



**Annual Report**  
**For Year Ended 31 January 2014**

**Hillgrove Resources Limited**  
**and its Controlled Entities**  
**ACN 004 297 116**



## CONTENTS

|                                                     | Page |
|-----------------------------------------------------|------|
| Introduction                                        | 3    |
| Directors' Report                                   | 12   |
| Auditor's Independence Declaration                  | 47   |
| Corporate Governance Statement                      | 48   |
| Financial Statements                                | 56   |
| Consolidated Income Statement                       | 57   |
| Consolidated Statement of Comprehensive Income      | 58   |
| Consolidated Balance Sheet                          | 59   |
| Consolidated Statement of Changes in Equity         | 60   |
| Consolidated Cash Flow Statement                    | 61   |
| Notes to the Consolidated Financial Statements      | 62   |
| Directors' Declaration                              | 112  |
| Independent Auditor's Report to the Members         | 113  |
| Shareholder Information for Listed Public Companies | 115  |

## HIGHLIGHTS

**HILLGROVE DELIVERS INCREASED REVENUE OF A\$139.2 MILLION**

**FULL YEAR PROFIT AFTER TAX OF A\$1.5 MILLION**

**FULL YEAR ADJUSTED EBITDA INCREASED TO A\$37.3 MILLION**

**SMOOTH TRANSITION TO OWNER OPERATED MINE PLAN MID YEAR HAS RESULTED IN MARKED UPLIFT IN KEY OPERATIONAL AREAS**

**A TOTAL OF 2,633K TONNES OF ORE AT ~0.71% CU WAS MINED AND DELIVERED TO THE ROM PAD FOR PROCESSING TO 31 JANUARY 2014**

**NEW JAW CRUSHER INSTALLED IN APRIL 2013 REACHED TARGETED THROUGHPUT AS PLANNED AND HAS SINCE INCREASED UP TO 3.0M TONNES PER ANNUM**

**COPPER PRODUCTION INCREASED TO A RECORD 17,184 TONNES COPPER CONTAINED WITHIN CONCENTRATES**

**CONCENTRATE TRUCKED TO PORT ADELAIDE WITH SEVEN SHIPMENTS FOR A TOTAL OF 71,764 DRY METRIC TONNES OF CONCENTRATE**

**NEW RESOURCE AND RESERVE UPDATES RELEASED CONFIRMING EXTENDED TARGETED MINE LIFE TO 2023**

**HEDGING PROGRAM HAS BEEN EXTREMELY EFFECTIVE IN PROTECTING AGAINST CURRENT COPPER PRICE VOLATILITY**

**EXPERIENCED EXPLORATION PARTNERS BEING SOUGHT TO PROGRESS PROJECTS IN INDONESIA**

**BANK DEBT REDUCED FROM A\$50.4 MILLION TO A\$40.8 MILLION AT YEAR END, WITH ADDITIONAL CASH FLOW BENEFITS TO OFFSET DEBT EXPECTED IN THE COMING YEAR**

**CASH AT FINANCIAL YEAR END OF A\$16.5 MILLION**

## CHAIRMAN'S STATEMENT

### **FY14 SAW THE IMPLEMENTATION OF 12 MONTHS OF IMPROVEMENTS WHICH CULMINATED IN AN OUTSTANDING SECOND HALF OF THE YEAR, ACHIEVING EXCELLENT PRODUCTION RESULTS AND AN OPTIMISTIC OUTLOOK FOR SHAREHOLDERS IN FY15.**

The past year has been a year of significant improvement in the operations of Hillgrove Resources. The changes in operations, including replacement of the crusher and mining services contract to owner operated mining, together with a continuous improvement process in all aspects of the operation, resulted in a 36% increase in copper produced in the final quarter compared to the previous quarter. For the full year there was a 25% increase in production of copper contained within concentrate compared to the previous year. The expectation for the current financial year is that the full benefits of these improvements will flow through, with a production guidance of 22,300 – 24,600 tonnes of contained copper.

Having reached the milestone of a successfully operating copper mine in the latter half of the year, it was timely for the Hillgrove Board to undertake a strategic review of corporate development and the skills and experience required to meet the next phase in the Company's development.

Changes during the financial year included John Quirke retiring after eight years and Maurice Loomes joining the Board. John played a pivotal role in the early development of the Company and in helping to secure the necessary Government approvals for the Kanmantoo Mine project to proceed. Maurice Loomes brings considerable corporate Board experience, most recently at Ariadne Australia Ltd (a significant shareholder of Hillgrove Resources) and is a very accomplished corporate analyst and investment specialist. Maurice will assist in seeking additional ways to add value to the Company for shareholders.

As previously announced, the number of Directors will be reviewed through the rotation process at the Annual General Meeting. Plans for me to retire as Chairman of the Board are progressing with the search for a suitably qualified chairman with resource industry experience progressing. It is important to achieve the correct mix of skills to oversee this operational period and the further development of the Company.

On 27 September 2013, Hillgrove completed a placement to raise \$10.8 million through the issue of approximately 153.7 million ordinary shares to institutional and sophisticated investors at an issue price of \$0.07 per share. The placement was well oversubscribed, with over 70% sought by current shareholders and we received strong support from new shareholders, endorsing Hillgrove's commercial and operational outlook. The funds from this equity raising were primarily required to finalise the settlement with the previous mining contractor at the Kanmantoo Copper Mine. The move to the new mining operations was absolutely necessary, and Hillgrove efficiently transitioned from a management role to owner operator in the minimum timeframe.

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 the creation of value for shareholders.

Much of this work and continued improvements can be attributed to the excellent management team in place. I thank the whole Hillgrove Resources team on an excellent performance during the past year. Without them the improvements in performance I have highlighted above would not have been achieved. With safety, mining performance, production, the community and ultimately shareholder value top of mind, the Board is confident Hillgrove Resources Limited has turned a significant corner in its development and is on track to achieving greater shareholder value. The Hillgrove Board appreciates the ongoing support of its many shareholders and hope you can join us at our Annual General Meeting in Sydney to hear more about the Kanmantoo Copper Mine operation and planned exploration.

## MANAGING DIRECTOR'S REPORT

### **HILLGROVE'S FOCUS ON ITS FLAGSHIP KANMANTOO COPPER MINE HAS BEEN REWARDED WITH RECORDS IN MINING, PRODUCTION AND SAFETY; AND THE COMPANY CONTINUES TO FOCUS ON ENHANCING SHAREHOLDER VALUE AND ALIGNING THESE ACHIEVEMENTS WITH THE INTERESTS OF LOCAL COMMUNITIES.**

I am pleased to report Hillgrove Resources position this year with a significant lift in earnings and its first full year profit since the funding of the Kanmantoo mine. The improved performance has been driven by the significant operational and production improvements implemented at our fully owned Kanmantoo copper/gold mine near Kanmantoo in the Adelaide Hills, South Australia.

Copper production from Kanmantoo increased to a record 17,184t copper contained within concentrates (FY13: 13,744t) driven by the significant operational improvements implemented at the mine, which included:

- replacement of the primary crusher in April 2013 that has seen throughput rates increase to 3.0Mtpa;
- implementation of an owner operated mining plan in August 2013 incorporating specialised contract services for equipment supply and maintenance, blast hole drilling and explosives supply;
- implementation of quality and productivity improvements in grade and dilution control, mining production and process plant operation, while maintaining an improved safety performance; and
- significant engagement with the local community and increase in our locally based workforce.

Early in the reporting period Hillgrove announced a new Life of Mine (LOM) plan which contained a total Production Target of 30-32Mt @ 0.7-0.8% copper for approximately 190,000 tonnes of recoverable copper and a likely extension of mine life to 2023. Following this Hillgrove issued increased Resource and Reserves statements for the Kanmantoo Copper Mine reinforcing its confidence in the proposed target.

This was a turnaround year for the Company not only in terms of operational achievements, but as importantly the move to profit clearly underlines the successful transition from mine development to profitable production, which has set the platform for value improvement to shareholders over the coming year.

The Kanmantoo Copper Mine continues to perform well and in line with the guidance provided for the current financial year. In addition to the material improvements at site during the year, the Company reports that despite the current downturn in spot copper pricing, its strong hedge book and copper pricing in A\$ terms is protecting revenue. Hillgrove has hedged approximately 90% of production at prices well above the current spot price for copper to July 2014 at an average copper price of A\$8,140 per tonne, following which the hedge position reverts to approximately 65% coverage until March 2016.

The 2015 financial year will be one of continued solid production with sales of copper, gold and silver from Kanmantoo giving the Company a strong footing for value growth in the medium term. As part of the coming year's plan, Hillgrove will look further at the potential for Resource expansion with evaluation of targets on the Kanmantoo mining lease and surrounding regional tenement.

I wish to sincerely thank all the Hillgrove staff, led by our executives Russell Middleton, CFO, and Steve McClare, General Manager Kanmantoo, for their hard work, diligence, quality and safety focus during the past year. Along with them, we recognise and thank our key contractors and many suppliers for their willingness to work closely and align themselves with Hillgrove's primary performance aims during the year. Hillgrove has continued to work closely with our finance partners, and recognises them for their ongoing support. Finally, we thank our shareholders for their continued support, as evidenced by the successful capital raising during the year, and look forward to providing increased value to them and all our stakeholders.

## KANMANTOO COPPER MINE, SOUTH AUSTRALIA

THE KANMANTOO COPPER MINE IS NOW OPERATING AT FULL CAPACITY HAVING ACHIEVED RECORD PRODUCTION TARGETS DURING RAMP UP IN FY14. FULL YEAR PRODUCTION IS SET TO INCREASE SIGNIFICANTLY IN FY15, TARGETING 22,300 TO 24,600 TONNES OF COPPER IN CONCENTRATE. THIS WILL GENERATE SIGNIFICANT POSITIVE OPERATING CASH FLOWS, UNDERPINNED BY A STRONG COPPER HEDGE BOOK, WHICH WILL BE USED TO AGGRESSIVELY PAY DOWN DEBT AND PROVIDE THE ABILITY TO RESTRUCTURE THE BALANCE SHEET.

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### KANMANTOO HIGHLIGHTS

A TOTAL OF 12,922K TONNES WERE MINED AT THE KANMANTOO COPPER MINE IN FY14

4,362K TONNES MATERIAL WAS MINED IN Q4 AFTER IMPLEMENTATION OF THE NEW OWNER OPERATOR MINING PLAN; AN INCREASE OF 80% OVER Q3 AND A 28% INCREASE OVER THE PREVIOUS BEST QUARTER THIS YEAR

COPPER CONCENTRATE TRUCKED TO PORT ADELAIDE WITH SEVEN SHIPMENTS FOR A TOTAL OF 71,764 DRY METRIC TONNES TO 31 JANUARY 2014

NEW PRIMARY CRUSHER CIRCUIT INSTALLED OPERATING SUCCESSFULLY AT INCREASED ORE PROCESSING RATES OF 3.0M TONNES PER ANNUM

NEW MINERAL RESERVE CONTAINING APPROXIMATELY 157K TONNES OF CONTAINED COPPER

NEW RESOURCE AND RESERVE UPDATES RELEASED CONFIRMING NEW LIFE OF MINE PRODUCTION TARGET OF 30-32M TONNES @ 0.7-0.8% COPPER AND TARGETED MINE LIFE TO 2023

TOTAL COPPER PRODUCED FOR FY14 OF 17,184 TONNES CONTAINED COPPER IN CONCENTRATES

CI COSTS OF US\$2.39 IN LINE WITH PREVIOUS GUIDANCE AND TRACKING DOWN TO NEW GUIDANCE FOR FY15 OF US\$2.10 TO US\$2.40 PER LB AT AUD:USD0.90 EXCHANGE RATE

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

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The location of the Kanmantoo Copper Mine simplifies the provision of infrastructure, with a main highway passing close to the project and being approximately 90km by road to the Port of Adelaide, permitting the trucking of copper concentrate. The mine site is connected to the electricity grid and has mains water available, although most of the process water is supplied by the District Council of Mount Barker's treated waste water program. An A\$2.9 million joint project saw the construction of a 19 kilometre pipeline to join their waste water treatment facility and dam to the Kanmantoo Copper Mine and then onto the local town of Callington. This initiative enabled waste water to be reused and the surplus made available for the local community and agriculture.



At the end of the second quarter, Hillgrove announced a mutual termination of its Mining Services contract, and a move to owner operated mining with specialised contractors. Establishment of an initial new mining operations team was achieved and pit mining recommenced in approximately 10 days, using existing Hillgrove employees and recruitment of additional operators. Emphasis was on selecting the appropriate mix of experienced and local people.

Approximately 200 Hillgrove personnel currently staff the mine. Due to Kanmantoo's location close to the outer-Adelaide regional centres of Mt Barker and Murray Bridge there is no requirement to provide fly in/fly out facilities. The resulting mix of staff comprises local hires of 20%, 53% from the nearby regional area and the remainder from greater Adelaide.

Along with this direct employment, specialist contract services are being undertaken by Andy's Earthmovers (Asia Pacific) Pty Ltd (equipment supply and maintenance), Roc-Drill Pty Ltd (blast hole drilling) and Maxam Australia Pty Ltd (explosive suppliers), who have a combined permanent workforce of some 55 employees on site. The combination of specialised contract skills and experienced Hillgrove employees has allowed a high level of quality control in the critical areas of drilling, blasting, productivity and dilution control during mining operations.

Mining rates were quickly brought into line with FY14 plan requirements and have continued to increase. Mining costs were impacted by the changeover and ramp up, but C1 costs were rapidly improved and back within guidance of US\$2.25/lb to US\$2.50/lb by year end. The C1 cash cost for the full year was US\$2.39/lb and this is expected to improve further in line with a revised guidance of US\$2.10 to US\$2.40 per lb at AUD:USD0.90 exchange rate.

The management and operation of mining by Hillgrove is continuing to provide improvements to productivity and mining quality. Initial equipment fleets were augmented with the arrival of two new Liebherr 9350 300 tonne excavators, which are providing improved productivity for FY15 and will continue to lower costs and allow a ramp up in the volume of tonnes moved from the mining pits.

The processing plant team have continued to lift ore throughput, recovery rates and copper production, with crushing, milling, recovery and production records set in the latter part of the year. A new multi-stream analysis unit is now in operation and is continuing the improvement trend in recovery, while substantial improvements have been made to maintenance costs and mill run-time through careful and meticulous continuous improvement initiatives. Processing unit costs are at a low level and being maintained.

In February 2013 a new Life of Mine (LOM) plan was announced that contained a total life of mine Production Target of 30-32Mt @ 0.7-0.8% copper for approximately 190,000 tonnes of recoverable copper (based on Ore Reserves, Mineral Resources and Exploration Targets) and a targeted extension of mine life to 2023. As part of the scenario planning, a long-term pit optimisation was carried out, and this provided a reasonable basis for indicative future planning.

The program required further work and testing to progress to Ore Reserve status which was achieved in November 2013, and provided the confidence to extend the targeted life of the Kanmantoo Copper Mine up from 6.5 to ten years. The Company late last year made application to the South Australian and Australian Federal Governments for a two year extension to the existing mining approval up to 2019, and continues to work with the local community, DMITRE, other State agencies and the Federal Government (under the EPBC Act) in regard to this application.

Hillgrove's workforce has continued to operate effectively and safely through the ramp up of mining and increased mill throughput. Kanmantoo management increased its interaction with the local Kanmantoo Callington Community Consultative Committee (KCCCC) in regard to improvements to dust management and other community concerns, and to ensure a common understanding of the life extension application currently with the SA Government.

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

The potential for further ore extensions and discoveries and growth of the global copper/gold Resource at Kanmantoo is high. The Project's regional exploration prospects range from grass roots to those with significant intercepts and historic mining. Further drilling could provide additions to the Mineral Resources at depth and along strike of the open pit, and if converted to Ore Reserves could result in the expansion of the open pit, increases in the mining rate and extension of mine life.

