

Tuesday, 23 September 2014

RESULTS FOR THE HALF YEAR ENDED 31 JULY 2014**HILLGROVE GENERATES PROFIT OF \$5.8M FROM
COPPER PRODUCTION AT KANMANTOO**

- Profit after Income Tax for the half year of \$5.8 million;
- EBITDA for the half year (consolidated) of \$27.0 million;
- Sales Revenue of \$92.5 million generated from Kanmantoo Copper Mine operations;
- Production of copper concentrate for the six month period was 49,956 dry metric tonnes, containing 11,438t copper (above guidance);
- C1 costs reduced to USD2-03/lb Cu (AUD2-16/lb Cu) (below guidance);
- Strong hedge book provides certainty, materially positive for cash flows and revenue;
- Total debt reduced from AUD\$41.7M at 31 January 2014 to AUD26.3M at 31 July 2014;
- Ore throughput at Kanmantoo exceeding production target rate of 3.0 million tonnes per annum.

Hillgrove Resources Limited (ASX: HGO) is pleased to announce the Company has generated total operating revenues of \$92.5 million (31 July 2013: \$58.6 million) for the half year ended 31 July 2014, derived from the production and sale of copper concentrate from the Company's Kanmantoo Copper Mine in South Australia.

The profit after tax of \$5.8 million was due to the EBITDA of \$27.0 million (31 July 2013: \$18.6 million) before deducting depreciation and amortisation of the development costs of constructing and commissioning the mine, plant and equipment, and other fixed assets of \$19.9 million.

Production Summary

	6 months to 31 July 2014	6 months to 31 July 2013	Change
Concentrate Production	49,956dmt	31,209dmt	+ 60%
Copper in Concentrate	11,438mt	7,040mt	+ 62%
Total Ore mined	2,197kt	1,244kt	+ 77%
Ore Milled	1,595kt	1,428kt	+ 12%



The production of copper concentrate for the 6 month period has exceeded the comparative period and guidance for the year to date. Concentrate produced was 49,956 dry metric tonnes, which contained 11,438 metric tonnes of copper, 2,966 ounces of gold and 75,511 ounces of silver, generating \$92.5 million in revenue.

The average realised payable price for copper and gold during the half year remained strong in Australian dollar terms, with the realised copper price supported by Hillgrove's hedging program. This was partly offset by lower US dollar commodity prices during the reporting period. Overall, an average realised copper price of AUD 8,217 per tonne was achieved (USD 3.41 per lb copper based on average AUD/USD exchange rate of 0.9147 for the half year).

Hillgrove's CEO Greg Hall said, "The Mining and Processing areas at Kanmantoo have continued to perform well and incrementally improve on a quarter on quarter basis, with new throughput and copper production records achieved during the first half. With the increased production supported by a sensible and strong hedge book, the Company has been able to confidently and aggressively pay down its debt. This has allowed the consideration and evaluation of capital management options to enable future opportunities for enhanced shareholder value, along with re-commencement of exploration around the Kanmantoo mining exploration lease."

Outlook

The Company confirms that for the 11 month financial year ended December 2014, and based on the operational improvements recently implemented, the total Copper in Concentrate is expected to increase to between 20,500 and 22,500 metric tonnes.

Mr Hall went on to say: "The strategic focus of the Company is on further improvements in performance of the Kanmantoo Mine, expansion of the Kanmantoo region resource through exploration, realisation of value from the Indonesian assets and creation of value for shareholders."

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ABOUT HILLGROVE

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on the operation of the Kanmantoo Copper Mine in South Australia, and with exploration projects on its Indonesian tenements. The Kanmantoo Copper Mine is located less than 55km from Adelaide in South Australia. With construction completed in late 2011, Kanmantoo is an open-cut mine which has now increased throughput to 3.0Mtpa of ore, to produce approximately 100,000 dry metric tonnes of copper concentrate per annum.

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.

Competent Person's Statement

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

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

Appendix 4D
Interim Report
Half year ended 31 July 2014

Name of entity	Hillgrove Resources Limited
ABN	73004297116
Half year ended	31 July 2014
Previous corresponding reporting period	31 July 2013

Results for announcement to the market

Revenue from ordinary activities	up	57.8%	to	\$92,458,000
Profit from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	up	45.2%	to	\$5,834,000
Profit for the period attributable to the owners of Hillgrove Resources Limited	up	45.2%	to	\$5,834,000

Dividends

No dividends were paid or proposed to members during the half year ended 31 July 2014 or in the previous period.

Brief explanation of results

A net profit after tax of \$5,834,000 is reported by the Group for the half year (31 July 2013: Profit of \$4,019,000).

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 31 July 2014 for additional detail.

Statements

The following statements are included in the attached Interim Report for the half year ended 31 July 2014:

- income statement
- statement of comprehensive income
- statement of financial position
- statement of changes in equity
- statement of cash flows.

Dividend reinvestment plans

There are no dividend reinvestment plans in operation.

Net tangible assets per security

NTA backing	Current period	Previous period
Net tangible asset backing per ordinary security (undiluted)	21 cents	22 cents

Control gained or lost during the period

Control gained

There were no transactions entered into by the Group during the half year ended 31 July 2014 that resulted in control being gained over any entities.

Control lost

There were no transactions entered into by the Group during the half year ended 31 July 2014 that resulted in control being lost over any entities.

Subsidiaries

The consolidated results incorporate the assets, liabilities and results of the following subsidiaries.

Name of entity	Country of incorporation	Class of Share	Equity Holding 2014	Equity Holding 2013
Controlled entity			%	%
Hillgrove Copper Pty Ltd	Australia	Ordinary	100	100
Hillgrove Copper Holdings Pty Ltd	Australia	Ordinary	100	100
Hillgrove Exploration Pty Ltd	Australia	Ordinary	100	100
Hillgrove Mining Pty Ltd	Australia	Ordinary	100	100
Hillgrove Operations Pty Ltd	Australia	Ordinary	100	100
Hillgrove Wheal Ellen Pty Ltd	Australia	Ordinary	100	100
Kanmantoo Properties Pty Ltd	Australia	Ordinary	100	100
Mt Torrens Properties Pty Ltd	Australia	Ordinary	100	100
SA Mining Resources Pty Ltd	Australia	Ordinary	100	100
Hillgrove Indonesia Pty Ltd	Australia	Ordinary	100	100
Hillgrove Singapore Pte Ltd	Singapore	Ordinary	80	80
Hillgrove Singapore No 2 Pte Ltd	Singapore	Ordinary	80	80
Hillgrove Singapore No 3 Pte Ltd	Singapore	Ordinary	100	100
Hillgrove Singapore No 4 Pte Ltd	Singapore	Ordinary	100	100
PT Akram Resources Pte Ltd	Indonesia	Ordinary	80	80
PT Fathi Resources Pte Ltd	Indonesia	Ordinary	80	80
PT Hillgrove Indonesia Pte Ltd	Indonesia	Ordinary	100	100

The proportion of ownership interest is equal to the proportion of voting power held.

