
Total secured current borrowings	16,794	17,951
Unsecured		
Lease liabilities	504	412
Total unsecured current borrowings	504	412
Total current borrowings	17,298	18,363

During the period 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.

10. Non-current liabilities – borrowings

	30 Jun 2015 \$'000	31 Dec 2014 \$'000
Secured		
Total secured non-current borrowings	-	-
Unsecured		
Lease liabilities	515	673
Total unsecured non-current borrowings	515	673
Total non-current borrowings	515	673

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

10. Non-current liabilities – borrowings (continued)

Contractual maturities of financial liabilities

(\$'000)	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Total contractual cash flows	Carrying amount
At 30 June 2015							
Non-derivatives							
Trade and other payables	27,876	-	-	-	-	27,876	27,876
Borrowings and interest *	3,440	7,426	11,855	118	-	22,839	17,813
Total non-derivatives	31,316	7,426	11,855	118	-	50,715	45,689
At 31 December 2014							
Non-derivatives							
Trade and other payables	29,703	-	-	-	-	29,703	29,703
Borrowings	18,912	283	267	195	43	19,700	19,036
Total non-derivatives	48,615	283	267	195	43	49,403	48,739

* As at 30 June 2015 the Company was in breach of certain undertakings under the debt finance facility agreements. These breaches were considered technical in nature and have since been waived by the financiers through waiver letters.

The debt was not due and payable on 30 June 2015 as a result of these breaches, nor has it been due and payable at any time since that date. However, as the Company was in breach of these undertakings as at 30 June 2015, AASB 101 *Presentation of Financial Statements* requires that the non-current portion of the debt be re-classified as a current liability until the breaches had been remedied or waived by the financiers. Had the statement of financial position been prepared post the waiver letters \$15.9 million of the total debt of \$16.8 million as at 30 June 2015 would be classified as non-current.

Financing arrangements

The Group had no undrawn borrowing facilities as at 30 June 2015. Subject to conditions precedent being achieved, an additional US\$6.0 million can be drawn pursuant to the Pre-Export Facility agreement.

11. Contributed equity

	30 June 2015 \$'000	31 Dec 2014 \$'000
Share capital		
Issued and paid up capital 188,109,342 shares (2014: 147,711,123) fully paid	216,054	206,860
Ordinary Shares - movements during the year		
Balance as at beginning of year	206,860	206,860
Shares Issued		
Rights issue	10,078	-
Transaction costs arising from share issues	(884)	-
Balance at end of year	216,054	206,860

Notes to the Financial Statements

For the half year ended 30 June 2015 (continued)

11. Contributed equity (continued)

During the period 40,310,719 ordinary shares were issued at 25 cents per share as a result of non-renounceable rights issue of three shares for every 11 shares held.

During the period 87,500 ordinary shares were issued for nil consideration as a result of performance rights being exercised (2014: 1,790,550 shares were issued). Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

Changes to the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

12. Related party transactions

Loans to controlled entities are eliminated on consolidation.

The parent Company is the banker for the Group and all costs that relate to the controlled entities are re-allocated via loan accounts. 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 accounts. All these transactions were recorded at cost.

13. Contingent liabilities

	30 June 2015 \$'000	31 Dec 2014 \$'000
Guarantees		
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 rehabilitation plan for Kanmantoo	16,750	16,750
Security bonds on rental properties and tenements	203	192
	<u>19,040</u>	<u>19,419</u>

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 Consolidated Entity had no other contingent liabilities at 30 June 2015.

14. Events subsequent to the balance sheet date

As at 30 June 2015 the Company was in breach of certain undertakings under the debt finance facility agreements. These breaches were considered technical in nature and have since been waived by the financiers through waiver letters.

The debt was not due and payable on 30 June 2015 as a result of these breaches, nor has it been due and payable at any time since that date. However, as the Company was in breach of these undertakings as at 30 June 2015, AASB 101 *Presentation of Financial Statements* requires that the non-current portion of the debt be re-classified as a current liability until the breaches had been remedied or waived by the financiers. Had the statement of financial position been prepared post the waiver letters \$15.9 million of the total debt of \$16.8 million as at 30 June 2015 would be classified as non-current.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 31 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 30 June 2015 and of its performance for the half year ended on that date.
- (b) there are reasonable grounds to believe that Hillgrove Resources Limited will be able to pay its debts as and when they become due and payable.

This report is made in accordance with a resolution of the directors:

Dated at Sydney this 31st day of August 2015



The Hon. Dean Brown, AO
Chairman



Mr Steven McClare
Managing Director



Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent Auditor's Review Report to the Members of Hillgrove Resources Limited

We have reviewed the accompanying half-year financial report of Hillgrove Resources Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2015, and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 15 to 32.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hillgrove Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hillgrove Resources Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants
Sydney, 31 August 2015

ABOUT HILLGROVE

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

Kanmantoo Global Mineral Resource Estimate at End February 2013

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)
In Situ Resource	Measured	2.63	0.88	0.10	1.95
	Indicated	21.77	0.82	0.23	2.21
	Inferred	5.0	0.67	0.13	1.79
		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 Reserve >0.20% Cu. Long Term Stockpiles >0.15% Cu.

Kanmantoo Global Ore Reserve Estimate at End February 2013

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)
In Situ Reserve	Proven	2.5	0.77	0.08	1.7
	Probable	18.2	0.72	0.20	2.0
		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.

Competent Person's Statement

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

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