**With Kanmantoo now achieving targeted mining rates and increased annual production levels, the LOM plan on track, along with improving copper feed grade to the mill, will all consolidate and increase Kanmantoo's positive cash generation over the expected 10 year period of operation.**

## INDONESIAN PROJECTS



**DURING 2013, ACTION WAS TAKEN TO WIND BACK EXPENDITURE AT HILLGROVE'S INDONESIAN ASSETS AT BIRD'S HEAD, WEST PAPUA AND SUMBA ISLAND IN ORDER TO PRESERVE CASH. ACTIVITIES, SERVICE CONTRACTS AND STAFF LEVELS WERE REDUCED, WITH THE CLOSURE OF THE JAKARTA AND PERTH OFFICES AND ONLY A CORE CREW RETAINED AT THE PROJECT OFFICES. THE COMPANY IS CONTINUING TO PURSUE INTEREST INTO THE PROJECTS FROM POTENTIAL INVESTORS.**

## INDONESIAN HIGHLIGHTS

**LANDOWNER ACCESS AGREEMENTS IN PLACE, SOCIALISATION PROGRAMS UNDERTAKEN AND PROJECT CAMPS WELL ESTABLISHED**

**HISTORICAL DATA PACKAGES OF EXPLORATION AND DRILLING INFORMATION HAS HELPED FAST-TRACK PROGRESS TO DRILLING STATUS**

**COMPLETION AND INTERPRETATION OF EXTENSIVE AIRBORNE GEOPHYSICAL SURVEYS OVER THE SUMBA IUP**

**DRILLING PROGRAMS COMPLETED OVER BOTH PROJECTS, CONFIRMING THE PRESENCE OF BOTH LOW SULPHIDATION AND PORPHYRY STYLE MINERALISATION**

**GEOLOGICAL MAPPING, ROCK CHIP SAMPLING AND TRENCHING HAS IDENTIFIED ADDITIONAL TARGETS AND PROSPECT EXTENSIONS**

**EXPERIENCED INDONESIAN CORE PROJECT TEAMS IN PLACE**

Hillgrove has been working to generate interest from external exploration or investor groups for potential direct investment into one or both projects. One in-country exploration group from a major mining house continues to review the Sumba project, while recent interest from potential private investors is being followed up.

## BIRD'S HEAD PROJECT, INDONESIA

The Bird's Head project presents an excellent and rare opportunity to explore for world class porphyry copper-gold and epithermal gold deposits within a geological setting of proven prospectivity for giant ore bodies. The project includes a data package of extensive exploration and drilling information developed by Normandy in the 1990's that has allowed exploration work to be fast-tracked and initial drilling programs completed.

Hillgrove is a direct 80% shareholder in PT Akram Resources Pte Ltd which holds the IUP Eksplorasi 40/2010 (Izin Usaha Pertambangan) covering 992.3km<sup>2</sup> granted in March 2010 for seven years. Hillgrove is responsible for the sole funding and management of all exploration and development activities up to a decision to mine.

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

Initial work has concentrated on multiple overlapping hydrothermal systems identified in the northern (Delta) area of the IUP. The West Delta prospect is located just 2.5km from the coast in low foothills. Exploration has identified strong copper and gold anomalism in stream sediment and soil sampling and in limited, shallow drilling, creating a natural starting point for exploration focus.

Hillgrove's work has identified the classic signatures of sub-surface porphyry intrusions, including magnetic anomalies, widespread copper soil anomalies with grades commonly between 0.5-1.0% Cu, and often exceeding 1.0% Cu, and the existence of low to high temperature alteration systems. Structural and geological interpretation has been aided by the presence of widespread land slips from a major earthquake several years ago.

The most recent exploration activities have focused on reconnaissance geological mapping of the drainages both east and west of the main West Delta corridor, detailed mapping at Suben/Rak Rak Prospects in preparation for drill testing, and assessing final results from the initial drilling at Greycliffs Prospect.

**Strong, widespread surface copper anomalism within a classic porphyry alteration signature, supported by deep magnetic signatures indicates the presence of a significant porphyry copper gold target.**

## SUMBA PROJECT, INDONESIA

Sumba is one of the least developed islands within the Indonesian archipelago, is sparsely populated and primarily an agrarian society, with strong and proud traditions. As such, the company has devoted a significant amount of time and energy into the socialisation process to communicate the objectives and likely impact of activities both to villages in the immediate vicinity and beyond our IUP license area.

Historical exploration on Sumba has been more limited with BHP's efforts in the mid 1990's comprising the majority of work completed. Sumba has been largely denuded of its native sandalwood trees and while some forested areas and National Parks remain, much of Sumba, and our license area in particular, is lightly vegetated rolling hills used for cattle grazing by local villagers. Sumba is therefore unique in exploration terms in Indonesia: it is relatively accessible, highly prospective and virtually unexplored.

Hillgrove is a direct 80% shareholder in PT Fathi Resources Pte Ltd which holds IUP 322, covering nearly 1,000km<sup>2</sup> or some 10% of the island of Sumba. This IUP was granted in December 2010 and is valid for a period of seven years. Hillgrove is responsible for the sole funding and management of all exploration and development activities, up to a decision to mine.

Sumba is something of a geological oddity, with its highly prospective basement island arc volcanic lithology being approximately 90 million years old: significantly older than similar island arc settings such as Newmont's Batu Hijau porphyry copper-gold mine on the nearby island of Sumbawa. The island is covered in geologically recent marine sediments that effectively mask and preserve highly gold-prospective underlying volcanic units. Uplift of the island and subsequent erosion of this sedimentary cover has created windows through the sediment to the underlying volcanic lithology, where PT Fathi Resources has focused exploration efforts.

The primary area of focus is the Masu Project, located in the South-Eastern portion of the IUP, where ongoing soil and rock chip sampling, trenching and drilling activities have confirmed the presence of epithermal vein-hosted gold mineralisation at several prospects. Surface exploration has delineated many widespread gold anomalies within a 10km long corridor. Sampling has defined 17 high priority gold targets (the largest of which extends over 1.5km in strike length) as well as numerous secondary-order soil gold targets, confirming the prospectivity of the project area.

It is considered highly encouraging that first-pass exploration continued to discover and delineate numerous gold targets for future drill testing. Routine and systematic rock chip sampling undertaken to evaluate soil gold anomalies, in conjunction with regional geological mapping also encountered highly anomalous gold ( $\pm$  silver) values associated with hydrothermal alteration and low sulphidation epithermal veining.

Most recent exploration activities have focused on advancing the Majapahit prospect to drill-ready status and detailed mapping around the Laironja/Tawon prospect areas to assess for porphyry potential.

**The island has historically received minimal exploration unlike similar geological provinces in Indonesia, but exploration work completed to date indicates Sumba is developing into a very exciting gold project with numerous zones of mineralisation.**

## Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Hillgrove Resources Limited ("the Company") and the entities it controlled at the year ended 31 January 2014.

## Directors and Officers

The Directors and Officers of the Company at any time during the year or since the end of the year are:

| Name and qualifications              | Age | Experience and special responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>The Hon. Dean Craig Brown, AO</b> | 70  | <b>Independent Non-Executive Chairman/<br/>Chairman Nomination Committee</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Qualifications                       |     | B. Rur. Sc., Grad. Dip. Bus. Admin., M. Rur. Sc., FAICD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Experience                           |     | Former Premier and Minister of the South Australian Government and Member of the South Australian Parliament from 1973-1985 and 1992-2006. Dean was also Deputy Premier and Leader of the Opposition. He was a Director of AACM International Pty Ltd (1986-92), a Senior Agricultural Scientist, the Premier's Special Advisor on Drought (2007-11), a Director of the National Youth Mental Health Advisory Board (Headspace Board) (2006-09) and Chairman of InterMet Resources Limited (2008-13).<br><br>Dean undertakes corporate advisory consulting to a variety of companies and is also a Director of Scantech Limited (2007- ), Chairman of the Playford Memorial Trust (member since 2008 and Chairman since 2011), a Director of Foodbank SA (2006- ), a Director of Mission Australia (2012- ) and a member of several advisory Boards.<br><br>Dean Chairs the Nomination Committee and is a member of the Audit and Risk and Remuneration Committees.<br><br>Appointed 1 September 2006 |
| <b>Mr John Edwin Gooding</b>         | 61  | <b>Independent Non-Executive Director</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Qualifications                       |     | Assoc Dip. Mining Eng., FIE Aust., F. Aus. IMM, MAICD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Experience                           |     | John is a Mining Engineer with over 40 years' experience in the resources industry. He has held executive management positions with CRA, Normandy Mining, MIM, Xstrata (CEO Xstrata Copper Australia), Ok Tedi Mining and Roche Mining. John has extensive experience in gold and base metal mining (both open-cut and underground) through the management and operation of mines in Australia and internationally. He has been a Board member of the PNG Chamber of Mines and Petroleum since 2009 and has previously held directorships in a number of companies within the resources industry. John is Managing Director and Chief Executive Officer at Highlands Pacific Limited (2007- ).<br><br>John is a member of the Nomination and Remuneration Committees.<br><br>Appointed 31 May 2007                                                                                                                                                                                                    |

## Directors' Report (continued)

### Directors (continued)

| Name and qualifications          | Age | Experience and special responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Mr Maurice William Loomes</b> | 66  | <b>Non-Executive Director</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Qualifications                   |     | B. Comm (Econ Hons), F. Fin                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Experience                       |     | <p>Maurice joined the Hillgrove Board on 25 November 2013. Maurice has a Bachelor of Commerce (Econ Hons) and over 40 years' experience in investment analysis and strategy gained across many industries, including roles at Bain and Company, Industrial Equity Limited, Westmex Limited, Guinness Peat Group PLC and many others. He has also held numerous directorships of public companies including CIC Australia Limited (1994-2013), Guinness Peat Group PLC (1996 - 2000) and Tower Limited (2003-2005). Maurice is currently a Non-Executive Director of Ariadne Australia Limited (2004- ) (a significant shareholder of Hillgrove Resources) and Calliden Group Ltd (2000- ).</p> <p>Maurice is a member of the Audit &amp; Risk and Nomination Committees.</p> <p>Appointed 25 November 2013</p>                                                                                                                                                                                                                                                                                               |
| <b>Mr Douglas Norman Snedden</b> | 57  | <b>Independent Non-Executive Director/<br/>Chairman Audit and Risk and Treasury Committees</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Qualifications                   |     | B. Economics and Accounting                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Experience                       |     | <p>Doug has more than 30 years' experience in finance, audit, strategic management and outsourcing, largely gained through a distinguished career at Accenture (formerly Andersen Consulting). He has experience working in Australia, as well as the United Kingdom, South Africa, USA and the Asia Pacific region; providing management and financial advice to some of Australia's biggest companies before retiring from the position of Managing Director of Accenture's Australian business in June 2008.</p> <p>Doug has been a Director of a number of organisations since 1996 and currently holds directorships at Transfield Services Limited (2009- ), UXC Limited (2012- ), Sirca Technology Pty Ltd (2012- ), the Black Dog Institute (2001- ), St James Ethics Centre (2007- ) and is Chairman of Odyssey House (NSW) (2012- ) and Chris O'Brien Lifehouse (2013- ), in addition to undertaking other charitable work.</p> <p>Doug is Chairman of the Audit and Risk and Treasury Committees, and a member of the Nomination and Remuneration Committees.</p> <p>Appointed 1 January 2012</p> |

## Directors' Report (continued)

### Directors (continued)

| Name and qualifications                                                  | Age | Experience and special responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Mr Edwin James Zemancheff</b><br><br>Qualifications<br><br>Experience | 59  | <b>Independent Non-Executive Director/<br/>Chairman Remuneration Committee</b><br><br>Dip Law (Sydney)<br><br>Edwin brings significant commercial, corporate and legal experience to the Board having been an International partner of global law firm, Baker & McKenzie. Edwin has over 25 years practice experience in all aspects of commercial real estate and land use law having acted for a wide range of major clients on significant market leading transactions. He has a deep knowledge and understanding of the complex legal, commercial and market issues confronted by leading global and local industry participants in the commercial real estate sector.<br><br>Edwin is Chairman of the Remuneration Committee and a member of the Nomination Committee.<br><br>Appointed 23 June 2010                                                                                                             |
| <b>Mr John Andrew Quirke</b><br><br>Qualifications<br><br>Experience     | 63  | <b>Independent Non-Executive Director / Chairman Remuneration Committee</b><br><br>B.A. and Dip. Ed. Adelaide University<br><br>Starting his career as a secondary school teacher, John soon became Private Secretary to a Federal Senator before being elected the Member for Playford in 1989. In 1997 he became a Federal Senator and then Deputy Chief Whip before resigning in 2000. John gained extensive State and Federal committee experience which included competition policy, public works, social development, economics and finance, and has been an active member of numerous legislative committees specialising in mining and economics. He is currently active in all these areas as a corporate advisor and lobbyist.<br><br>John was Chairman of the Remuneration Committee and a member of the Nomination Committee.<br><br>Appointed 19 April 2005<br><br>John resigned on 25 November 2013     |
| <b>Mr Gregory Hall</b><br><br>Qualifications<br><br>Experience           | 55  | <b>Chief Executive Officer and Managing Director</b><br><br>BEng, M AusIMM and MAICD<br><br>Greg joined Hillgrove in February 2013 bringing three decades of experience in the resources industry. Having trained as a Mining Engineer, he worked in senior mine operational management and resource marketing roles before joining Toro Energy Limited as Managing Director upon its start up in 2006. Prior to this he was Director of Sales with Rio Tinto's Bauxite and Alumina division. Greg has also held a variety of senior technical and operational management roles at WMC Resources Limited at its nickel operations and the Olympic Dam project, and with ERA Ltd at their Ranger and Jabiluka operations, and later as Marketing Manager (North America) responsible for uranium sales.<br><br>Greg is also a Non-Executive Director of Toro Energy Limited (2006-).<br><br>Appointed 11 February 2013 |

## Directors' Report (continued)

### Directors (continued)

**Name and qualifications    Age    Experience and special responsibilities**

**Mrs Shanthi Smith                      40                      Company Secretary / Group Finance Manager**

Qualifications                      B.Com, CPA

Experience                      Shanthi is the Company Secretary of Hillgrove Resources Limited. She has been with the Company since 2010 in the role of Group Finance Manager and has been extensively involved in the financial management of the construction, financing, and operations of the Company during this time. Shanthi started her career in Big 4 chartered accountancy before moving into the commercial arena where she has over 18 years' experience across a diverse range of roles and industries. She has held various senior management positions in finance, commercial and planning roles, most recently at Caltex Australia and the London Organising Committee of the 2012 Olympic Games.

Appointed Company Secretary on 10 August 2012

Interim CFO from 10 August 2012 to 8 February 2013

### Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year are:

| Meetings Held      | Board |    | Remuneration Committee |   | Audit Committee |   | Nomination Committee |   | Treasury Committee |   |
|--------------------|-------|----|------------------------|---|-----------------|---|----------------------|---|--------------------|---|
| Director           | A     | B  | A                      | B | A               | B | A                    | B | A                  | B |
| Hon. D C Brown, AO | 25    | 25 | 1                      | 1 | 3               | 3 | -                    | - | -                  | - |
| Mr J E Gooding     | 25    | 22 | 1                      | 1 | -               | - | -                    | - | -                  | - |
| Mr J A Quirke      | 22    | 16 | 1                      | 1 | -               | - | -                    | - | -                  | - |
| Mr D N Snedden     | 25    | 25 | 1                      | - | 3               | 3 | -                    | - | 1                  | 1 |
| Mr E J Zemancheff  | 25    | 23 | -                      | - | 2               | 2 | -                    | - | -                  | - |
| Mr M W Loomes      | 2     | 2  | -                      | - | 1               | 1 | -                    | - | -                  | - |
| Mr G C Hall        | 24    | 24 | -                      | - | -               | - | -                    | - | 1                  | 1 |

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

**B** – Number of meetings attended

As outlined in the Operating and Financial Review section below, the 2014 financial year required the close monitoring of operations and many decisions to be approved which required the regular meeting of the Board to monitor progress and make the required changes in a timely manner. This resulted in a high number of Board meetings and reduced the need for separate committee meetings during the year.

A Treasury Committee was formed to establish the business strategy and objectives for financial and hedging risk management activities, acceptable risk appetite, approve policy and procedures, and monitor and enforce compliance with the policy and procedures. One initial meeting was held during the financial year. Members include Mr D N Snedden, Mr G C Hall, Mr R L S Middleton and Mrs S Smith.

## Directors' Report (continued)

### 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 Indonesia.

The Kanmantoo Copper Mine is located some 55km from Adelaide in South Australia. Kanmantoo is an open-cut mine which currently hosts a Mineral Resource of 31.3M tonnes (4.02Mt Measured, 22.27Mt Indicated, 5.00Mt Inferred) grading 0.78% copper and 0.20g/t gold. It has ramped up since construction was completed at the end of 2011 to an ore throughput of up to 3.0M tonnes p.a., to produce up to 90,000 dry metric tonnes of copper concentrate, containing more than 20,000 tonnes copper and associated gold and silver per annum over the targeted 10 year mine life.