Associates and joint venture entities

PT Akram Resources and PT Fathi Resources are Joint Ventures with Indonesian partners in accordance with the terms of the Joint Venture agreement.

Commentary on results for the period**Review of operations**

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 31 July 2014.

Foreign entities

International Accounting standards have been used in compiling the report.

Report based on audited accounts

This report has been based on the attached accounts which have been reviewed by the Group's auditors.



**Interim Report
for the Half Year Ended
31 July 2014**

**Hillgrove Resources Limited
and its Controlled Entities**

ACN 004 297 116

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Directors' Report

The Directors present their report on the consolidated entity consisting of Hillgrove Resources Limited and its controlled entities (the "Company") for the six month period to 31 July 2014.

Directors

The directors of the Company during this period were:

- The Hon. Dean Brown, AO
- John Gooding
- Maurice Loomes
- Douglas Snedden
- Edwin Zemancheff (resigned 28 May 2014)
- Gregory Hall

Principal Activities

The principal activities for the Company during the period were mining of copper, gold, and silver at the Kanmantoo Copper Mine (located in South Australia), sale of copper concentrate and developing value from its exploration tenements in Indonesia.

Operating and Financial Review

Hillgrove Resources 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 exploration of its projects in Indonesia.

The Kanmantoo Copper Mine is an open-cut mine located 55km from Adelaide in South Australia, which has now increased throughput to 3.0Mtpa of ore, to produce approximately 100,000 dry metric tonnes of copper concentrate per annum containing in excess of 20,000t of copper in concentrate.

Hillgrove has two major exploration projects in the Indonesian archipelago. On the island of Sumba, exploration is focused on defining low-sulphidation epithermal gold mineralisation within a series of large hydrothermal alteration systems. At Bird's Head in West Papua, exploration is focussed on defining copper-gold mineralisation associated with an interpreted porphyry complex and associated extensive hydrothermal alteration system.

Kanmantoo Copper Mine

Hillgrove's flagship development is the open pit Kanmantoo Copper Mine in South Australia; being 55 kilometres from Adelaide 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 most of the process water is supplied by the District Council of Mount Barker's treated waste water program.

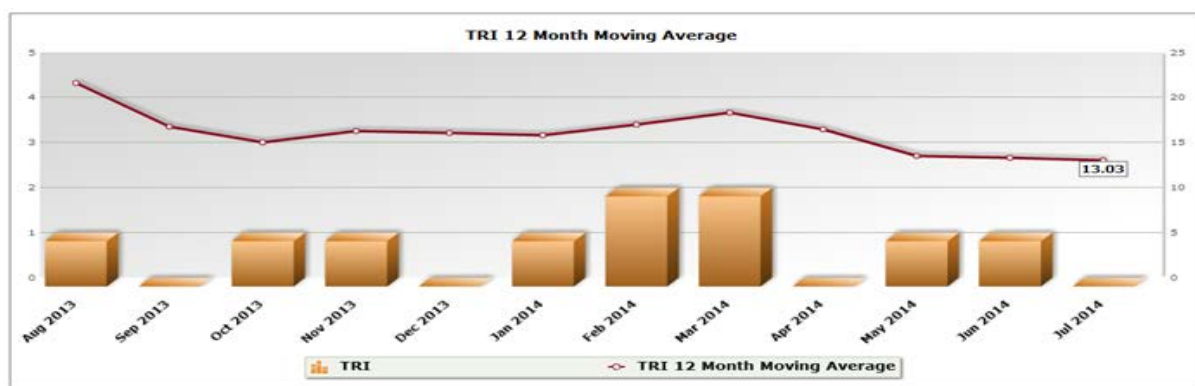
Hillgrove's direct workforce at the Kanmantoo Copper Mine now stands at approximately 190 employees, along with some 60 specialised mining contractors for equipment supply and maintenance, blast hole drilling and explosives supply. The owner operated mining system implemented during 2013 has continued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

By the end of the half year the 12 month Total Recordable Injury Frequency Rate (TRIFR) for July 2014 reduced to 13.0 (end of half year July 2013: 35.6), the lowest level since the site has been in operation. While these results are pleasing, Kanmantoo continues to focus on employee training and education in quality and safety.

Directors' Report (continued)

Operating and Financial Review (continued)

TOTAL RECORDABLE INJURY FREQUENCY RATE



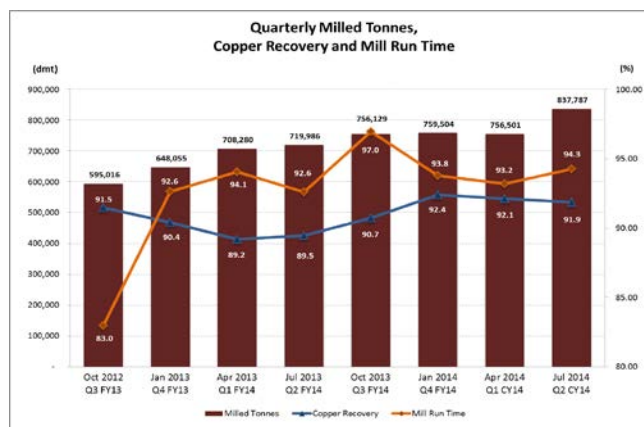
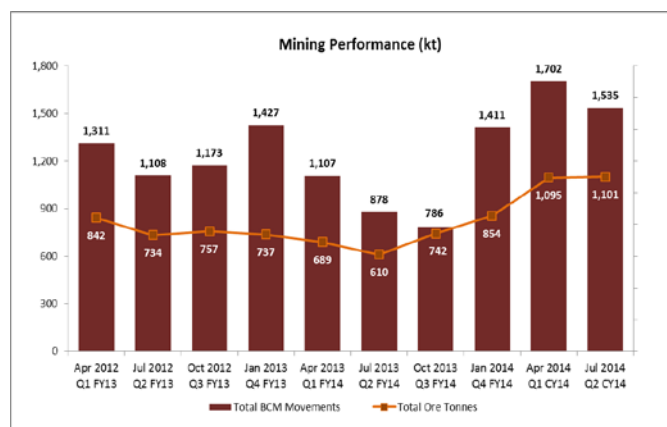
Operations - Mining

Mining operations continued in the Kavanagh, Nugent and Emily Star open pits. The Kavanagh pit is nearing planned depth, and has been the dominant source of ore supply over the half year. The Nugent pit is expanding and will become the major ore source during the December quarter. Following receipt of the new mining lease at the side of the existing lease, a small cutback in Nugent commenced and this will widen the pit to its full extent. The Emily Star pit is currently moving from oxide/transitional ore into primary ore.

Resource reconciliation has continued to be positive with more metal per pit bench than modelled. However during the half year two higher grade lenses truncated shorter than modelled in Kavanagh reducing the total amount of higher grade feed available. This was offset in metal terms by an increased halo of medium and lower grade material. During the latter part of the half (second quarter), scheduled mining quantities were lower due to the impact of winter rains on mining and hauling operations.