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

## Operating and Financial Review

### Review of Consolidated Financial Results

The performance of the Company for the last financial year reflects a year of significant improvement, returning the Company to profitability by re-establishing the operations with consistent performance and quality control processes to maximise copper production.

| Results for the Year Ended<br>(A\$ million) | 31<br>January<br>2014 | 31<br>January<br>2013 | 31<br>January<br>2012 | 31<br>January<br>2011 | 31<br>January<br>2010 | 31<br>January<br>2009 |
|---------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Revenue and other income                    | 140.0                 | 116.6                 | 14.7                  | 9.0                   | 98.2                  | 46.8                  |
| Profit/(loss) after tax                     | 1.5                   | (11.8)                | (8.5)                 | (14.2)                | 55.6                  | 11.1                  |
| Earnings per share - diluted (cents)        | 0.1                   | (1.2)                 | (1.0)                 | (2.5)                 | 12.7                  | 3.4                   |

### Income statement

| A\$ million                                           | 2014        | 2013          | Change      |
|-------------------------------------------------------|-------------|---------------|-------------|
| Revenue from sale of concentrates                     | 139.2       | 115.4         | 23.8        |
| Other Income                                          | 0.3         | 0.4           | (0.1)       |
| Cost of Production                                    | (84.1)      | (89.8)        | 5.7         |
| Changes in inventories of ore and concentrate - Cash  | (0.2)       | 7.2           | (7.4)       |
| Materials and services costs                          | (5.0)       | (4.0)         | (1.0)       |
| Employee expenses                                     | (6.7)       | (6.2)         | (0.5)       |
| Royalties and Foreign exchange gains / (losses)       | (3.0)       | (1.5)         | (1.5)       |
| Corporate and Other administration costs              | (3.2)       | (4.4)         | 1.2         |
| <b>ADJUSTED EBITDA</b>                                | <b>37.3</b> | <b>17.1</b>   | <b>20.2</b> |
| Depreciation and amortisation expenses                | (29.2)      | (26.5)        | (2.7)       |
| Unrealised losses on derivative financial instruments | (0.3)       | (5.7)         | 5.4         |
| Net Financing income / expenses                       | (5.4)       | (5.7)         | 0.3         |
| Other non-cash costs                                  | (0.2)       | 0.2           | (0.4)       |
| <b>Profit / (Loss) before income tax</b>              | <b>2.2</b>  | <b>(20.6)</b> | <b>22.8</b> |
| Income tax (expense) / benefit                        | (0.7)       | 8.8           | (9.5)       |
| <b>Profit / ( Loss) after income tax</b>              | <b>1.5</b>  | <b>(11.8)</b> | <b>13.3</b> |

## Directors' Report (continued)

### Operating and Financial Review (continued)

For the year ended 31 January 2014, the net profit after tax was A\$1.5 million compared to a net loss of A\$11.8 million in the comparative year. This is an increase in net profit after income tax of A\$13.3 million on the previous period.

During the reporting period, Hillgrove continued to improve the operational performance of its principal operating asset, the Kanmantoo Copper Mine. The key changes during the year included the installation of a new primary crusher system to replace the previous second hand primary crusher, and introducing Hillgrove employees in all supervision, planning and operational roles for mining, combined with specialised contractors in the mobile equipment supply and maintenance, drilling and explosives supply areas.

The increase in net profit after tax by A\$13.3 million on the previous year was primarily due to:

- Revenue generated in the current year from the sale of copper concentrate of A\$139.2 million was an increase of A\$23.8 million on the comparative year (31 January 2013: A\$115.4 million).
- During the year 75,423 tonnes of dry copper concentrate containing 17,184 tonnes copper was produced from the Kanmantoo Copper Mine. This is in comparison to 56,431 tonnes of dry copper concentrate containing 13,744 tonnes copper being produced in the previous period. Even though production was 33% higher than in the previous year, the cost of production has reduced by 6%. This is a direct result of improved operational performance of the mine and processing plant.
- A significant improvement to adjusted EBITDA for the period, increasing from A\$17.1 million in the last year to A\$37.3 million in the current year. This was offset mainly by an increase to the gross costs with one-off costs throughout a period of lower production during the new mining plan implementation.
- During the year, in accordance with IFRIC 20 "Stripping costs in the Production Phase of a surface mine", the accounting for mining costs was changed from a basis of costs incurred to one in which mining costs are normalised for the impact of strip ratios and copper grades over the life of specific pits. This results in the deferral of some mining costs to the balance sheet during a period where the strip ratio is higher and the copper content is lower in the initial stage of the pit. The deferred 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 31 January 2014, deferred mining costs included in Inventory was A\$6.3 million and will be written back within the next financial year as the Kavanagh pit ore is exhausted.
- Direct employee costs increased by A\$0.5 million during the year due to the expensing of Jakarta office employee costs, which were capitalised in previous years. Corporate and Other Administration costs decreased by A\$1.2 million (27%) as a result of cost reduction initiatives undertaken during the year.
- Depreciation and Amortisation expenses increased to A\$29.2 million from A\$26.5 million in the previous year mainly due to the capitalisation and subsequent amortisation of pre-strip material during the year.
- Net Financing income / expenses reduced by A\$0.3 million to A\$5.4 million as a result of the reduced outstanding principal on the project finance.
- During the year, there was a loss on financial derivatives of A\$0.3 million, in comparison to a loss of A\$5.7 million in the previous year. This was a result of the higher copper prices during the year.

## Directors' Report (continued)

### Operating and Financial Review (continued)

#### Cash flow overview

| A\$ million                                             | 2014        | 2013        | Change        |
|---------------------------------------------------------|-------------|-------------|---------------|
| Net cash inflows from operating activities              | 13.8        | 31.5        | (17.7)        |
| Net cash outflows from investing activities             | (22.2)      | (45.7)      | 23.5          |
| Net cash (outflows) / inflows from financing activities | (2.5)       | 20.9        | (23.4)        |
| Net (decrease) / increase in cash held                  | (10.9)      | 6.7         | (17.6)        |
| <b>Cash and cash equivalents at the end of the year</b> | <b>16.5</b> | <b>27.4</b> | <b>(10.9)</b> |

#### Operating activities

Cash inflows from operating activities for the year ended 31 January 2014 were A\$13.8 million, which is A\$17.7 million lower than the prior year cash inflow of A\$31.5 million.

| A\$ million                                       | 2014        | 2013        | Change        |
|---------------------------------------------------|-------------|-------------|---------------|
| Receipts from Customers                           | 121.3       | 106.8       | 14.5          |
| Payment to suppliers, employees and contractors   | (107.5)     | (75.3)      | (32.2)        |
| <b>Net cash inflows from operating activities</b> | <b>13.8</b> | <b>31.5</b> | <b>(17.7)</b> |

The decrease is mainly attributed to higher cash payments in the course of operations and lower capitalisation of pre-strip material to the tailings storage facility offset by an increase in receipts from customers of A\$14.5 million resulting from the higher volume of copper concentrate sold.

#### Investing activities

Cashflows used in investing activities were an outflow of A\$22.2 million in the current year compared to an outflow of A\$45.7 million in the comparative year. The lower outflow of funds is due to lower spend on capital expenditure and exploration activities. The lower capital spend is in accordance with the mine plan due to reduction in capital works such as the Tailings Storage Facility and pre strip from new pits.

The lower exploration spend is due to the reduced activity on Indonesian projects and the closure of the exploration offices in Jakarta and Perth. Currently, the Indonesian projects are on an exploration care and maintenance basis while external parties are evaluating the future potential and investment possibilities.

#### Financing activities

| A\$ million                                                    | 2014         | 2013        | Change        |
|----------------------------------------------------------------|--------------|-------------|---------------|
| Net proceeds from the issue of shares                          | 10.1         | 17.8        | (7.7)         |
| Repayment of borrowings                                        | (9.8)        | (5.9)       | (3.9)         |
| Repayment of deferred settlement on construction contracts     | -            | (2.9)       | 2.9           |
| Net interest paid                                              | (2.8)        | (3.1)       | 0.3           |
| Proceeds from borrowings                                       | -            | 15.0        | (15.0)        |
| <b>Net cash (outflows) / inflows from financing activities</b> | <b>(2.5)</b> | <b>20.9</b> | <b>(23.4)</b> |

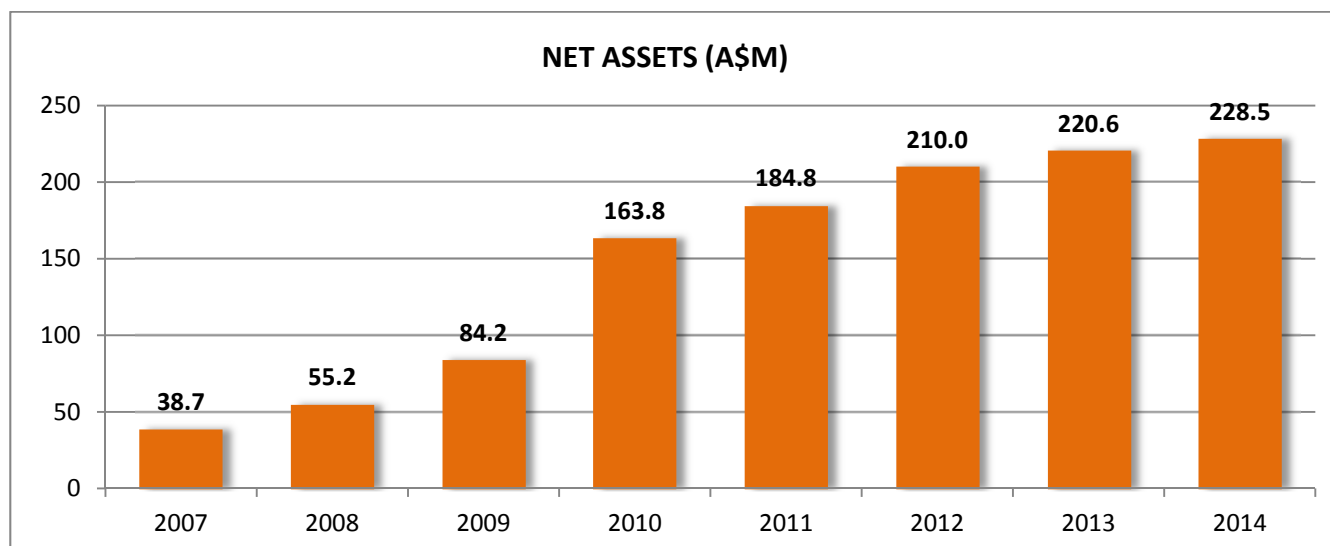
Cash flows relating to financing activities were an outflow of A\$2.5 million, compared to an inflow of A\$20.9 million in the comparative year. The decrease in inflows of A\$23.4 million is due to lower capital raisings during the respective periods and increase to the debt repayment in the current year.

## Directors' Report (continued)

### Operating and Financial Review (continued)

#### Balance sheet

Net assets increased by A\$7.9 million during the year to A\$228.5 million, mainly due to a combination of the capitalisation of deferred mining costs in inventory of A\$6.3 million, decrease in creditors of A\$16.0 million, decrease in borrowings of A\$8.6 million offset by a decrease in cash of A\$10.9 million, decrease in property, plant and equipment of A\$7.5 million and increase in liability of derivative financial instruments of A\$3.6 million.



Total equity increased by the corresponding A\$7.9 million due to the increase in contributed equity of A\$10.3 million from a capital raising and the profit for the year of A\$1.5 million offset by decrease in reserves of A\$3.9 million from the revaluation of the unexpired hedging position as at 31 January 2014.

#### Cash and cash equivalents

Cash and cash equivalents at 31 January 2014 of A\$16.5 million reduced by A\$10.9 million from the 2013 balance of A\$27.4 million. The movement of A\$10.9 million was mainly due to payments for property, plant and equipment of A\$18.9 million, payments for exploration activities of A\$3.8 million, repayment of borrowings of A\$9.8 million and A\$3.3 million of interest payments offset by funds from capital raising of A\$10.3 million and net cash flows from operating activities of A\$13.8 million.

#### Inventories

The increase in inventories by A\$6.4 million to A\$26.2 million was mainly due to the capitalisation of deferred mining costs. In accordance with IFRIC 20, A\$6.3 million of deferred mining costs was capitalised, which represents the deferral of mining costs where the strip ratio is relatively high when compared to the copper content for a specific pit.

#### Derivative financial instruments

The net position on derivative financial instruments at 31 January 2014 was a liability of A\$9.3 million in comparison to A\$5.7 million at 31 January 2013. The increase in net liability of A\$3.6 million is due to the increase in copper prices from the previous year.

#### Property, plant and equipment

During the year, the book value of Property, plant and equipment reduced by A\$7.0 million to A\$225.6 million. This was mainly due to depreciation of property, plant and equipment of A\$28.8 million offset by additions of A\$21.8 million which included the cost of capitalising material to the Tailings storage facility.

## **Directors' Report (continued)**

### **Operating and Financial Review (continued)**

#### **Exploration expenses**

Exploration expenditure capitalised in the Balance Sheet increased during the year by \$3.1 million from A\$27.4 million to A\$30.5 million and was spent on exploration activity in Indonesia.

Exploration activity has been reduced on the Indonesian projects at present and the exploration offices in Perth and Jakarta were closed during the year. The projects are on an exploration care and maintenance basis with external parties evaluating potential earn-in and joint venture investment possibilities.

#### **Trade and other payables**

Trade and other payables have reduced by A\$16.0 million mainly due to the settlement with the previous mining services contractor.

#### **Borrowings**

Total borrowings (current and non-current) as at 31 January 2014 is A\$41.7 million of which bank debt is A\$40.8 million. At the end of January 2013, total borrowings were A\$50.3 million of which bank debt was A\$50.4 million (higher due to the deduction of borrowing costs from total borrowings). Bank debt reduced by A\$9.6 million during the year mainly due to the repayment of the Project Finance Loan of A\$5.0 million and the Gold Loan of A\$4.8 million.

#### **Employee benefits payable**

Employee benefits payable have increased by A\$1.5 million mainly due to the additional 105 employees hired by the company from the establishment of a new mining operations team.

#### **Provisions**

The provisions balance of A\$11.8 million increased by A\$1.6 million from the balance at the end of the previous year mainly due to the additional amount of A\$1.5 million provided to rehabilitate the Kanmantoo Copper Mine.

#### **Contributed equity**

In September 2013, the Company raised A\$10.8 million through the issuance of 153.7 million shares at seven cents (\$0.07), in Hillgrove Resources Limited via a share placement.

### **Kanmantoo Copper Mine Operations**

#### **New life of mine plan**

As part of new LOM scenario planning, a long-term pit optimisation was carried out which provided Hillgrove with a reasonable basis for indicative future planning and a likely extension of mine life. In February 2013 a new Life of Mine (LOM) plan was announced that contained a total life of mine Production Target of 30-32M tonnes @ 0.7-0.8% copper for approximately 190,000 tonnes of recoverable copper (based on Ore Reserves, Mineral Resources and Exploration Targets) and a likely extension of mine life to 2023. The extension was a significant development for Hillgrove, with the update extending the estimated period of operation from 6.5 to 10 years. Whilst economic analysis had been done, the program required further work and testing to progress to Ore Reserve status.

## Directors' Report (continued)

### Operating and Financial Review (continued)

#### New Mineral Resource Estimate

On 30 August, the 2013 In Situ Mineral Resource estimation resulted in 29.5M tonnes at grades of 0.80% copper, 0.20g/t gold and 2.11g/t silver using a cut-off grade of 0.20% copper beneath the end of February 2013 topographic surface. It was similar in tonnes to the 2012 Mineral Resource Estimate and slightly lower in grade due to the following key factors:

- An additional 4.1M tonnes added largely as a result of new data from 141 drillholes drilled in 2012;
- Additional 1.89M tonnes of stockpile;
- Depletion due to mining of 2.1M tonnes;
- Reduction of 3.7M tonnes due to a more thorough and conservative application of the economic constraints being applied to the Resource model; and
- Slightly lower overall grade due mainly to lower operating costs allowing a reduced economic cut off and the grade of additional Resource tonnes added.

#### Kanmantoo Global Mineral Resource Estimate at end February 2013

|                      | JORC 2012 classification | Tonnage (Mt) | Cu (%)      | Au (g/t)    | Ag (g/t)    |
|----------------------|--------------------------|--------------|-------------|-------------|-------------|
| In Situ Resource     | Measured                 | 2.63         | 0.88        | 0.10        | 1.95        |
|                      | Indicated                | 21.77        | 0.82        | 0.23        | 2.21        |
|                      | Inferred                 | 5.0          | 0.67        | 0.13        | 1.79        |
|                      |                          | <b>29.46</b> | <b>0.80</b> | <b>0.20</b> | <b>2.11</b> |
| Long Term Stockpiles | Measured                 | 1.39         | 0.46        | N/A         | N/A         |
|                      | Indicated                | 0.50         | 0.18        | N/A         | N/A         |
|                      |                          | <b>1.89</b>  | <b>0.39</b> | -           | -           |
|                      | <b>Total</b>             | <b>31.30</b> | <b>0.78</b> | <b>0.20</b> | <b>2.11</b> |

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

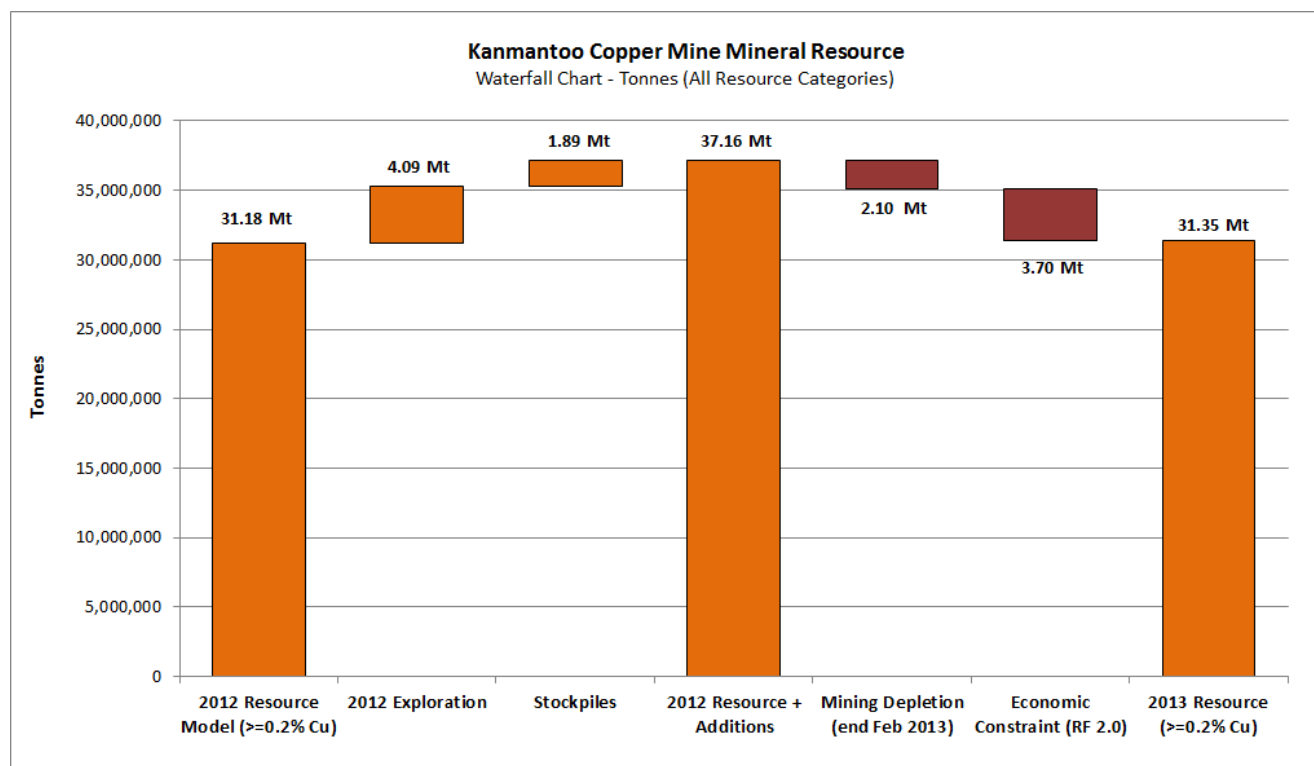
Broadly, this new Mineral Resource is a reproduction of the estimate completed in 2012. The geological interpretation has changed significantly only in areas containing new drilling data. The 2012 variography and search parameters have been used and the same estimation method (Ordinary Kriging) has been employed. The main variations between the estimates are:

- the use of a Whittle pit optimisation shell for the purpose of applying reasonable prospects of eventual economic extraction; and
- the software used to carry out the modelling and estimation (Surpac), with the use of a single search direction per object.

## Directors' Report (continued)

### Operating and Financial Review (continued)

#### Progression of the Kanmantoo Mineral Resource from 2012 through to 2013



#### Summary of major considerations for the Mineral Resource

To satisfy the requirement that the Mineral Resource has reasonable prospects for eventual economic extraction it was assessed in a number of ways. The entire deposit was interpreted at a 0.2% copper cut-off grade as this is deemed the economic cut-off grade for the deposit at current operating costs. Any intercept which could not be traced either along strike for two sections or on section for a substantial distance was not included. Domain 2 in Wheal Fortune was removed from the Mineral Resource due to its close proximity to an active railway line and an electrical substation.

A pit shell based on a revenue factor of 2.0 using the same economic and mining parameters as Hillgrove's current Reserve calculations was chosen as a constraint to report the 2013 Mineral Resource. Material outside this pit shell requires further exploration drilling. The result of the evaluation of these realistic economic parameters and constraints was a reduction of 3.7M tonnes as outlined in the chart above.

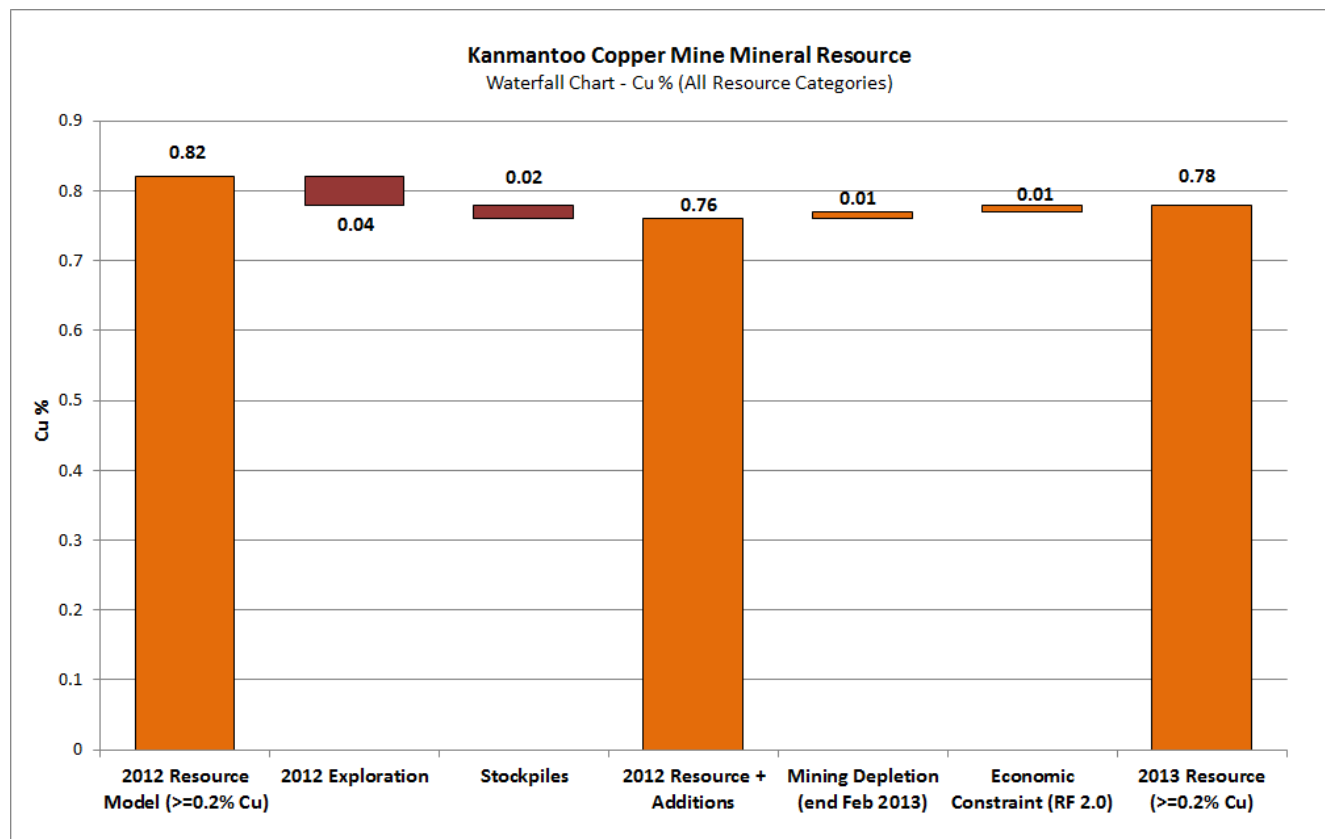
The Mineral Resource has been classified into the confidence categories of Measured, Indicated, Inferred and Unclassified according to geological confidence and reflects the Competent Person's view on the deposit. This confidence is based on the density of copper assay data, continuity of mineralisation and knowledge of the orebody gained during recent mining activities. Other factors considered were the estimation pass associated with the block estimation and the QA/QC knowledge of the drillhole data influencing the estimation (i.e. recent versus historic drillhole data).

Drillholes consist of both Hillgrove drilling and historic data. Of the data utilised 87% of drill holes, 77% of metres and 72% of composites are Hillgrove drilling. The average drillhole intercept spacing for Measured Resources is 20 by 20m, Indicated Resources between 20 and 40m and Inferred Resources are over 40m. Areas dominated by historical drill data were downgraded to Inferred category.

## Directors' Report (continued)

### Operating and Financial Review (continued)

Current operating costs, metallurgical performance and mining selectivity were utilised to determine the 0.2% copper cut-off grade to delineate mineralised domains.



The new Mineral Resource estimate was completed under the 2012 JORC code by Michaela Wright of Hillgrove Resources Limited. An external review of the Mineral Resource estimate was undertaken by the Quantitative Group Pty Ltd (QG). Chris De-Vitry of QG also provided assistance to Hillgrove during the resource estimation process. The overall aim of the QG review was to provide confidence the estimate has been completed without material error and is fit for external reporting.

### New Ore Reserve Estimate

On 1 November a new 2013 Ore Reserve estimate was released, having been prepared in accordance with The JORC Code 2012 Edition, with the following key highlights:

- Increase in In Situ Ore Reserve to 20.7M tonnes @ 0.73% Cu, 0.18g/t Au and 1.9g/t Ag;
- Increase in Total Ore Reserve (including stockpiles) to 22.1M tonnes @ 0.71% Cu, 0.18g/t Au and 1.9g/t Ag;
- 25% increase in total Reserves of contained copper to 157k tonnes;
- 58% Increase in total Reserves of contained gold to 128k ounces; and
- 8% Decrease in total Reserves of contained silver to 1.35M ounces.

The new Ore Reserve showed an increase in both the reserve confidence and contained metal when compared to the May 2010 Ore Reserve, and after taking into account reserve depletion from mining.

## Directors' Report (continued)

### Operating and Financial Review (continued)

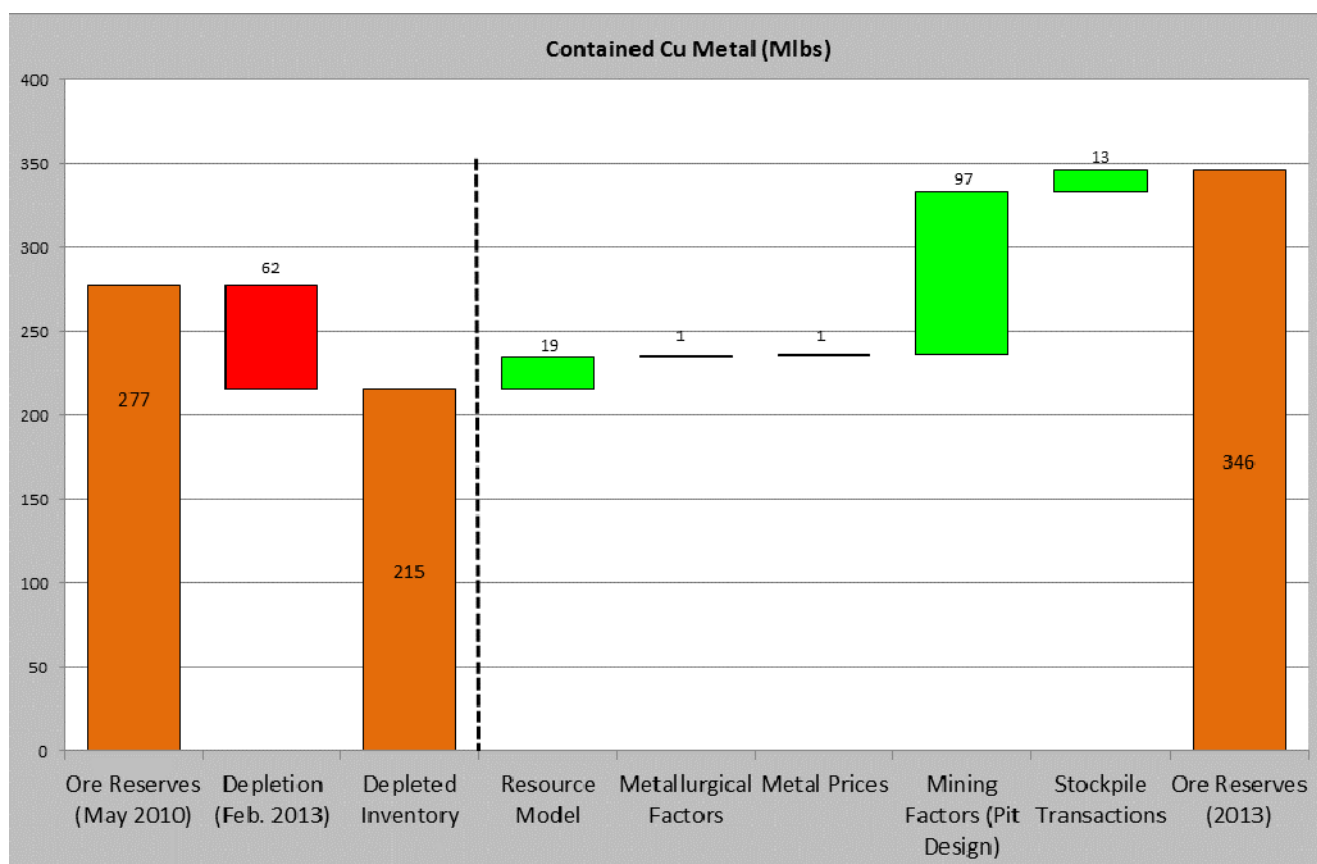
#### Kanmantoo Global Ore Reserve Estimate at end February 2013

|                      | JORC 2012<br>classification | Tonnage<br>(Mt) | Cu<br>(%)   | Au<br>(g/t) | Ag<br>(g/t) |
|----------------------|-----------------------------|-----------------|-------------|-------------|-------------|
| In Situ Reserve      | Proven                      | 2.5             | 0.77        | 0.08        | 1.7         |
|                      | Probable                    | 18.2            | 0.72        | 0.20        | 2.0         |
|                      |                             | <b>20.7</b>     | <b>0.73</b> | <b>0.18</b> | <b>1.9</b>  |
| Long Term Stockpiles | Proven                      | 1.4             | 0.46        | N/A         | N/A         |
|                      |                             | <b>1.4</b>      | <b>0.46</b> | -           | -           |
|                      | <b>Total</b>                | <b>22.1</b>     | <b>0.71</b> | <b>0.18</b> | <b>1.9</b>  |

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

The Ore Reserve estimate as of May 2010 was 14.8M tonnes [0.85% Cu, 0.17g/t Au, 3.1g/t Ag] and did not contain any stockpiled material. A summary of the major changes from the 2010 Ore Reserve estimate to the 2013 estimate are outlined below.

#### Key Changes to the Ore Reserve Estimate



The new Ore Reserve estimate was completed under the 2012 JORC code by Steven McClare of Hillgrove Resources Limited (Competent Person). The Resources model was reviewed by the Quantitative Group Pty Ltd (QG), and then economic and technical parameters were applied to the model by the Competent Person to formulate the Ore Reserves. Chris De-Vitry of QG provided oversight and technical advice. This process provides confidence the Ore Reserves have been completed without material error and are fit for external reporting.