Increased emphasis on detailed geotechnical design of pit wall angles, berms and ramps has improved wall stability and quality and is positively influencing future economic pit design. Excavator and truck fleet productivity targets set at the start of the half year have been achieved, and this improved unit bcm costs.

Total material moved from the open pits for the half year July 2014 was 10,003kt (half year July 2013: 6,305kt), and total ore tonnage mined for the half year July 2014 was 2,197kt (half year July 2013: 1,283kt).



Operations – Crushing and Processing

The processing plant performance continued to improve during the half year, with significant throughput and cost benefits arising from projects and key maintenance changes. These included:

- installation of a multi-stream analysis unit to effectively manage quality and recovery;
- a new screening system successfully installed between the primary and secondary crusher;
- a bulk lime delivery system to reduce handling and costs, and provide more efficient dosing; and

Directors' Report (continued)

Operating and Financial Review (continued)

- improvements to maximise the re-grind mill capacity utilising flotation underflow streams that has improved concentrate grade.

Mill throughput and reliability were maintained at a high level during the half year with a total of 1,595kt of primary ore processed at an average head grade of 0.90% copper (half year 2013: 1,428kt processed at 0.55% copper head grade). In particular the recovery has been maintained and improved despite the plant throughput lifting to above 3mtpa rates. Recovery for the half year was 92.0% (half year 2013: 89.3%).

Copper production for the half year was 11,438t copper contained within concentrates (half year 2013: 7,040t copper contained within concentrates), and full year guidance for the 11 month financial year CY14 to 31 December 2014 is 20,500t to 22,500t.

C1 costs for the half year to July 2014 improved to US\$2.03 per lb copper produced (A\$2.16 per lb) which compares to the half year July 2013 US\$2.41 per lb (A\$2.53 per lb). All areas of site operations contributed to this improved cost performance.

Offtake and shipping

Hillgrove has a 100% life of mine offtake agreement with Freeport Metals and Concentrates ("Freeport"). This agreement provides a channel for the sale of the copper concentrates produced from the Kanmantoo Copper Mine. 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 six months to 31 July 2014, five shipments totalling 54,489wmt of copper concentrate were shipped, all of which went to various copper smelters in China.

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 five formal meetings during the half year, including a visit to Kanmantoo mine by the dust working party. Key areas of discussion included: nuisance dust management, noise, traffic, and the two year mine life extension approval.

Along with the above meetings, Kanmantoo hosted or were involved with 12 additional site visits and community functions during the period directly related to community engagement.

Hillgrove approaches its community and social responsibilities actively and seriously, and believes the KCCCC group (on which the Company is represented) is continuing to develop into a model of a good working format to achieve mutual outcomes.

The Kanmantoo environment team commenced a significant program of rehabilitation of old farming and grazing fields as part of its ongoing commitment and final rehabilitation plans on parts of the mining lease not being mined. This task involved removing the immediate 100mm of topsoil which contains an excess of nutrients, and most of the imported weeds. Native seeds generated by Kanmantoo's own seed generation plots were then sown onto the rehabilitated areas. This rehabilitation is performed in strips so as not to expose too much area to weathering affects 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.

Commodity Hedging and Debt Reduction

The Company's hedging strategy continues to provide strong support for Kanmantoo's production revenue and debt repayments. The additional hedging placed in January 2014 of 2,280t provided 90% hedge coverage of payable production for the half year at an average price of A\$8,140/t providing substantial support for our copper pricing to allow the total debt reduction of A\$15.6 million during the half year.

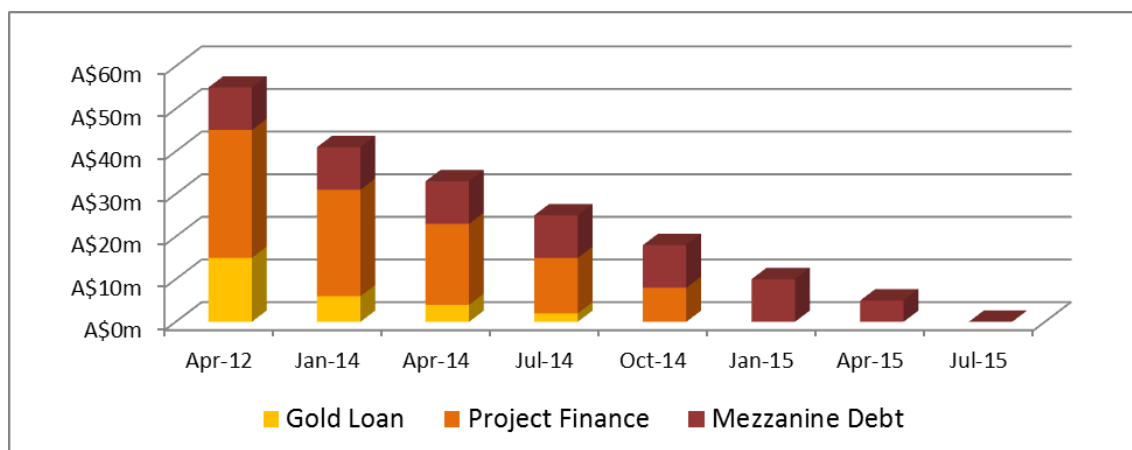
Along with this, Hillgrove entered into additional copper hedging contracts in August 2014 to increase the hedge cover to 90% between August and November 2014. This was also done at an opportune time of firmer copper prices to help cover revenue streams required for future debt repayments. These additional hedges were secured at an average price of A\$7,642/mt (A\$3.47/lb) for an additional 1,487t, which compares favourably to the current spot price of circa A\$7,500/mt.

Directors' Report (continued)

Operating and Financial Review (continued)

The improving operating, cost and financial performance allowed further scheduled debt repayments during the half year. Gross debt reduced from A\$40.8 million as at 31 January 2014 to A\$25.2 million at 31 July 2014.

DEBT REPAYMENT SCHEDULE



As at the end of July 2014 Hillgrove held 25,000t of copper swaps at an average price of A\$7,800/t with the final expiry in March 2016.

The Company's gold loan will be fully repaid by the end of September 2014.

Along with debt repayments, various capital projects at Kanmantoo were also funded out of cash flow.

Mine Life Extension

Following an extensive consultation period with the local community through the KCCCC reviewing the proposed mine life extension, Kanmantoo region dust and traffic impacts and environmental rehabilitation, and applications to the South Australian and Australian Federal Government, a two year extension was granted.

Hillgrove Copper's Program for Environment Protection and Rehabilitation (PEPR) in relation to the Life of Mine plan for ML6345 and ML6436 was approved by the Department of State Development on 24 July 2014. The approval provides a 75% increase in processed ore over the original PEPR and a life extension to 2019, based on current mine reserves, and allows access to additional copper resources located within the mining lease.

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 continued to retain exploration care and maintenance teams at the project offices during the half year, with assistance from our Jakarta based joint venture partners. During briefings in Hong Kong and Singapore, interest was generated towards potential investment in these advanced projects, from both a pure investment perspective for future copper and gold discoveries and potential direct involvement. Interest in exploration was particularly strong from local Indonesian investors.

Hillgrove is continuing to work with these groups, including providing access under confidentiality to the exploration database. Although progress has been slow due to the current economic climate, Hillgrove believes the projects will continue to receive support for further exploration expenditure based on the quality and advanced exploration status of the assets.

Capital Management Initiatives

Hillgrove implemented a capital management initiative to undertake a one for eight share consolidation which was approved at an Extraordinary General Meeting on 10 September 2014. This resulted in the number of shares on issue being reduced from 1.18 billion to approximately 148 million on 17 September 2014.

Directors' Report (continued)

Operating and Financial Review (continued)

Hillgrove will follow the share consolidation with a share sale facility to provide eligible shareholders with an opportunity to sell their unmarketable parcels without incurring any brokerage costs. In addition to allowing holders of small shareholdings to sell their shares without brokerage, the sale facility will also reduce the expense to the Company of maintaining over 1,500 shareholders with unmarketable parcels. Further information and details regarding this share sale facility will be announced and mailed to shareholders shortly.

Hillgrove has obtained approval to change its financial year end from 31 January to 31 December. Consequently this financial year (CY14) will run for 11 months from 1 February 2014 to 31 December 2014. The first half of CY14 (this report) covers the six months from 1 February 2014 to 31 July 2014.

Outlook

The Kanmantoo Mine has recommenced a review of exploration potential on its mining lease and broader regional exploration tenement as part of possible future mine life extensions, with a consulting exploration geologist engaged to initiate this work. Some of this will be based on conversion of resources and exploration target ranges into reserves within the mining lease, and some will be reviewing the potential for new mineralised zones both within the mining lease and on the surrounding exploration lease. The recent acquisition of the exploration and mining option over the historical Kitticoola private mine is one step in this program.

The operating performance has continued to demonstrate the capability that is now established at Kanmantoo, with production outcomes being repeated and delivered as forecast and planned, meeting our market guidance.

The guidance previously provided at the commencement of the year ran to 31 January 2015 requiring adjustment by one month to allow for the new financial year end. Copper and gold production is proportionally in line; ore processed and ore grade have been adjusted based on increased mill throughput and slightly lower head grades; and C1 costs have been adjusted based on current and anticipated performance. The updated guidance for the eleven months from 1 February to 31 December 2014 (CY14) is as follows:

- Ore mined 2,850kt to 3,000kt
- Ore processed 2,900kt to 3,000kt
- Ore grade processed 0.76% to 0.81% Copper
- Copper recovery 91.5% to 92.5%
- Copper produced 20,500t to 22,500t copper contained in concentrates
- Gold produced 6,000oz to 7,800oz gold contained in concentrates
- C1 Costs USD2.00 to USD2.20 per lb at 0.90 exchange rate.

Hillgrove forecast A\$10.9 million in sustaining and project capital for CY14. The major tailings dam work has been completed along with some sustaining projects during the first half. An approximate amount of A\$3.5 million is due for expenditure in the second half, which includes A\$1.5.0 million on the controlled potential sulphidisation (CPS) plant for the batch processing of oxide ore stockpiles planned for CY15.

Further continuous improvements in 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 2023.

Strategy and growth

The strategic focus of the Company is on further improvements in performance of the Kanmantoo Mine, expansion of the Kanmantoo region resource through exploration, realisation of value from the Indonesian assets and creation of value for shareholders.

- Continue to achieve CY14 budget targets and implementation of operational improvements;
- Continued repayment of debt and review of appropriate capital structure;
- Evaluate future capital management alternatives to enable enhanced return of value to shareholders;
- Evaluate resource extension potential at Kanmantoo beyond current target life;

Directors' Report (continued)

Operating and Financial Review (continued)

- Complete an updated life of mine (LOM) plan for the operation; and
- Develop and evaluate options for extraction of value from Indonesian exploration assets through joint venture or external investment.

Review of consolidated financial results

For the six months ended 31 July 2014, the net profit after tax was A\$5.8 million compared to A\$4.0 million in the comparative period.

Income Statement

	Half Year	Half Year	
A\$ million	July 2014	July 2013	Change
Revenue from sale of concentrates	92.5	58.6	33.9
Other income	-	0.2	(0.2)
Cost of production	(63.6)	(29.4)	(34.2)
Changes in inventories of ore and concentrate - Cash	5.6	(1.2)	6.8
Materials and services costs	(2.6)	(2.6)	-
Employee expenses	(3.0)	(3.8)	0.8
Royalties	(1.1)	(0.7)	(0.4)
Corporate and other administration costs	(1.5)	(1.4)	(0.1)
Net foreign exchange gains / (losses)	0.7	(1.1)	1.8
EBITDA	27.0	18.6	8.4
Depreciation and amortisation expenses	(19.9)	(12.4)	(7.5)
Gains on derivative financial instruments	0.4	3.6	(3.2)
Net financing expenses	(1.8)	(3.0)	1.2
Other non-cash income/(costs)	0.4	(0.5)	0.9
Profit before income tax	6.1	6.3	(0.2)
Income tax expense	(0.3)	(2.3)	2.0
Profit after income tax	5.8	4.0	1.8

The increase in net profit after tax by A\$1.8 million on the previous period was primarily due to:

- Revenue generated in the six months to 31 July 2014 from the sale of copper concentrate of A\$92.5 million was an increase of A\$33.9 million on the comparative period (31 July 2013: A\$58.6 million).
- During the half year period production of 49,956t of dry copper concentrate containing 11,438t copper was sold from the Kanmantoo Copper Mine (31 July 2013: 31,209t of dry copper concentrate containing 7,040t copper). Even though production increased by 60% in comparison to the previous period, the cost of production increased more than this (by 116%) due to lower capitalisation of deferred mining costs and pre-strip material in the current half, and the financial settlement from the previous mining contractor in the comparative half. The previous six months comparative cost of production was abnormally low as a result of an adjustment to mining costs due to the termination of the mining contract in July 2013.
- Deferred mining costs in the statement of financial position as at 31 January 2014 of A\$6.3 million relating to the Kavanagh pit were fully allocated to the cost of production. Deferred mining costs as at 31 July 2014 are A\$1.7 million and related to the Nugent Pit.
- Direct employee costs decreased by A\$0.8 million during the period due to the write back of short term incentives which were lower than accrued costs, lower share option expense and the results of cost reduction initiatives undertaken in the previous period.

Directors' Report (continued)

Operating and Financial Review (continued)

- There was a significant improvement to EBITDA for the period, increasing from A\$18.6 million in the prior period to A\$27.0 million in the current period.
- Depreciation and amortisation expenses increased to A\$19.9 million from A\$12.4 million in the previous period, mainly due to an increase in the capital base combined with the higher throughput.
- During the six month period, there was a gain on financial derivatives of A\$0.4 million in comparison to a gain of A\$3.6 million in the previous period.
- Net financing expenses reduced by A\$1.2 million to A\$1.8 million as a result of the repayment of borrowings during the six month period, with A\$15.4 million of Project Finance and Gold Loan debt repaid.
- Income tax expense is lower during this period due to the favourable research & development claims adjustment of A\$1.9 million on finalisation of the prior year tax return.