## Directors' Report (continued)

### Operating and Financial Review (continued)

| Summary of major changes in the Ore Reserve                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| <p><b>Depletion</b></p> <ol style="list-style-type: none"> <li>Mined areas have been depleted to end of month survey shells as at the month commencing March 2013.</li> <li>Long term treatment Charges have increased by US\$10/dmt to US\$50/dmt.</li> <li>Long term AUD:USD exchange rate has been revised to 0.87 (from 0.85).</li> </ol> <p><b>Resource model and loss/dilution</b></p> <ol style="list-style-type: none"> <li>Resource Model updated from 2008 Model to 2013 Model inclusive of exploration as outlined in Ore Resource release of 30 May 2013. This Resource Model was constrained to a revenue factor two shell from a Whittle optimisation.</li> <li>In the previous Reserve, a fixed loss of 5% and uniform dilution of 12% was used. This has been replaced with the use of a regularised model. The blocks used within the regularisation are 4m by 5m by 3m. The regularised methodology better represents the true effect of mining dilution as it impacts narrow lenses more than wide lenses. The regularisation impacts the Resource numbers by raising ore tonnage by 16% but lowering copper grade by 13%.</li> <li>Hillgrove's policy is not to drill an area within the economic pit shell that is categorised as an Inferred Ore Resource, unless that area may impact the pit shell shape. These areas of Inferred Resource are treated as waste within the Reserve Estimate</li> <li>There were no changes to the cut-off grade, mining methodology or mining costs.</li> </ol> <p><b>Metallurgical factors</b></p> <ol style="list-style-type: none"> <li>The process recovery model was updated with a fixed tail model utilised for primary ore recovery. This gives a better reflection of operational performance measured since the commencement of operations.</li> <li>There were no major changes to operating costs of primary ore.</li> <li>An additional operating cost of \$1.24/t has been utilised for treatment of oxide and transitional material and capital of \$2M allowed for plant modifications for Continuous Potential Sulphidisation.</li> <li>Long term treatment charges have increased by US\$10/dmt to US\$50/dmt.</li> </ol> <p><b>Metal prices</b></p> <ol style="list-style-type: none"> <li>The cut-off grade was amended to 0.2% based on revised metal prices, process recoveries and exchange rate.</li> <li>Treatment, refining and transportation costs have been updated.</li> <li>Long term metal prices that were utilised were: <ul style="list-style-type: none"> <li>Copper: US\$3.52/lb</li> <li>Gold: US\$1,675/oz</li> <li>Silver: US\$30/oz.</li> </ul> </li> <li>Long term exchange rate of 0.87 AUD:USD has been utilised.</li> </ol> <p><b>Mining factors</b></p> <ol style="list-style-type: none"> <li>Drill and blast costs are based on a 3.9m x 4.2m pattern with a 0.77kg/bcm powder factor.</li> <li>There were no major changes to wall angles but a different configuration was modelled. The model utilises quadruple walls, with larger horizontal benches (interchangeable with double wall with a smaller bench).</li> <li>Single lane ramps have been utilised in the lower portions of pits to enhance orebody recovery, but a geotechnical allowance of \$3M per annum has been included.</li> <li>The larger pit design has allowed a deeper Giant pit floor due to longer straight sections of ramp requiring fewer switchbacks.</li> </ol> |

## **Directors' Report (continued)**

### **Operating and Financial Review (continued)**

These announcements gave confidence to targeting an extended mine life at the Kanmantoo Copper Mine up to ten years allowing access to additional copper Resources located within the Mining Lease. The Company late last year made application to the South Australian and Australian Federal Governments for a two year extension to the existing mining approval up to 2019, and continues to work with the local community, DMITRE, other State agencies and the Federal Government (under the EPBC Act) in regard to this application.

#### **New crusher**

In April 2013 the installation and commissioning of a new primary crusher circuit for the Kanmantoo Copper Mine was completed. Replacement of the previous jaw crusher was required following an assessment by Hillgrove that the second hand crusher circuit designed and installed as part of plant construction failed to perform to expected levels during ramp-up of the processing plant in 2012. The circuit arrangement constrained overall performance at the mine and required temporary and costly work-around solutions to maintain throughput levels.

The new crusher circuit and consequent increased processing plant throughput has achieved the volumes required to meet nameplate production targets. Since commissioning of the new crusher throughput has increased from the expected 2.8M tonnes p.a. rate to see regular ore throughput rate of up to 3.0 million tonnes p.a.

#### **Hillgrove as owner operator**

Discussions with the mining services contractor at the Kanmantoo Copper Mine culminated on 26 July 2013 with a subsequent announcement that Hillgrove Copper Pty Ltd had executed a Settlement Deed to allow a mutual termination of the Mining Services Contract.

Establishment of a new mining operations team was achieved in approximately six weeks, using existing Hillgrove employees and recruitment of additional operators, with initial pit mining recommencing within 10 days. Emphasis was on selecting the appropriate mix of experienced and local people. Along with the direct employment of Hillgrove personnel, specialist contract services are being undertaken by Andy's Earthmovers (Asia Pacific) Pty Ltd (equipment supply and maintenance), Roc-Drill Pty Ltd (blast hole drilling) and Maxam Australia Pty Ltd (explosive suppliers), who have a combined permanent workforce of some 55 employees on site.

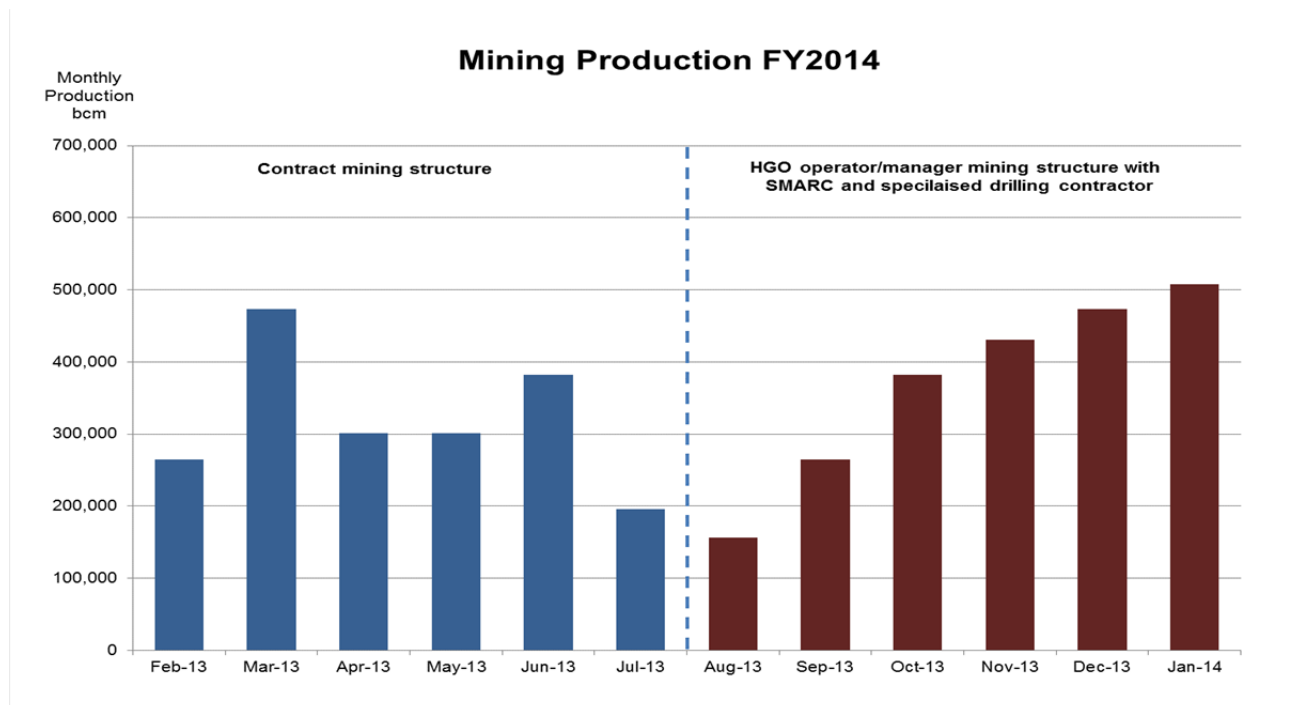
Hillgrove's direct workforce at the Kanmantoo Copper Mine now stands at some 200 staff and has continued to operate effectively and safely since the new mining plan was implemented. The combination of specialised contract skills and experienced Hillgrove employees has allowed a high level of quality control in the critical areas of drilling, blasting, productivity and dilution control during mining operations.

The success of this changeover to the new owner operator mining plan and its considered implementation can be clearly seen in the improvement in mining production over the last six months in the chart below. Mining rates reached 507k bank cubic metres (bcm) for the month of January, and will be lifted further during the coming months in line with long term plans. This resulted in 4,362kt total material mined during the fourth quarter, an increase of 80% over the previous quarter and a 28% increase over the previous record quarter.

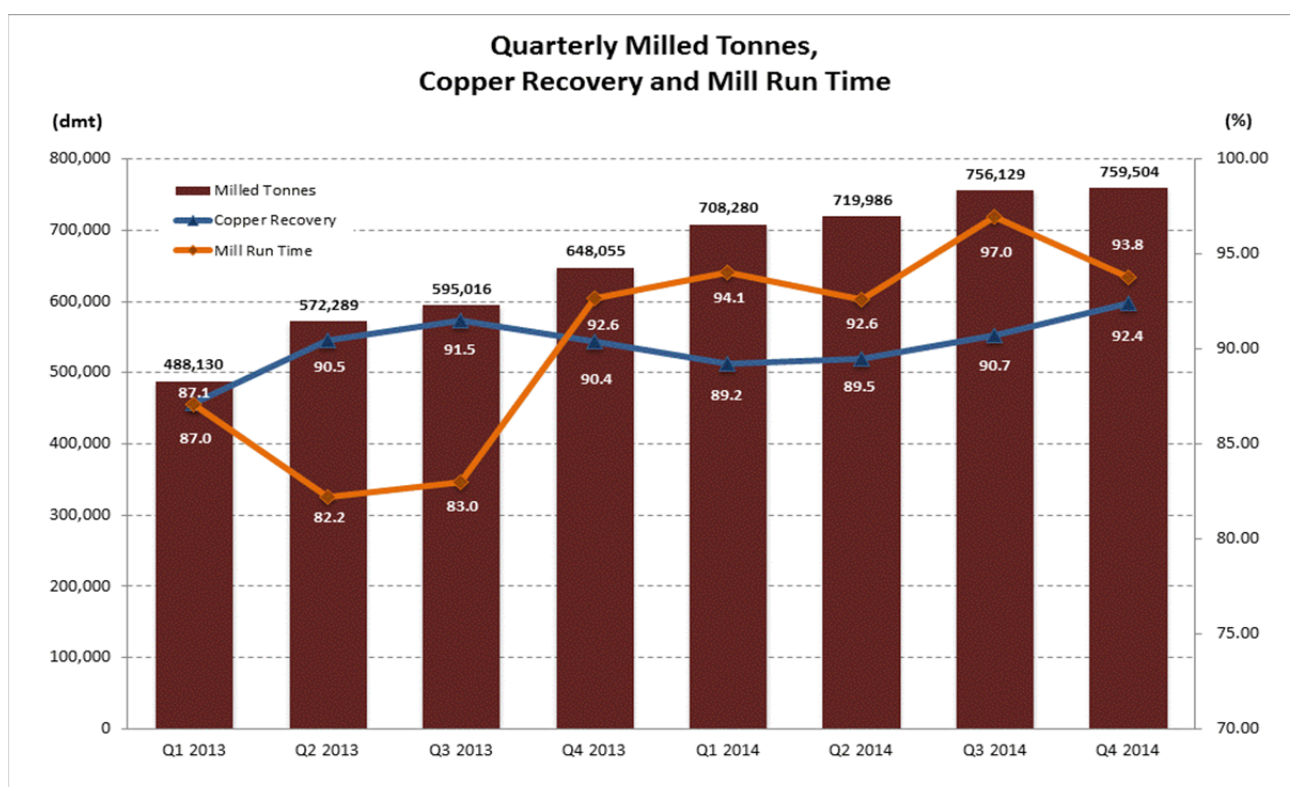
## Directors' Report (continued)

### Operating and Financial Review (continued)

#### KANMANTOO COPPER MINE BCM RATES



The change in mine practices through the newly configured and Hillgrove operated mining fleet has also continued to reap dividends for the Kanmantoo operating performance. This can clearly be seen in the reduction in mining dilution, increased mining tonnes, and improved feed grades to the mill. The processing plant group have also continued to improve their throughput rates, run time and copper recovery, all resulting in an increase in copper produced.



## Directors' Report (continued)

### Operating and Financial Review (continued)

Hillgrove has achieved record copper production for the full year, with copper production within the previous guidance set after the new mining operations commenced in the middle of the year. In addition to increased production levels, record mill throughput and head grade was achieved, as well as record quarterly sales volume. Key operational achievements for FY14 include:

- 17,184t copper contained in concentrates produced which is a 25% increase in copper production over FY 2013 and within production guidance for the year of 16,500 to 18,000 tonnes copper contained within concentrates;
- record process plant throughput of 2,944kt ore and increased mill head grade of 0.64% copper; and
- record recovery of 90.7% as the process plant beds down operating and maintenance improvements at the higher head grade.

#### KANMANTOO COPPER MINE PRODUCTION STATISTICS

|                                       |        | FY 2013       | FY 2014       |
|---------------------------------------|--------|---------------|---------------|
| Ore to ROM from Pit                   | kt     | 2,221         | 2,633         |
| Ore to/(from) long term stockpiles    | kt     | 849           | (70)          |
| Mined Waste                           | kt     | 11,777        | 10,027        |
| <b>Total Tonnes Mined</b>             | kt     | <b>14,847</b> | <b>12,922</b> |
| Mining Grade to ROM                   | %      | 0.76          | 0.71          |
| Ore Milled                            | kt     | 2,303         | 2,944         |
| Milled Grade                          | Cu %   | 0.66          | 0.64          |
| Recovery                              | Cu %   | 89.9          | 90.7          |
| <b>Copper Concentrate Produced</b>    | Dry mt | <b>56,431</b> | <b>75,423</b> |
| <b>Copper Concentrate Grade</b>       | %      | <b>24.4</b>   | <b>22.8</b>   |
| <b>Contained Metal in Concentrate</b> | Cu t   | <b>13,744</b> | <b>17,184</b> |
| <b>Total Concentrate Shipped</b>      | Dry mt | <b>56,526</b> | <b>71,764</b> |
| <b>Total Concentrate Sold</b>         | Dry mt | <b>56,526</b> | <b>74,051</b> |

Mining costs were impacted by the changeover to owner operated mining and the ramp up of a new fleet. Key one-off cost areas included recruitment and training of new mining operators, temporary arrangements awaiting final contracts to be signed, lower productivity during training of crews and reduced capitalisation of costs. However as anticipated, these areas rapidly improved with increased grades and improved mining productivity and C1 costs were back within guidance of US\$2.25/lb to US\$2.50/lb by year end. The C1 cash cost for the full year was US\$2.39/lb and this is expected to improve further in line with a revised guidance of US\$2.10 TO US\$2.40 per lb at AUD:USD0.90 exchange rate for FY15.

## Directors' Report (continued)

### Operating and Financial Review (continued)

#### KANMANTOO COPPER MINE COSTS

| US cents per lb                                     | FY 2013    | FY 2014    |
|-----------------------------------------------------|------------|------------|
| Mining Costs                                        | 92         | 117        |
| Processing Costs                                    | 97         | 72         |
| Other Direct Cash Costs                             | 23         | 22         |
| <b>Total Onsite Costs</b>                           | <b>212</b> | <b>211</b> |
| Transport and Shipping                              | 18         | 17         |
| Treatment, Refining and Smelter Charges             | 36         | 41         |
| <b>Total Offsite Costs</b>                          | <b>54</b>  | <b>58</b>  |
| Precious Metals Credits                             | (46)       | (30)       |
| <b>Total Direct Operating Costs (C1 Cash Costs)</b> | <b>220</b> | <b>239</b> |
| Royalties                                           | 5          | 4          |
| D&A                                                 | 96         | 74         |
| <b>TOTAL</b>                                        | <b>321</b> | <b>317</b> |

#### Offtake and shipping

In 2005, Hillgrove entered into an offtake agreement with Freeport Metals and Concentrates (formerly Sempra Metals and Concentrates). This offtake agreement provides a guaranteed 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, which is then sold on a CIF basis (cost, insurance, freight) to Freeport. In the 12 months to 31 January 2014, seven shipments totalling 71,764dmt of copper concentrate were shipped, all of which went to China.

#### Sustainability: environment, safety and community

Hillgrove's approach to our health, safety, environment and community responsibilities is derived from a strong ethical foundation, as outlined in our Sustainability and Work Health and Safety Policies and from our high standards of corporate governance. The Company's expectations of employee conduct while at work, including standards of behaviour, employee interaction and external stakeholder engagement, are clearly outlined in our policies and procedures and included in induction packages for all new staff.

Hillgrove is committed to deliver a high standard of health, safety and environmental (HSE) performance. We strive for continuous improvement and ensure that our HSE policy objectives and legal compliance is achieved. To demonstrate this commitment, Hillgrove has developed an Integrated Management System (IMS) framework to ensure risks are managed and the organisation has the appropriate safe systems of work in place to manage those risks.

The implementation of our IMS is based upon the major risk profiles of the organisation. It has focused on Kanmantoo as it evolved from exploration to construction and now to an operating mine and processing plant. The implementation, maintenance and continual improvement of our integrated risk management system are a priority for Hillgrove. The IMS has been driven by effective leadership, the acceptance of individual responsibility and the promotion of an impact aware staff and contractor culture.

Safe systems of work, supporting procedures and engineering controls have been implemented to minimise risks associated with a range of site specific issues including environment specific air quality, blasting and vibration, cultural heritage, fauna, flora, groundwater, noise, potential acid forming rock, social issues, surface water, traffic and waste management. A wide range of plans and accompanying Standard Operating Procedures (SOP's) have been developed and implemented on site at Kanmantoo.

To drive health, safety and environmental leadership within the organisation, key performance indicators related to risk management and IMS implementation have been incorporated into senior managers' position descriptions, forming a key component of performance development reviews.

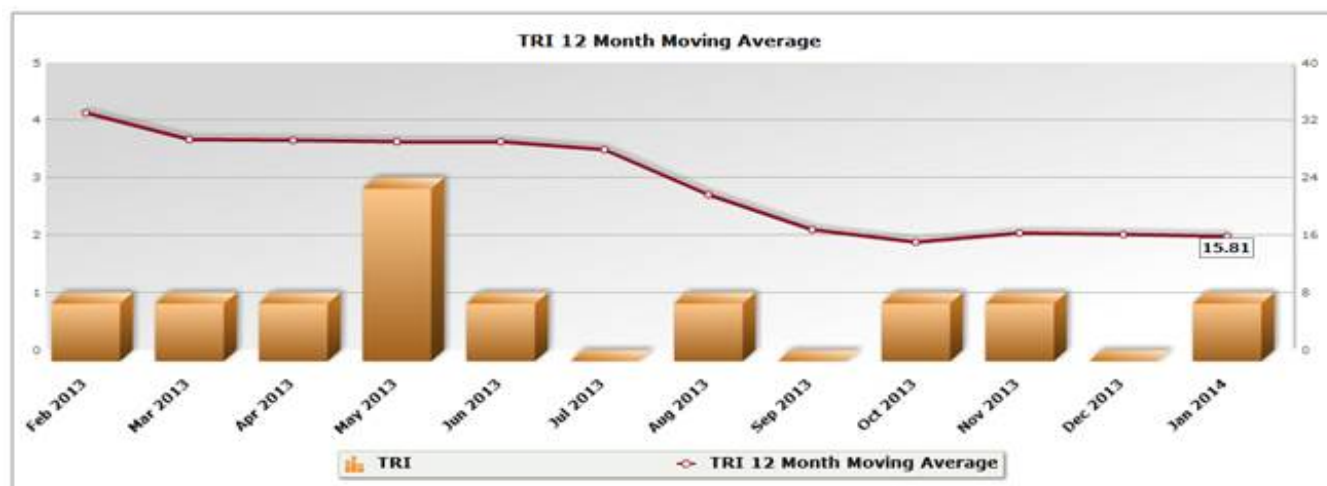
## Directors' Report (continued)

### Operating and Financial Review (continued)

The mining and processing operations present a range of complex, inherently high-risk working environments which are closely regulated by existing mining, environmental and occupational health and safety legislation. It is imperative to ensure that a risk based approach is applied to enable the effective development and implementation of appropriate, practical engineering controls and safe systems of work to minimise workplace risks as far as reasonably practicable, or to find alternate approaches to essential tasks with lower inherent risks.

In contrast, exploration activities also present a range of inherent risks; however, they don't present the same level of complexity as our mining and processing operations. Hillgrove's exploration operations have well developed safe systems of work and procedures for our exploration staff and contractors which incorporate tasks ranging from drilling, remote and isolated work, to remote travel and sampling.

Hillgrove's workforce has continued to operate effectively and safely through the changeover and ramp up of owner operated mining and increased mill throughput. The improved safety performance for the site was maintained in the latter half of the year, with the 12 month rolling average Total Recordable Injury Frequency Rate (TRIFR) sitting at 15.8, achieving a 40% reduction over the full year.



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

Rehabilitation of the site has focused primarily on enhancement of areas of native vegetation and creating linkages between these remnants. As final landforms become available in 2015 it is expected revegetation of our tailings and waste rock storage facilities will commence and progressively extend year to year in preparation for closure. To ensure our readiness for this we continue to collect and store seed, test its viability as well as produce commercial quantities of propagules from our onsite seed production area. Ground works by way of weed control, fauna studies, and soil conditioning, stripping and stockpiling, are advanced programs. The site closure plan includes back filling and re-vegetation of satellite pits (excluding the main pit) and the covering of our integrated waste landform with threatened and significant vegetation communities that are valued highly by local residents, State and Federal Governments.

Hillgrove's strategic Community Engagement Plan has been in place since 2009. The plan outlines our objectives, identifies our local community, and governs how we will engage with stakeholders and outlines mechanisms for feedback to Hillgrove. It also includes processes allowing us to review our effectiveness and revise this plan. The State Government has recognised Hillgrove's consultation process to date has been exemplary.

## **Directors' Report (continued)**

### **Operating and Financial Review (continued)**

We are very aware of our current and potential impact on the surrounding communities in both positive and negative ways. We work actively with the local community and notify nearby local residents via SMS of impending blasting operations. We have a feedback notification system in place, hold regular community meetings, have a community-focussed section on our website, sponsor local events and distribute a newsletter.

Kanmantoo's management team increased its interaction with the Kanmantoo Callington Community Consultative Committee (KCCCC) during the year. In addition to the regular KCCCC meetings, topic-specific community meetings were held in relation to current issues and the life of mine extension application currently with the South Australian Government. Meetings strived to build common understanding and agreement by covering a range of topics from dust management and life of mine disturbance areas to rehabilitation plans and dedication of SEB-offset vegetation areas.

Hillgrove continues to operate responsibly within required regulatory levels by employing a range of preventative methods in our Kanmantoo operations. For example, our primary ore crushing equipment operates in a soundproof enclosure with inbuilt dust suppression, we have expanded and enhanced our dust reduction programmes and blasting developments are being implemented to regulate how and when blasts can be carried out to minimise community disturbance. We have acquired additional water trucks, apply effective dust suppressant products to haul and secondary roads and suspend our mining operations on windy days when fugitive dust may present a concern to our local community. Continuous dust monitoring equipment has been installed and a pre-emptive SMS dust level warning system for mine staff is being implemented. We also conduct a range of local environmental monitoring programmes to address specific issues and requests by residents.

Hillgrove strives to maintain our Social License to Operate through responsible operations management and community-responsive planning processes. We've enjoyed a long and positive involvement in our region and we will continue to work proactively to identify new ways to operate effectively while reducing our impact on the local community.

### **Risks**

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

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

The Kanmantoo Copper Mine is an open pit mine which remains subject to some geotechnical risk and adverse weather conditions which may manifest in a failure of a pit wall, rock falls or other failures of mine infrastructure and reduced productivity. Geotechnical failures which impact on either current or future mining zones may result in diminished operational performance and may require investment to remediate.

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

## Directors' Report (continued)

### Operating and Financial Review (continued)

#### Outlook

In January 2014 Hillgrove announced two new Liebherr 9350 300 tonne excavators were purchased for use at the Kanmantoo Copper Mine by the Company's equipment supply contractor Andy's Earthmovers (Asia Pacific) Pty Limited. The excavators are already providing both improved productivity and lower costs by allowing a further ramp up in the volume of tonnes moved from the mining pits in line with the Company's long term mine plans.

This will see production benefits leading to improved cashflow and profit from the Kanmantoo Copper Mine. This newly configured fleet is forecast to further improve mining rates in FY15. Hence, Hillgrove has advised a copper production guidance for FY15 of 22,300 to 24,600 tonnes copper contained in concentrates.

Mill throughput and reliability were maintained at a high level in the second half of the year. A Multi-Stream Analysis unit has been installed in the process plant and this is expected to provide additional improvements to recovery and costs.

Hillgrove took advantage of the high US dollar copper price and low Australian dollar in January 2014, by putting in place additional hedging for the first half of FY15<sup>1</sup>. As such, Hillgrove entered into contracts to deliver 2,280Mt of copper at a weighted average price of A\$8,291/Mt (net of margin), over and above the existing hedging which was already place. In light of the current down turn in the copper price, this has further strengthened the Company's position and planned cash flow generation over the next six months, and supports the planned debt repayments over this time.

In February 2014 Hillgrove provided the following guidance for the Kanmantoo Copper Mine for FY15:

- Ore mined 3,000kt to 3,250kt
- Ore processed 2,900kt to 3,000kt
- Ore grade processed 0.83% to 0.88% Copper
- Copper Recovery 92.5% to 93.5%
- Copper produced 22,300t to 24,600t copper contained in concentrates
- Gold produced 7,000oz to 9,000oz gold contained in concentrates
- C1 Costs US\$2.10 to US\$2.40 per lb at 0.90 exchange rate

The fourth quarter of 2014 has set the foundation for the operating performance for the next twelve months. Hillgrove will continue to work on the improvements identified through the operating planning and implementation processes, to maintain targets and lower costs. While the significant operational improvements on site have been pleasing, it is important to note mining operations contain certain risks in the resource, throughput performance and costs from time to time. Hillgrove at its Kanmantoo operations has endeavoured to minimise these risks through professional planning and evaluation, and monitoring of performance of key operational parameters.

Hillgrove's Forecast Capital expenditure for FY15 includes:

- Tailings Storage Facility A\$5.3M
- Controlled Potential Sulphidisation A\$2.0M
- Dust mitigation A\$1.0M
- Other sustaining capital A\$2.3M

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<sup>1</sup> Note: HGO has a 31 January Year End, therefore quarter references are Q1 Feb-Apr, Q2 May-Jul, Q3 Aug-Oct and Q4 Nov-Jan.

## **Directors' Report (continued)**

### **Operating and Financial Review (continued)**

In addition to the above forecast capital expenditure, Hillgrove will continue to undertake capital development in pit pre-strip operations for the Nugent, Emily and Giant pits. This capitalised pre-strip is estimated at approximately A\$16.0 million for FY15.

During the present year ore feed for the Kanmantoo mill will be sourced mainly from the Kavanagh pit in the first half, and mainly from the Nugent pit in the second half, with some ore from the Emily Star pit. The cut back for the Giant pit will commence towards the end of the year.

The Controlled Potential Sulphidisation (CPS) additional plant for the processing of oxide ore is currently in the design and engineering phase, with definitive capital and operating costs yet to be finalised. It is proposed that construction of this additional section of the processing plant would commence during the second half of the year.

### **Indonesian Operations**

Hillgrove continues to maintain exploration care and maintenance teams at its advanced exploration projects at Bird's Head and Sumba Island. During recent investor 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 discoveries and potential direct involvement. Interest in exploration is particularly strong from local Indonesian investors. Hillgrove believes the projects are continuing to receive support for further exploration expenditure based on the quality of the asset. With the status of the two projects in advanced exploration stage, the recent Indonesian ban on mining exports does not have an impact on the value or the potential progress of the next stage works.

Local landholder relationships are being maintained at the projects, and an updated review of next step targets on both projects will be undertaken during the first half of the year.

### **Indonesian sustainability**

Indonesian operations are centred on the core value of respect for local customs and cultures, and the commitment to maintaining and building strong community relations through structured programmes of engagement with local landowners, communities, official agencies and other stakeholders. Policies and procedures developed through close working cooperation have resulted in clear management guidelines aimed at ensuring minimal disturbance to the social fabric of communities. Active and open dialogue is also maintained with government agencies and officials on our activities and plans.

Hillgrove recognises activities may impact local communities and therefore emphasis is on working within local culturally accepted practices to communicate how the exploration process works, what stakeholders can expect as a result and timeframes involved. We have done this through dedicated community relations teams who are tasked with clearly identifying key stakeholders, establishing relationships and importantly building our understanding of the social environment, culture and lifestyles of the people we work with. We present and explain exploration programmes ahead of commencement of any field activities to ensure our stakeholders are comfortable with us proceeding.

We preferentially engage local labour, purchasing local produce and where not available assist local farmers to build capacity to supply operations through cooperative garden development incentives and agricultural training. The training and education of local employees is of high importance and a key focal point for our community relations teams. It is hoped that through training and up skilling local employees we may be able to broaden and pass on opportunities to local communities to improve standards of living and boost the local economy.

## **Directors' Report (continued)**

### **Operating and Financial Review (continued)**

#### **Future Strategy and Growth**

Debt reduced from A\$50.4 million as at 31 January 2013 to A\$40.8 million at 31 January 2014 and is projected to continue to be reduced per financing arrangements over the next year with a substantial reduction to debt balance expected.

Hillgrove Resources aims to enhance shareholder value further by achieving its planned production guidance, costs and revenue for the upcoming financial year at Kanmantoo, and maintaining this improved performance at around 20,000 tonnes p.a. copper production or above for the targeted mine life. The Company will enhance this operational value in the short to medium term through the following strategic activities:

- evaluation and drilling of the known exploration target range adjacent to existing ore zones identified in the February 2013 life of mine announcement;
- evaluation and exploration on immediate targets within the existing Mining Lease at Kanmantoo;
- evaluation and potential exploration on its exploration leases in the Kanmantoo and surrounding regions; and
- attracting investment into its advanced exploration projects in Indonesia.

These strategic activities are to be funded from cashflow from the Kanmantoo Copper Mine operation.

#### **Capital Raisings**

There was one capital raising during the year. In September 2013, the Company raised \$10.8 million through the issuance of 153.7 million shares at 7.0 cents, via a share placement.

#### **Dividends**

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

#### **Significant Changes in the State of Affairs**

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

#### **Events Subsequent to Balance Date**

There were no events to disclose subsequent to the balance sheet date that impact both the presentation of the financial accounts and the future performance of the operations of the Company.

#### **Environmental Regulation**

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

## Directors' Report (continued)

### Indemnification and Insurance of Officers and Auditors

#### Officers' and Auditors' Indemnity

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

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

#### Directors' and Officers' Insurance

During the financial year, Hillgrove Resources paid a premium of \$69,324 (2013: \$80,052) to insure the Directors and secretaries of the Company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

#### Proceedings on Behalf of the Company

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

#### Non-audit Services

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

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

None of the services provided undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards. A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 47.

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

## Directors' Report (continued)

### Indemnification and Insurance of Officers and Auditors (continued)

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

Details of the corporate governance policies adopted by the Company and referred to in this statement are available on the Company's website at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

### Remuneration Report (audited)

The directors are pleased to present the 2014 remuneration report for Hillgrove Resources Limited. The report sets out the remuneration information for Hillgrove Resources Limited's Non-Executive Directors, Executive Directors, and other key management personnel.

The following persons acted as Directors of Hillgrove Resources Limited during or since the commencement of the financial year:

**(i) Executive Directors**

Mr G C Hall, Managing Director (appointed 11 February 2013)

**(ii) Non-Executive Directors**

The Hon. D C Brown, AO

Mr J E Gooding

Mr D N Snedden

Mr E J Zemancheff

Mr J A Quirke (resigned 25 November 2013)

Mr M W Loomes (appointed 25 November 2013).

Except as noted, the named person held their current position for the whole of the financial year and since the end of the financial year unless otherwise specified.