Cash flow overview

A\$ million	July 2014	July 2013	Change
Net cash inflows from operating activities	38.0	7.6	30.4
Net cash used in investing activities	(25.4)	(14.0)	(11.4)
Net cash outflows from financing activities	(16.9)	(3.9)	(13.0)
Net decrease in cash held	(4.3)	(10.3)	6.0
Cash and cash equivalents at the end of half year	12.1	17.1	(5.0)

Operating activities

Cash inflows from operating activities for the six months ended 31 July 2014 were A\$38.0 million, which is A\$30.4 million higher than the prior period cash flow of A\$7.6 million. The increase is mainly attributed to higher receipts from customers of A\$86.7 million resulting from the higher volume of copper concentrate sold.

A\$ million	July 2014	July 2013	Change
Receipts from customers	86.7	51.9	34.8
Payment to suppliers, employees and contractors	(48.7)	(44.3)	(4.4)
Net cash inflows from operating activities	38.0	7.6	30.4

Investing activities

Cashflows used in investing activities amounted to A\$25.4 million in the current six months compared to an outflow of A\$14.0 million in the previous corresponding period. The increase is in respect of capital works such as the Tailings Storage Facility extension and pre-strip from new pits of A\$25.0 million in comparison to A\$11.4 million in the previous period.

The lower exploration spend of A\$0.3 million in comparison to A\$2.7million in the previous period is due to the reduced activity on Indonesian projects and the closure of the exploration offices in Jakarta and Perth.

Financing activities

A\$ million	July 2014	July 2013	Change
Repayment of borrowings	(15.1)	(2.4)	(12.7)
Net interest paid	(1.8)	(1.5)	(0.3)
Net cash outflows from financing activities	(16.9)	(3.9)	(13.0)

Directors' Report (continued)

Operating and Financial Review (continued)

Cash flows relating to financing activities were an outflow of A\$16.9 million, compared to an outflow of A\$3.9 million in the comparative period. The increase in outflows of A\$13.0 million is due to repayment of A\$15.1 million of debt during the six month period.

Statement of financial position

Net assets increased by A\$14.1 million during the six month period to A\$242.6 million, mainly due to a decrease in borrowings of A\$15.4 million and the carrying value of derivative financial instruments of A\$8.5 million, offset by a decrease in cash of A\$4.3 million, deferred tax assets of A\$3.6 million and trade debtors of A\$1.8 million.

Total equity increased by the corresponding A\$14.1 million due to the profit for the period of A\$5.8 million and an increase in reserves from the revaluation of the unexpired hedging position as at 31 July 2014.

Cash and cash equivalents

Cash and cash equivalents at 31 July 2014 of A\$12.1 million reduced by A\$4.3 million from 31 January 2014 balance of A\$16.5 million. The movement of A\$4.3 million was mainly due to payments for property, plant and equipment of A\$25.0 million, payments for exploration activities of A\$0.3 million, repayment of borrowings of A\$15.1 million, and A\$1.9 million of interest payments offset by net cash flows from operating activities of A\$38.0 million.

Inventories

The increase in inventories by A\$1.7 million to A\$27.8 million was mainly due to the net transfer of oxide, transitional and low grade primary ore from the mine to the long term stock pile of A\$5.4 million, offset by a decrease in deferred mining costs capitalised at A\$4.6 million.

Deferred mining costs as at 31 January 2014 of A\$6.3 million relating to the Kavanagh pit were fully allocated to the cost of production during the six month period to 31 July 2014. The amount of A\$1.7 million capitalised during the period is the commencement of capitalised deferred mining costs from the Nugent pit.

Derivative financial instruments

The net position on derivative financial instruments at 31 July 2014 was a liability of A\$0.8 million in comparison to A\$9.3 million at 31 January 2014. The decrease in net liability of A\$8.5 million is due to the close out of contracts and decrease in copper prices.

Property, plant and equipment

During the six month period the carrying value of property, plant and equipment reduced by A\$1.4 million to A\$224.3 million. This was mainly due to depreciation of A\$19.7 million offset by additions of A\$18.3 million which included the cost of capitalising material to the Tailings Storage Facility.

Exploration expenses

Exploration expenditure capitalised in the statement of financial position increased during the period by A\$0.1 million from A\$30.5 million to A\$30.6 million and was spent on maintaining the two Indonesian projects whilst in care and maintenance.

Trade and other payables

Trade and other payables have been maintained at the same levels as at 31 January 2014.

Borrowings

Total borrowings (current and non-current) as at 31 July 2014 is A\$26.3 million of which bank debt is A\$25.2 million. At the end of January 2014, total borrowings were A\$41.7 million of which bank debt was A\$40.8 million (total borrowings are higher due to the lease liabilities and deduction of borrowing costs). Bank debt reduced by A\$15.6 million during the period mainly due to the repayment of the Project Finance Loan of A\$12.0 million and the Gold Loan of A\$3.4 million.

Directors' Report (continued)

Operating and Financial Review (continued)

Employee benefits payable

Employee benefits payable have decreased by A\$0.2 million mainly due to the payments of short term incentives being lower than that accrued as at 31 January 2014.

Provisions

The provisions balance of A\$12.3 million increased by A\$0.6 million from the balance at the end of the previous year mainly due to the additional amount of A\$0.5 million provided to rehabilitate the Kanmantoo Copper Mine.

Contributed equity

No change in contributed equity.

Events subsequent to the balance sheet date

On 29 August 2014 the Company obtained a waiver from its financiers with respect to compliance with a ratio covenant as at 31 July 2014 on its project loan facility.

On 10 September 2014 shareholders approved a one for eight share consolidation. This consolidation reduced the number of shares on issue from 1.18 billion to approximately 148 million.

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 12.

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

Dated at Sydney this 23rd day of September 2014



The Hon. Dean Brown, AO
Chairman



Mr Gregory Hall
Managing Director



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

23 September 2014

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 31 July 2014, 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 handwritten signature in black ink, appearing to read "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

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

Jason Thorne
Partner
Chartered Accountants

Condensed Consolidated Income Statement For the half year ended 31 July 2014

	Note	Half-year	
		July 2014	July 2013
		\$'000	\$'000
Revenue from sale of concentrates		92,458	58,599
Other income		228	498
Cost of production		(63,564)	(29,381)
Changes in inventories of ore and concentrate		6,015	(1,451)
Materials and services costs		(2,643)	(2,639)
Employee benefit expenses		(3,009)	(3,789)
Royalties expense		(1,125)	(731)
Net foreign exchange gains / (losses)		690	(1,043)
Gains on financial instruments	3	443	3,585
Impairment of other financial assets		-	(294)
(Losses) / gains on disposal of fixed assets		(15)	23
Depreciation and amortisation expenses		(19,870)	(12,418)
Corporate and other administration costs		(1,473)	(1,410)
Financing expenses		(2,031)	(3,275)
Profit before income tax		6,104	6,274
Income tax expense		(270)	(2,255)
Profit for the half year		5,834	4,019
Profit for the half year is attributable to:			
Equity holders of Hillgrove Resources		5,834	4,019
Non-controlling interest		-	-
		5,834	4,019
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share		0.49	0.39
Diluted earnings per share		0.48	0.37