### Other Key Management Personnel

| Name                                                    | Position                                                     |
|---------------------------------------------------------|--------------------------------------------------------------|
| Mr R L S Middleton<br>(27 July 2012 to 8 February 2013) | Chief Financial Officer<br>(Interim Chief Executive Officer) |
| Mr S P McClare                                          | General Manager – Kanmantoo Copper Mine                      |
| Mrs S Smith<br>(10 August 2012 to 8 February 2013)      | Company Secretary<br>(Interim Chief Financial Officer)       |

### Role of the Remuneration Committee

The Remuneration Committee is a committee of the Board and is primarily responsible for making recommendations to the Board on:

- Non-Executive Director fees;
- remuneration levels of Executive Directors and other key management personnel;
- the overarching executive remuneration framework and operation of the incentive plan; and
- key performance indicators and performance hurdles for the executive team.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long term interests of the company.

## Directors' Report (continued)

### Remuneration Report (audited) (continued)

The Corporate Governance Statement provides further information on the role of this Committee.

#### Use of external consultants

The Board seeks external advice and guidance from time to time from independent remuneration consultants.

During the year ended 31 January 2014 the following remuneration consultancy services were provided to the Company and accordingly the disclosures required under section 300A(1)(h) of the Corporations Act 2001 are set out as follows:

| Remuneration Advisor/Consultant                                                                           | Service Provided                                                        | For the purposes of the Corporations Act 2001                     |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------------------------------|
| Ian Crichton, Remuneration Consultant, CRA Plan Managers Pty Limited                                      | 1. Share-based Payments valuation services                              | No                                                                |
|                                                                                                           | 2. Testing of Performance Vesting Conditions (Total Shareholder Return) | No                                                                |
|                                                                                                           | 3. ESS Documentation services                                           | No                                                                |
|                                                                                                           | 4. AGM Explanatory Notes and Board notes for LTI arrangements           | No                                                                |
| How much was the remuneration consultant paid by the Company for remuneration related and other services? |                                                                         | Remuneration Advisory Services: \$nil<br>Other services: \$43,409 |

#### Non-Executive Directors Remuneration Policy

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors.

Directors' fees cover all main Board activities including membership of the Audit and Risk Committee, Nomination Committee, Remuneration Committee and Treasury Committee. From time to time, the Board may request individual Directors to devote extra time or undertake extra duties. Directors who undertake such tasks may receive payment for this additional work at the Board's direction. Directors are reimbursed for any genuine business related expenses associated with the performance of their duties.

The Non-Executive Directors' current base fee is \$75,000 per annum and the Non-Executive Chairman's current fee is \$150,000 per annum inclusive of superannuation payments. These fees are paid monthly in cash and are reviewed and determined periodically by independent remuneration benchmark assessments. Non-Executive Directors do not receive performance related remuneration such as bonuses nor are they issued rights on securities.

Non-Executive Directors' fees are determined within an aggregate Directors fee pool limit, which is periodically recommended for approval by shareholders. The maximum fee pool limit currently stands at \$450,000 and was approved by shareholders at the annual general meeting on 24 June 2009.

#### Executive remuneration policy and framework

In determining executive remuneration the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the company to attract and retain key talent;
- aligned to the company's strategic and business objectives and the creation of shareholder value;
- transparent; and
- acceptable to shareholders.

## Directors' Report (continued)

### Remuneration Report (audited) (continued)

The executive remuneration framework has three main components:

- Base salary, superannuation and other benefits comprise Total Fixed Remuneration (TFR);
- Short-term incentives (STI's) are currently awarded annually at the discretion of the Board subject to the achievement of specific key performance indicators (KPI's), set at the beginning of the measurement period. STI's for the relevant financial year are usually determined within three months of the end of the financial year, based on audited results. The Board is currently considering the introduction of a deferred component to be applied to STI for FY15.
- Long-term incentives (LTI's) in the form of performance rights issued under the Hillgrove Resources Option and Performance Rights Plan (OPRP) are currently allocated annually, subject to Board approval and market competitive performance conditions. These conditions are reviewed annually prior to any allocation to ensure they meet generally accepted market standards. The Board is currently finalising the performance conditions for the FY15 LTI allocations. These performance conditions generally include external conditions (e.g. Total Shareholder Return), along with internal measures such as earnings per share.

The design and offer process is under continuous review as market practice changes. Any performance rights issued under the OPRP are at the discretion of the Board based on a strategic remuneration framework and where required, input from independent external advisors.

#### Principles used to determine the nature and amount of remuneration

Remuneration levels are competitively set based on external benchmark comparisons to attract and retain appropriately qualified and experienced executives in accordance with the company's Remuneration Policy.

The following table outlines the broad remuneration strategy intention applicable to executives in the company. STI's and LTI's are subject to the discretion of the Board. Each represents the percentage of fixed remuneration and the upper limit. The allocation and proportion of fixed and variable components of the overall remuneration are aligned with industry practices and are designed to attract and retain these executives. The remuneration proportions between fixed and "at risk" are benchmarked periodically in order to assess relativities to other similar organisations and to determine any remuneration trends that may be emerging that will imply potential future modifications to the table below.

At the time of writing this report the executive remuneration structure is being reviewed by the Remuneration Committee and the Board. The appropriate mix, amount and structure of STI's and LTI's are being considered, including the possibility of the introduction of a deferred STI scheme. The Board will assess the appropriate structure via the use of external benchmark data and independent remuneration advisers.

#### Executive remuneration structure

| Level/Position           | TFR | STI % of TFR | LTI % of TFR |
|--------------------------|-----|--------------|--------------|
| LEVEL 1 – CEO / MD       | 100 | Up to 100    | Up to 100    |
| LEVEL 2 – Executive Team | 100 | Up to 50     | Up to 50     |

#### Short Term Incentives (STI)

KPI's applicable to future STI payments will vary from position to position with the principal objectives based on specific measures, including:

## Directors' Report (continued)

### Remuneration Report (audited) (continued)

- Safety performance;
- Operational performance;
- Company financial performance (including cost control);
- Statutory and regulatory compliance, including governance; and
- People, culture and leadership.

The determination of KPI achievement (and therefore subsequent allocation of STI) is assessed on the basis of a mix of company, departmental and individual performance at various levels within the organisation. The breakdown applicable to executives is provided below.

#### KPI Weightings

| STI Program          | Company performance | Department performance | Individual performance | Total |
|----------------------|---------------------|------------------------|------------------------|-------|
| Level 1 – CEO / MD   | 100%                | N/A                    | N/A                    | 100%  |
| Level 2 – Executives | 40%                 | 30%                    | 30%                    | 100%  |

STI payments are subject to a company financial 'performance gate' principle, whereby a minimum level of company EBITDA performance determines access to and pool size of any STI incentive payments. This EBITDA performance is a challenging target linked directly to the annual budget set yearly at the beginning of the Company's financial year which is approved by the Board

The Board will retain sole discretion in relation to the payment of STI's to any executives based on the company's financial capability to meet the payment at the time of assessment. This will ensure future STI's are only paid when group performance expectations are in line with targets.

For FY14 the STI plan entailed 65% operational and financial measures, with the remainder being safety, environmental, community and marketing. The actual performance versus the plan is currently being determined and will be reported on in next year's report. The STI being developed for the current year's budget will be similarly established to reflect key financial and operating performance of the company based on the approved and targeted budget.

The Board intends to introduce a deferral component to the Company performance part of STI, whereby 50% of any STI earned for this component will be provided as performance rights and held subject to twelve (12) months additional service. Shareholder approval will be sought for any proposed grants to the CEO/MD.

#### Long Term Incentives (LTI)

LTI's, if any, are provided to selected Executives, key management personnel (KMP) and employees under the shareholder approved Hillgrove Resources Option and Performance Rights Plan (OPRP). The OPRP is designed to provide equity incentives subject to meeting predetermined service and performance conditions. Participation in the plan is at the Board's discretion.

The performance conditions imposed may vary from year to year to satisfy changing market expectations, but for the coming year are planned to consist of the following:

- external measures (TSR outperformance against the component companies of a selected Index); and/or
- internal measures (The Board is proposing to introduce an Earnings per Share (EPS) measure for 2014 allocations).

**Directors' Report (continued)****Remuneration Report (audited) (continued)**

The following table represents the likely vesting expectations of performance rights previously granted as at 31 January 2014:

| OPRP Grant                   | 2011                                                | 2012                                    | 2012                                   | 2013                               | 2013                 |
|------------------------------|-----------------------------------------------------|-----------------------------------------|----------------------------------------|------------------------------------|----------------------|
| Issue                        | June 2011 and October 2011 Performance Rights Offer | September 2012 Performance Rights Offer | December 2012 Performance Rights Offer | June 2013 Performance Rights Offer | 2013 LTIP Invitation |
| Allocation Date              | 24 June 2011 and 21 October 2011                    | 10 Oct 2012                             | 19 Dec 2012                            | 21 June 2013                       | 22 July 2013         |
| Vesting Date                 | 31 May 2014                                         | 10 Oct 2015                             | 31 Dec 2014                            | 22 July 2014                       | 22 July 2016         |
| Expiry Date                  | 30 June 2014                                        | 10 Nov 2015                             | 31 Jan 2015                            | 22 July 2014                       | 21 August 2016       |
| <b>Vesting Probability</b>   |                                                     |                                         |                                        |                                    |                      |
| TSR hurdle                   | 95%                                                 | 75%                                     | N/A                                    | N/A                                | 50%                  |
| Kanmantoo Reserve hurdle     | 100%                                                | N/A                                     | N/A                                    | N/A                                | N/A                  |
| JORC Resource hurdle         | 0%                                                  | N/A                                     | N/A                                    | N/A                                | N/A                  |
| Other                        | N/A                                                 | N/A                                     | Uncertain probability                  | 100%                               | N/A                  |
| Number of rights outstanding | 1,000,000                                           | 2,410,000                               | 1,000,000                              | 750,000                            | 17,450,000           |

**Relationship between remuneration and company performance**

Remuneration through the use of incentive programs (STI and LTI), applying both internal and external measures such as profitability, production, financial returns and total shareholder returns, ensure executives and KMP's remain focussed on the achievement of strategic objectives and that final remuneration is reflective of overall company performance. The overall level of executive reward takes into account the performance of the Company over a number of years, with greater emphasis given to the current year. STI's and LTIs have specific performance conditions attached to them to ensure that if the Company and Executive perform well then they are well rewarded and if performance is not achieved or lower than planned then executives receive lower STI's and LTIs.

The STI paid to executives and KMP's during FY14 were on the basis of the performance of the company up to 31 January 2013 (FY13). During that year the Company went through significant change and turnaround with replacement of much of the Executive Team. At this time the Company had the significant challenges of reviewing the life of mine, improving mining dilution and performance, cost reduction and the decision to replace the primary crusher to generate sufficient earnings to service the upcoming debt repayment period.

The Board's assessment of Company performance was based on the achievement of these specific tasks with STI targets reset mid-year in FY13 as a result of the significant changes including changes to the Executive Team.

Hillgrove received more than 90% of "yes" votes on its Remuneration Report for the 2013 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices, but these practices are under continuous review to ensure they meet contemporary standards.

## Directors' Report (continued)

### Remuneration Report (audited) (continued)

#### Remuneration of Executives and Key Management Personnel

Details of the nature and amount of each element of remuneration of each Director and key management personnel of the consolidated entity are:

| 2014                                             | Short term employee benefits |           | Post-employment benefits | Termination benefits | Share-based payments                             |               | Total     | Performance related | Value of rights |
|--------------------------------------------------|------------------------------|-----------|--------------------------|----------------------|--------------------------------------------------|---------------|-----------|---------------------|-----------------|
|                                                  | Cash salary and fees<br>\$   | STI<br>\$ | Super-annuation<br>\$    | \$                   | Cumulative expense (AASB2) - rights issued<br>\$ |               | \$        | %                   | %               |
| Directors                                        |                              |           |                          |                      | (A) / (B)                                        |               |           |                     |                 |
| Executive                                        |                              |           |                          |                      |                                                  |               |           |                     |                 |
| Mr G C Hall                                      | 542,315                      | -         | 19,416                   | -                    | 97,437                                           |               | 659,168   | 0%                  | 15%             |
| Non-Executive                                    |                              |           |                          |                      |                                                  |               |           |                     |                 |
| Hon. D C Brown                                   | 108,500                      | -         | 41,500                   | -                    | -                                                | 150,000       | 0%        | 0%                  | 0%              |
| Mr J E Gooding                                   | 75,000                       | -         | -                        | -                    | -                                                | 75,000        | 0%        | 0%                  | 0%              |
| Mr M W Loomes                                    | 12,762                       | -         | 1,180                    | -                    | -                                                | 13,942        | 0%        | 0%                  | 0%              |
| Mr D N Snedden                                   | 68,716                       | -         | 6,284                    | -                    | -                                                | 75,000        | 0%        | 0%                  | 0%              |
| Mr E J Zemancheff                                | 68,716                       | -         | 6,284                    | -                    | -                                                | 75,000        | 0%        | 0%                  | 0%              |
| Mr J A Quirke                                    | 62,500                       | -         | -                        | -                    | -                                                | 62,500        | 0%        | 0%                  | 0%              |
|                                                  | 938,508                      | -         | 74,665                   | -                    | 97,437                                           |               | 1,110,610 |                     |                 |
| Other key management personnel of Company        |                              |           |                          |                      | Rights issued                                    | Rights lapsed |           |                     |                 |
|                                                  |                              | (C)       |                          |                      | (A)                                              | (B)           |           |                     |                 |
| Mr R L S Middleton, CFO                          | 445,693 (D)                  | 270,000   | 18,000                   | -                    | 44,771                                           | -             | 778,464   | 35%                 | 6%              |
| Mr S P McClare, G.M. - Kanmantoo                 | 407,955 (E)                  | -         | 22,045                   | -                    | 452,715 (E)                                      | -             | 882,715   | 0%                  | 51%             |
| Mrs S Smith, Company Secretary Group Finance Mgr | 234,058 (F)                  | 82,820    | 25,000                   | -                    | 13,567                                           | -             | 355,445   | 23%                 | 4%              |
|                                                  | 1,087,706                    | 352,820   | 65,045                   | -                    | 511,053                                          | -             | 2,016,624 |                     |                 |

\*Superannuation paid as part of STI (annual bonuses) is shown within the superannuation data.

- (A) The value of rights issued is calculated on the basis of accounting principles. The value is therefore not certain and dependent on meeting specific TSR and performance criteria set at the time of the rights issue.
- (B) Remuneration in the form of rights includes negative amounts for rights forfeited during the year.
- (C) All STI payments were paid during the year and were in respect of performance against specific key performance criteria set for the year ended 31 January 2013 and completion bonuses on the completion of interim roles for Mr R L S Middleton and Mrs S Smith.
- (D) Mr RLS Middleton acted as Interim CEO from 27 July 2012 to 8 February 2013. His remuneration was increased from 27 July 2012 to 10 May 2013 to reflect the role and responsibilities during this time and transition to the incoming CEO/Managing Director.
- (E) Mr S P McClare received a performance rights issue upon commencement of employment. A component of the rights issue was a make good payment for incentive payments foregone from his previous employer and are subject to a minimum period of employment. The remainder of these performance rights are subject to specific conditions, based around the performance of the Kanmantoo operations.
- (F) Mrs S Smith acted as Interim CFO and Company Secretary from 10 August 2012 to 8 February 2013 and her remuneration was increased during that period to reflect the role and responsibilities.