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 31 July 2014

	Half-year	
	July 2014	July 2013
	\$'000	\$'000
Profit for the half year	5,834	4,019
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Other financial assets	136	(132)
Exchange differences on translation of foreign operations	(91)	774
Unrealised gains on cash flow hedges taken to equity	11,237	1,018
Income tax relating to components of other comprehensive income	(3,324)	(305)
Other comprehensive income for the half year (net of tax)	7,958	1,355
Total comprehensive income for the half year	13,792	5,374
Total comprehensive income for the half year is attributable to:		
Equity holders of Hillgrove Resources	13,792	5,374
Non-controlling interest	-	-
	13,792	5,374

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 31 July 2014

	Note	31 July 2014 \$'000	31 Jan 2014 \$'000
Current assets			
Cash and cash equivalents		12,145	16,452
Trade and other receivables		3,243	5,024
Other financial assets		328	192
Inventories	4	27,839	26,162
Derivative financial instruments	3	3,480	4,016
Total current assets		47,035	51,846
Non-current assets			
Property, plant and equipment	5	224,304	225,680
Intangible assets	6	114	279
Exploration expenditure	7	30,615	30,550
Deferred tax asset		10,250	13,845
Total non-current assets		265,283	270,354
Total assets		312,318	322,200
Current liabilities			
Trade and other payables		24,025	23,936
Provisions		676	404
Borrowings	8	25,405	30,619
Employee benefits payable		2,797	3,017
Derivative financial instruments	3	2,761	4,491
Total current liabilities		55,664	62,467
Non-current liabilities			
Provisions		11,658	11,363
Borrowings	9	883	11,050
Derivative financial instruments	3	1,503	8,781
Total non-current liabilities		14,044	31,194
Total liabilities		69,708	93,661
Net assets		242,610	228,539
Equity			
Contributed equity	10	206,860	206,860
Reserves		2,777	(3,320)
Retained earnings		32,973	24,999
Total equity		242,610	228,539

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 31 July 2014

Consolidated	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000	Non- controlling interests \$'000	Total equity \$'000
Balance 1 February 2013	196,510	597	23,503	220,610	-	220,610
Total comprehensive income for the half year	-	1,355	4,019	5,374	-	5,374
Transactions with owners:						
Contributions of equity, net of transaction costs	-	495	-	495	-	495
Non- controlling interests	-	-	-	-	-	-
Balance 31 July 2013	196,510	2,447	27,522	226,479	-	226,479
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:						
Contributions of equity, net of transaction costs	-	279	-	279	-	279
Non- controlling interests	-	-	-	-	-	-
Balance 31 July 2014	206,860	2,777	32,973	242,610	-	242,610

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 31 July 2014

	Half-year	
	July 2014	July 2013
	\$'000	\$'000
Cash flows from operating activities		
Cash receipts in the course of operations	86,762	51,915
Cash payments in the course of operations	(48,726)	(44,280)
Net cash generated from operating activities	38,036	7,635
Cash flows from investing activities		
Payments for exploration, evaluation and development	(343)	(2,682)
Payments for property, plant and equipment	(25,098)	(11,417)
Proceeds on disposal of property, plant and equipment	-	99
Net cash used in investing activities	(25,441)	(14,000)
Cash flows from financing activities		
Repayment of borrowings	(15,140)	(2,437)
Interest paid	(1,942)	(1,795)
Interest received	180	268
Net cash provided by financing activities	(16,902)	(3,964)
Net decrease in cash held	(4,307)	(10,329)
Cash at beginning of the half year	16,452	27,405
Cash at end of the half year	12,145	17,076

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 31 July 2014

1. Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 July 2014 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 January 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

As at 31 July 2014, the Company had a working capital deficiency of \$8.6 million (31 January 2014: working capital deficiency of \$10.6 million). This is mainly due to \$25.4 million of borrowings classified as current which will be repaid by the Company in the next 12 months. The directors are of the opinion that this working capital deficiency will be addressed through future production generating free cash flows to pay borrowings when due. \$38.0 million of operating cash flows were generated during the six months to 31 July 2014.

The profit for the period to 31 July 2014 was \$5.8 million (31 July 2013: profit of \$4.0 million).

The financial report has been prepared on a going concern basis as the Directors are of the opinion that the Group will be able to realise its assets and discharge its liabilities in the normal course of business.

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:

Early adoption of standards

The Company has elected to early adopt certain Australian Accounting Standards and interpretations which permit early adoption.

The decision to early adopt those standards and interpretations ensures that policy elections described below, including IFRS transition exemptions, are available. The principal standards and interpretations that have been early adopted are:

- AASB 9 *Financial Instruments* (2013)

Other financial assets

The Company has early adopted AASB 9 *Financial Instruments* as issued in 2013, with initial application from 1 February 2014 (being the beginning of the period). 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 the contractual cash flow characteristics of the financial assets.

This change in accounting policy has been applied on a retrospective basis, from 1 February 2014. 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 period. The Company has elected not to restate prior period comparatives.

Under the adoption of AASB 9, cash and cash equivalents, trade receivables and other receivables continue to be measured at amortised cost.

In accordance with AASB 9, the Company has designated its investment in equity securities that were formerly designated as "available-for-sale", as "fair value through other comprehensive income". This results in all realised and unrealised gains and losses from the investment portfolio being recognised directly in equity through "other comprehensive income" in the Consolidated Statement of Comprehensive Income. Dividend income is recognised in the Consolidated Income Statement.

Notes to the Financial Statements

For the half year ended 31 July 2014 (continued)

1. Basis of preparation (continued)

The change in policy has been retrospectively applied to investments in equity securities with the result that previous impairment losses transferred to profit and loss have been reversed to the reserve account. The Company has adjusted this impact through current period opening retained earnings. A reconciliation of the impact is tabulated below.

Impact on profit and other comprehensive income

\$'000	6 months ended 31 July 2014	6 months ended 31 July 2013
Impact on profit (loss) for the year of application of AASB 9		
Reduction in impairment of AFS assets	-	294
Impact on other comprehensive income for the year of application of AASB 9		
Decrease in other comprehensive income	-	(294)

Impact on statement of financial position at 1 February 2013

\$'000	As at 1/02/2013 as previously reported	AASB 9 adjustments	As at 1/02/2013 as restated
Contributed equity	196,510	-	196,510
Retained earnings	23,503	1,825	25,328
Reserves	597	(1,825)	(1,228)
Total effect of equity	220,610	Nil	220,610

Impact on statement of financial position at 31 July 2013

\$'000	As at 31/07/2013 as previously reported	AASB 9 adjustments	As at 31/07/2013 as restated
Contributed equity	196,510	-	196,510
Retained earning	27,522	2,140	29,662
Reserves	2,447	(2,140)	307
Total effect of equity	226,479	Nil	226,479

The following table summarises the effect on profit and on both basic and diluted earnings per share.

	Effect on profit for the year from continuing operations		Effect on basic and diluted earnings per share	
Half-Year Ended	31/07/14	31/07/13	31/07/14	31/07/13
	\$'000	\$'000	Cents per share	Cents per share
Changes in accounting policies relating to: Application of AASB 9 eliminating impairment of AFS securities	-	294	-	0.03

Notes to the Financial Statements

For the half year ended 31 July 2014 (continued)

1. Basis of preparation (continued)

On adoption of AASB 9, the Company has elected to adopt the AASB 9 hedge accounting model. The adoption of AASB 9 has resulted in a redesignation of the current hedges and has changed the Company's accounting policies by simplifying and improving hedge accounting for the Company and means that the accounting results will better align with its risk management practices.

The adoption of AASB 9 does not impact the original carrying amount of the Company's financial assets, previously measured under AASB 139.

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 assets

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 units ("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 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 sell calculation (FVLCTS), 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 FVLCTS and VIU.

The FVLCTS assessment was undertaken using a discounted cash flow approach. Cash flow projections are based on the cash generating unit's life of mine plan and includes the conversion of any identified resources into reserves. In assessing the FVLCTS, 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.

Certain key assumptions are used for CGU impairment testing.

The below assumptions are used when determining cash flow projections:

Assumption	2014	2015	2016	2017	2018	Long term
Real copper price per tonne (US\$)	6,965	6,978	6,864	6,852	6,766	6,689
Real gold price per ounce (US\$)	1,306	1,313	1,323	1,226	1,083	1,070
A\$:US\$ foreign exchange rate	0.91	0.85	0.84	0.83	0.81	0.81

Broker consensus and other observable market data were used as the basis to determine the above assumptions. A real post-tax discount rate of 7.77% is applied to projected post-tax real cash flows.

Sensitivity analyses were performed to determine whether the recoverable value under different assumptions supported the CGU carrying value.

Key variables in the sensitivity analysis included:

- Forecast copper and gold prices
- Forecast foreign exchange rates
- Post-tax discount rate.

Notes to the Financial Statements For the half year ended 31 July 2014 (continued)

1. Basis of preparation (continued)

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

Recoverability of assets (continued)

Any variation in the key assumptions used to determine FVLCTS would result in a change of the assessed FVLCTS. If the variation in an assumption had a negative impact on FVLCTS, it could in the absence of other factors indicate a requirement for impairment to property, plant and equipment.

The following table sets out isolated changes to assumptions used in the FVLCTS model that may individually result in an impairment of property, plant and equipment.

Assumption	Sensitivity
Real US\$ copper and gold price	6.5% decrease
A\$:US\$ foreign exchange rate	7.5% increase
Post-tax real discount rate	11.0% discount rate

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 31 July 2014 (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	\$'000	\$'000
	31 July 2014				31 July 2013					
Revenue from sale of concentrates	92,458	-	-	-	92,458	58,599	-	-	-	58,599
Other income	17	28	-	-	45	28	10	209	-	247
Cost of production	(63,564)	-	-	-	(63,564)	(29,381)	-	-	-	(29,381)
Changes in inventories of ore and concentrate - cash	5,637	-	-	-	5,637	(1,210)	-	-	-	(1,210)
Materials and services costs	(2,643)	-	-	-	(2,643)	(2,639)	-	-	-	(2,639)
Employee benefit expenses	(1,379)	(1,500)	(130)	(130)	(3,009)	(1,374)	(2,221)	(194)	(194)	(3,789)
Royalties expense	(1,125)	-	-	-	(1,125)	(731)	-	-	-	(731)
Net foreign exchange gains/(losses)	690	-	-	-	690	(1,046)	5	(2)	(2)	(1,043)
Corporate and other administration costs	(619)	(724)	(130)	(130)	(1,473)	(15)	(1,356)	(39)	(39)	(1,410)
EBITDA	29,472	(2,196)	(260)	(260)	27,016	22,231	(3,562)	(26)	(26)	18,643
Depreciation and amortisation expenses	(19,843)	(23)	(4)	(4)	(19,870)	(12,355)	(58)	(5)	(5)	(12,418)
Gains on financial instruments	443	-	-	-	443	3,585	-	-	-	3,585
Impairment of other financial assets	-	-	-	-	-	-	(294)	-	-	(294)
(Loss)/gain on disposal of fixed assets	(15)	-	-	-	(15)	23	-	-	-	23
Changes of inventories of ore/concentrate – non-cash	378	-	-	-	378	(241)	-	-	-	(241)
EBIT	10,435	(2,219)	(264)	(264)	7,952	13,243	(3,914)	(31)	(31)	9,298
Net financing expense	(1,510)	(338)	-	-	(1,848)	(2,651)	(373)	-	-	(3,024)
EBT	8,925	(2,557)	(264)	(264)	6,104	10,592	(4,287)	(31)	(31)	6,274
Income tax expense					(270)					(2,255)
Net profit after tax					5,834					4,019

Notes to the Financial Statements

For the half year ended 31 July 2014 (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
	31 July 2014				31 January 2014			
Segment assets	267,981	14,912	29,425	312,318	272,066	20,615	29,519	322,200
Additions to non-current assets	18,389	108	3	18,500	21,821	24	3,066	24,911
Segment liabilities	57,693	11,978	37	69,708	81,124	12,467	70	93,661

Revenue from major products and services

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

Geographical information

In the half year, Hillgrove's external revenues are 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:

	31 Jul 2014	31 Jan 2014
	\$'000	\$'000
Australia	225,634	227,017
Indonesia	29,399	29,492
	255,033	256,509

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. Derivative Financial Instruments

	31 Jul 2014	31 Jul 2013
	\$'000	\$'000
Gains on financial derivatives	443	3,585

In the current period, the unrealised loss on financial derivatives of \$309,463 has been offset against a gain on financial derivatives of \$752,309.

Notes to the Financial Statements

For the half year ended 31 July 2014 (continued)

3. Derivative Financial Instruments (continued)

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Current Assets		
Copper swaps	2,994	2,844
Gold embedded derivative	486	1,172
	<u>3,480</u>	<u>4,016</u>
Current Liabilities		
Copper swaps	(2,461)	(4,335)
Foreign currency forward	(300)	(156)
	<u>(2,761)</u>	<u>(4,491)</u>
Non-Current Liabilities		
Copper swaps	<u>(1,503)</u>	<u>(8,781)</u>

4. Current assets – Inventories

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Concentrates	1,217	1,824
ROM stockpile	2,297	1,118
Oxide and transition ore	17,047	9,574
Low grade primary ore	2,156	4,186
Stores and consumables	3,428	3,118
Deferred mining costs	1,694	6,342
	<u>27,839</u>	<u>26,162</u>

Deferred mining costs as at 31 January 2014 of \$6.3 million relating to the Kavanagh pit were fully allocated to the cost of production during the six month period to 31 July 2014.

The amount of deferred mining costs capitalised during the six month period to 31 July 2014 of \$1.7 million is from the Nugent pit, and is applied where the strip ratio is higher and the copper content is lower than the pit average.

Notes to the Financial Statements

For the half year ended 31 July 2014 (continued)

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

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Land and buildings		
At cost	9,941	9,541
Accumulated depreciation	(33)	-
	<u>9,908</u>	<u>9,541</u>
Furniture, fittings & office equipment		
At cost	1,359	1,348
Accumulated depreciation	(1,260)	(1,203)
	<u>99</u>	<u>145</u>
Plant & equipment		
At cost	101,665	100,492
Accumulated depreciation	(31,524)	(24,296)
	<u>70,141</u>	<u>76,196</u>
Motor vehicles		
At cost	1,167	1,165
Accumulated depreciation	(519)	(422)
	<u>648</u>	<u>743</u>
Mine development		
At cost	189,758	173,023
Accumulated depreciation	(46,250)	(33,968)
	<u>143,508</u>	<u>139,055</u>
Total property, plant and equipment	<u>224,304</u>	<u>225,680</u>

Notes to the Financial Statements

For the half year ended 31 July 2014 (continued)

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

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Land and buildings		
Carrying amount at beginning of year	9,541	9,541
Additions	400	-
Depreciation	(33)	-
Carrying amount at end of year	9,908	9,541
Furniture, fittings and office equipment		
Carrying amount at beginning of year	145	303
Additions	11	23
Depreciation	(57)	(181)
Carrying amount at end of year	99	145
Plant and equipment		
Carrying amount at beginning of year	76,196	86,109
Additions	1,193	2,252
Disposals	(15)	(429)
Depreciation	(7,233)	(11,736)
Carrying amount at end of year	70,141	76,196
Motor vehicles		
Carrying amount at beginning of year	743	769
Additions	2	174
Disposals	-	(28)
Depreciation	(97)	(172)
Carrying amount at end of year	648	743
Mine development		
Carrying amount at beginning of year	139,055	137,136
Additions	16,735	18,651
Depreciation	(12,282)	(16,732)
Carrying amount at end of year	143,508	139,055
Total property, plant and equipment	224,304	225,680

Notes to the Financial Statements

For the half year ended 31 July 2014 (continued)

6. Non-current assets – Intangible assets

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Software		
At cost	1,010	1,007
Accumulated amortisation	(896)	(728)
	<u>114</u>	<u>279</u>
Reconciliation of the carrying amount for software is set out below		
Carrying amount at beginning of year	279	615
Additions	3	-
Depreciation	(168)	(336)
Carrying amount at end of year	<u>114</u>	<u>279</u>

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

Amortisation of \$167,756 (July 2013: \$166,472) is included in depreciation and amortisation expense in profit or loss.

7. Non-current assets – Exploration expenditure

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Balance at beginning of the financial year	30,550	27,440
Additions	156	2,468
Exchange differences on translation of foreign operations	(91)	642
Balance at end of the financial year	<u>30,615</u>	<u>30,550</u>

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 31 July 2014 (continued)

8. Current liabilities – borrowings

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Secured		
Bank Loan – Mezzanine facility	10,000	-
Bank Loan – Project finance	13,000	25,000
Less transaction costs on loans	(271)	(531)
Gold Loan	2,177	5,799
Total secured current borrowings	24,906	30,268
Unsecured		
Lease liabilities	499	351
Total unsecured current borrowings	499	351
Total current borrowings	25,405	30,619

9. Non-current liabilities – borrowings

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Secured		
Bank Loan – Mezzanine facility	-	10,000
Less transaction costs on loans	-	(5)
Total secured non-current borrowings	-	9,995
Unsecured		
Lease liabilities	883	1,055
Total unsecured non-current borrowings	883	1,055
Total non-current borrowings	883	11,050

Notes to the Financial Statements

For the half year ended 31 July 2014 (continued)

9. Non-current liabilities – borrowings (continued)

Contractual maturities of financial liabilities

(\$'000)	Less than 6 months	6-12 months	1 – 2 years	2- 5 years	Over 5 years	Total contractual cash flows	Carrying amount
At 31 July 2014							
Non-derivatives							
Trade and other payables	24,025	-	-	-	-	24,025	24,025
Borrowings	16,079	10,564	377	657	-	27,677	26,288
Total non-derivatives	40,104	10,564	377	657	-	51,702	50,313
At 31 January 2014							
Non-derivatives							
Trade and other payables	23,936	-	-	-	-	23,936	23,936
Borrowings	17,127	16,048	10,996	561	-	44,732	41,669
Total non-derivatives	41,063	16,048	10,996	561	-	68,668	65,605

Financing arrangements

The Group had no undrawn borrowing facilities as at 31 July 2014.

10. Contributed equity

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Share capital		
Issued and paid up capital 1,181,679,771 shares (2014: 1,179,889,221) fully paid	206,860	206,860
Ordinary Shares		
Movements during the year		
Balance as at beginning of year	206,860	196,510
Shares Issued		
- Share placement – 153,700,000	-	10,759
Transaction costs arising from share issues	-	(593)
Deferred tax credit recognised directly in equity	-	184
Balance at end of year	206,860	206,860

During the period 1,790,550 ordinary shares were issued for nil consideration as a result of performance rights being exercised (2013: 3,429,000 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.

Notes to the Financial Statements

For the half year ended 31 July 2014 (continued)

11. Related party transactions

Loans to controlled entities are netted 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 account. All these transactions were recorded at cost.

12. Contingent liabilities

	31 Jul 2014 \$'000	31 Jan 2014 \$'000
Guarantees		
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	2,477	2,775
Environmental bond required under the mining and rehabilitation plan for Kanmantoo	16,750	16,750
Security bonds on rental properties	192	192
	<u>19,419</u>	<u>19,717</u>

The above bonds were provided by Macquarie Bank and Barclays Bank on a 50/50 basis under the Hillgrove Copper loan facility agreement.

The consolidated entity had no other contingent liabilities at 31 July 2014 in respect of assets where the probability of future payments/receipts is not considered remote, apart from that set out below.

Claims

A claim has been made by a Contractor against Hillgrove in an ongoing, formal dispute resolution process. Hillgrove has met that claim with its own Defence and Counterclaim which seeks to set off that Contractor claim in full, as well as making additional money claims against the Contractor.

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.

13. Events subsequent to the balance sheet date

On 29 August 2014 the Company obtained a waiver from its financiers with respect to compliance with a ratio covenant as at 31 July 2014 on its project loan facility.

On 10 September 2014 shareholders approved a one for eight share consolidation. This consolidation reduced the number of shares on issue from 1.18 billion to approximately 148 million.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 30 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 July 2014 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 23rd day of September 2014



The Hon. Dean Brown, AO
Chairman



Mr Gregory Hall
Managing Director



Deloitte Touche Tohmatsu
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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 31 July 2014, 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 13 to 31.

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 31 July 2014 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 31 July 2014 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, 23 September 2014