## Directors' Report (continued)

### Remuneration Report (audited) (continued)

Details of the nature and amount of each element of the emoluments for 2013 are as follows:

| 2013                                                                          | Short term employee benefits |          | Post-employment benefits | Termination benefits | Share-based payments                        |               | Total     | Performance related | Value of rights |
|-------------------------------------------------------------------------------|------------------------------|----------|--------------------------|----------------------|---------------------------------------------|---------------|-----------|---------------------|-----------------|
|                                                                               | Cash salary and fees \$      | Bonus \$ | Super-annuation \$       | \$                   | Cumulative expense (IFRS-2) - rights issued |               | \$        | %                   | %               |
| Directors                                                                     |                              |          |                          |                      | (A) / (B)                                   |               |           |                     |                 |
| Executive                                                                     |                              |          |                          |                      |                                             |               |           |                     |                 |
| Mr D A Simonsen# (1/2/12-27/7/12)                                             | 292,400                      | -        | 34,443                   | 284,797              | -                                           |               | 611,640   | 0%                  | 0%              |
| Non-Executive                                                                 |                              |          |                          |                      |                                             |               |           |                     |                 |
| Hon. D C Brown**                                                              | 137,500                      | -        | 42,500                   | -                    | -                                           |               | 180,000   | 0%                  | 0%              |
| Mr J A Quirke                                                                 | 75,000                       | -        | -                        | -                    | -                                           |               | 75,000    | 0%                  | 0%              |
| Mr J E Gooding                                                                | 68,807                       | -        | 6,193                    | -                    | -                                           |               | 75,000    | 0%                  | 0%              |
| Mr E J Zemancheff                                                             | 68,807                       | -        | 6,193                    | -                    | -                                           |               | 75,000    | 0%                  | 0%              |
| Mr D N Snedden                                                                | 68,807                       | -        | 6,193                    | -                    | -                                           |               | 75,000    | 0%                  | 0%              |
|                                                                               | 711,321                      | -        | 95,522                   | 284,797              | -                                           |               | 1,091,640 |                     |                 |
| Other key management personnel of Company                                     |                              |          |                          |                      | Rights issued                               | Rights lapsed |           |                     |                 |
|                                                                               |                              | (C)      |                          |                      | (A)                                         | (B)           |           |                     |                 |
| Mr R L S Middleton, CFO (01/02-09/08/12) and Interim CEO (27/07/12- 08/02/13) | 511,231 (D)                  | 130,000  | 25,775                   | -                    | 105,033                                     | -             | 772,039   | 17%                 | 14%             |
| Mr C J Schubert, G.M. - Kanmantoo (01/02/12-24/08/12)                         | 240,032                      | 60,000   | 11,809                   | 123,289              | 90,999                                      | (90,999)      | 435,130   | 14%                 | 25%             |
| Mr S P McClare, G.M. - Kanmantoo (appointed 03/09/12)                         | 164,373 (E)                  | -        | 14,794                   | -                    | 82,953                                      | -             | 262,120   | 0%                  | 32%             |
| Mrs S Smith, Interim CFO and Company Secretary (10/08/12-08/02/13)            | 158,763 (F)                  | -        | 10,416                   | -                    | 18,543                                      | -             | 187,722   | 0%                  | 10%             |
|                                                                               | 1,074,399                    | 190,000  | 62,794                   | 123,289              | 297,528                                     | (90,999)      | 1,657,011 |                     |                 |

\* Superannuation paid as part of STI (annual bonuses) is shown within the superannuation data.

# Includes a termination payment equivalent to 6 months TFR, in accordance with contractual obligations. No ex-gratia payments were paid upon resignation.

\*\* Includes A\$30,000 as fees paid in respect of InterMet Resources Limited.

- (A) The value of rights issues are calculated on the basis of accounting principles. The value is therefore not certain and dependent on meeting specific TSR and performance criteria set at the time of the rights issue.
- (B) Rights issued for the financial year were forfeited by the person due to not meeting the continuous employment required within the OPRP.
- (C) All STI payments were paid on 15 March 2012 and were in respect of performance against specific key performance criteria set for the year ended 31 January 2012.
- (D) Mr R L S Middleton also received \$30,000 as a Director of InterMet Resources Limited, a subsidiary of the Company. He also acted as Interim CEO from 27 July 2012 to 8 February 2013 and his remuneration was increased during that period to reflect the role and responsibilities.

## Directors' Report (continued)

### Remuneration Report (audited) (continued)

- (E) Mr S P McClare received a performance rights issue upon commencement of employment. A component of the rights issue was a make good payment for incentive payments foregone from his previous employer and is subject to a minimum period of employment. The remainder of these performance rights are subject to specific conditions, based around the performance of the Kanmantoo operations.
- (F) Mrs S Smith acted as Interim CFO and Company Secretary from 10 August 2012 to 8 February 2013 and her remuneration was increased during that period to reflect the role and responsibilities.

#### Service agreements

Remuneration and other terms of employment for current key management personnel are formalised in service agreements. Details of these agreements are as follows:

**Name:** Mr G C Hall  
**Title:** Chief Executive Officer and Managing Director  
**Commencement:** 11 February 2013  
**Term:** Indefinite  
**Details:** TFR of \$575,000 p.a. as at 31 January 2014 reviewed periodically  
Participation in STI and LTI plans (via OPRP)  
3 months' notice required for termination of employment by employee  
3 months' notice required for termination of employment by the company

**Name:** Mr R L S Middleton  
**Title:** Chief Financial Officer  
**Commencement:** 23 February 2008  
**Term:** Indefinite  
**Details:** TFR of \$430,000 p.a. as at 31 January 2014 reviewed periodically  
Participation in STI and LTI plans (via OPRP)  
3 months' notice required for termination of employment

**Name:** Mr S P McClare  
**Title:** General Manager – Kanmantoo Copper Mine  
**Commencement:** 3 September 2012  
**Term:** Indefinite  
**Details:** TFR of \$430,000 p.a. as at 31 January 2014 reviewed periodically  
Participation in STI and LTI plans (via OPRP)  
6 months' notice required for termination of employment

**Name:** Mrs S Smith  
**Title:** Company Secretary and Group Finance Manager  
**Commencement:** 10 August 2012  
**Term:** Indefinite  
**Details:** TFR of \$256,500 p.a. as at 31 January 2014 reviewed periodically  
Participation in STI and LTI plans (via OPRP)  
1 month notice required for termination of employment

In line with general market sentiment within the resources industry, the Board has determined that there will be no TFR salary increases for the coming year.

## Directors' Report (continued)

### Remuneration Report (audited) (continued)

#### Hillgrove Resources Options and Performance Rights Plan (OPRP)

The Hillgrove Resources Options and Performance Rights Plan (OPRP) replaced the previous Employee and Executive Share Option Plans (ESOP) following a review of taxation regulation and industry remuneration best practice. The OPRP is designed to provide long-term incentives for senior managers and above (including Executive Directors) and to deliver ongoing improvements in shareholder returns.

Under the OPRP, participants are granted rights (options or performance rights) which vest and are automatically exercised subject to the achievement of specified service and satisfaction of any performance conditions (KPIs), service or other conditions set down in the offer for rights. Collectively these conditions are referred to as the Vesting Conditions. Participation in the OPRP is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Rights granted under the OPRP carry no dividend or voting rights. When exercisable, each right is convertible into one fully paid ordinary share in Hillgrove Resources Limited.

The assessed fair value at grant date of all rights granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Binominal Approximation option valuation model (for non-market vesting conditions) and a Monte Carlo simulation model (for market vesting conditions), that takes into account the exercise price (if any), the expected life of the right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the right at the date of the grant.

#### Rights provided to current Key Management Personnel as remuneration during FY14

During the year, the Company granted performance rights for no consideration over unissued ordinary shares of Hillgrove Resources Limited to the following KMPs of the Company as part of their remuneration. Each of the rights when exercised will convert into one ordinary share of the Company.

|                                                      | Number of rights granted | Date granted | Grant date fair value | Total value of rights granted (A) | Market value of grants (B) | Exercise date | Exercise price | Expiry date |
|------------------------------------------------------|--------------------------|--------------|-----------------------|-----------------------------------|----------------------------|---------------|----------------|-------------|
| <b>Director</b>                                      |                          |              |                       |                                   |                            |               |                |             |
| Mr G C Hall                                          | 750,000                  | 21/06/13     | 0.0603                | 45,225                            | 60,000                     | 22/06/14      | \$0.00         | 22/07/14    |
|                                                      | 7,000,000                | 22/07/13     | 0.0562                | 393,400                           | 560,000                    | 22/07/16      | \$0.00         | 21/08/16    |
| <b>Other key management personnel of the Company</b> |                          |              |                       |                                   |                            |               |                |             |
| Mr R L S Middleton                                   | 2,500,000                | 22/07/13     | 0.0562                | 140,500                           | 200,000                    | 22/07/16      | \$0.00         | 21/08/16    |
| Mr S P McClare                                       | 2,500,000                | 22/07/13     | 0.0562                | 140,500                           | 200,000                    | 22/07/16      | \$0.00         | 21/08/16    |
| Mrs S Smith                                          | 750,000                  | 22/07/13     | 0.0562                | 42,150                            | 60,000                     | 22/07/16      | \$0.00         | 21/08/16    |
|                                                      | <b>13,500,000</b>        |              |                       | <b>761,775</b>                    | <b>1,080,000</b>           |               |                |             |

(A) Calculated as at grant date (21 June 2013 and 22 July 2013). Mr G C Hall received a performance rights issue upon commencement of employment. A component of the rights issue was a make good payment for incentive payments foregone from his previous employer and is subject to a minimum period of employment.

(B) Calculated as at 1 April 2014.

None of the above rights vested during the current financial year (a three year vesting applies, excluding the rights issued to Mr G C Hall on 21 June 2013 which vest on 22 June 2014 subject to service only).

## Directors' Report (continued)

### Remuneration report (audited) (continued)

Rights provided to current Key Management Personnel as remuneration – unvested as at the date of this report

|                                                      | Number of rights granted | Date granted | Grant date fair value | Total value of rights granted (A) | Market value of grants (B) | Exercise date | Exercise price | Expiry date |
|------------------------------------------------------|--------------------------|--------------|-----------------------|-----------------------------------|----------------------------|---------------|----------------|-------------|
| <b>Director</b>                                      |                          |              |                       |                                   |                            |               |                |             |
| G C Hall                                             | 750,000                  | 21/06/13     | 0.0603                | 45,225                            | 60,000                     | 22/06/14      | \$0.00         | 22/07/14    |
|                                                      | 7,000,000                | 22/07/13     | 0.0562                | 393,400                           | 560,000                    | 22/07/16      | \$0.00         | 21/08/16    |
| <b>Other key management personnel of the Company</b> |                          |              |                       |                                   |                            |               |                |             |
| Mr R L S Middleton                                   | 2,500,000                | 22/07/13     | 0.0562                | 140,500                           | 200,000                    | 22/07/16      | \$0.00         | 21/08/16    |
|                                                      | 825,000                  | 10/10/12     | 0.076                 | 62,700                            | 66,000                     | 10/10/15      | \$0.00         | 10/11/15    |
|                                                      | 650,000                  | 24/06/11     | 0.220                 | 142,903                           | 52,000                     | 31/05/14      | \$0.00         | 30/06/14    |
|                                                      | <b>3,975,000</b>         |              |                       | <b>346,103</b>                    | <b>318,000</b>             |               |                |             |
| Mr S P McClare                                       | 2,500,000                | 22/07/13     | 0.0562                | 140,500                           | 200,000                    | 22/07/16      | \$0.00         | 21/08/16    |
|                                                      | 1,000,000                | 19/12/12     | 0.1056                | 105,600                           | 80,000                     | 31/12/14      | \$0.00         | 31/01/15    |
|                                                      | <b>3,500,000</b>         |              |                       | <b>246,100</b>                    | <b>280,000</b>             |               |                |             |
| Mrs S Smith                                          | 750,000                  | 22/07/13     | 0.0562                | 42,150                            | 60,000                     | 22/07/16      | \$0.00         | 21/08/16    |
|                                                      | 200,000                  | 10/10/12     | 0.076                 | 15,200                            | 16,000                     | 10/10/15      | \$0.00         | 10/11/15    |
|                                                      | 120,000                  | 24/06/11     | 0.220                 | 26,382                            | 9,600                      | 31/05/14      | \$0.00         | 30/06/14    |
|                                                      | <b>1,070,000</b>         |              |                       | <b>83,732</b>                     | <b>85,600</b>              |               |                |             |
|                                                      | <b>16,295,000</b>        |              |                       | <b>1,114,560</b>                  | <b>1,303,600</b>           |               |                |             |

(A) Calculated as at grant date. Mr G C Hall received a performance rights issue upon commencement of employment. A component of the rights issue was a make good payment for incentive payments foregone from his previous employer and is subject to a minimum period of employment.

(B) Calculated as at 1 April 2014.

None of the above rights vested during the current financial year (a three year vesting applies, excluding the 750,000 rights issued to Mr G C Hall on 21 June 2013).

### Previous Employee Share Option Plan and Executive Share Option Plan (ESOP)

Shareholders are reminded the company has previously (pre-2010) applied an Employee Share Option Plan and Executive Share Option Plan to coordinate the payment of LTI benefits.

### Rights vested and exercised during the financial year

During the financial year, 3,387,000 options (previously issued to specific executives as part of their remuneration) vested and were exercised.

### Directors' interests

The relevant interest of each Director and their related entities in the share capital of the Company, as notified by the Directors to the Australian Securities Exchange in accordance with Section 205G (1) of the Corporations Law, at the date of this report is as follows:

## Directors' Report (continued)

### Remuneration report (audited) (continued)

| Hillgrove Resources Limited | Ordinary shares | Performance rights (issued under the OPRP) over ordinary shares |
|-----------------------------|-----------------|-----------------------------------------------------------------|
| <b>Directors</b>            |                 |                                                                 |
| <i>Executive</i>            |                 |                                                                 |
| Mr G C Hall                 | 636,800         | 7,750,000                                                       |
| <i>Non-Executive</i>        |                 |                                                                 |
| Hon. D C Brown              | 928,245         | -                                                               |
| Mr J E Gooding              | 147,647         | -                                                               |
| Mr E J Zemancheff           | 185,000         | -                                                               |
| Mr D N Snedden              | 599,203         | -                                                               |
| Mr M W Loomes               | 1,575,000       | -                                                               |

### KMP interests

The relevant interest of the key management personnel and their related entities in the share capital of the Company, at the date of this report is as follows:

| Hillgrove Resources Limited     | Ordinary shares | Rights over ordinary shares |
|---------------------------------|-----------------|-----------------------------|
| <b>Key Management Personnel</b> |                 |                             |
| Mr R L S Middleton              | 1,375,825       | 3,975,000                   |
| Mr S P McClare                  | 5,300,000       | 3,500,000                   |
| Mrs S Smith                     | 62,000          | 1,070,000                   |

### Rounding of Amounts

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

### Auditors Independence Declaration

The auditor (PricewaterhouseCoopers) continues as auditor in accordance with Section 327 of the Corporations Act 2001 and has signed an auditor's independence declaration on page 47.

Signed in accordance with a resolution of the Directors:

Dated at Sydney this 30<sup>th</sup> day of April 2014



**The Hon. Dean Brown, AO**  
Chairman



**Mr Gregory Hall**  
CEO and Managing Director



## Auditor's Independence Declaration

As lead auditor for the audit of Hillgrove Resources Limited for the year ended 31 January 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hillgrove Resources Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'John Campion', is positioned above the printed name and title.

John Campion  
Partner  
PricewaterhouseCoopers

Newcastle  
30 April 2014

**PricewaterhouseCoopers, ABN 52 780 433 757**  
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## Corporate Governance Statement

### Principle 1: Lay Solid Foundations for Management and Oversight

#### Role of the Board and Management

The Board is elected by shareholders to represent all shareholders – its primary role being the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity, including its strategic direction, establishing goals for management, monitoring the achievement of these goals, defining policies and monitoring the business of the controlled entity, to ensure it is conducted appropriately and in the best interests of shareholders.

The Board has adopted a Board Charter that sets out the delegations and responsibilities that have been put in place for the Company's executive team and the Board.

The Board of Directors (and, where relevant, any committees established by the Board) have delegated the carriage of the day to day operation and management of the Company's business to the Managing Director/Chief Executive Officer who is authorised, in turn, to delegate such of the powers conferred on them as is deemed appropriate to members of the executive team. The delegation of authority to the Chief Executive Officer and other executives is subject to the limits and restrictions set out in the Delegations of Authority Schedule.

In addition to attending the scheduled Board and Board Committee meetings during the year, Directors also spend time regularly with the company's personnel in order to gain a detailed knowledge and understanding of the Company's operations and associated risks and opportunities. The Board takes part in the Company's annual strategic planning process, risk management reviews and approves the business plan and budgets of the Company. The Board also receives and reviews comprehensive monthly management, financial and operational reports in relation to the Company performance.

All Directors and senior executives of the Company have in place formal appointment letters describing their terms, duties, rights and responsibilities and entitlements. Upon joining the company all Directors also receive an induction pack containing information about the Company including policies and procedures and other necessary information for them to familiarise themselves with the operations of the Company.

#### Assessing senior executive performance

The Board sets key performance indicators and targets for the Managing Director/Chief Executive Officer and the other senior executives and regularly reviews these and the performance against these targets throughout the year as well as formally at the end of the year.

Oversight of the assessment and performance of the Managing Director/Chief Executive Officer and the senior executives is provided by the Remuneration Committee and the Chairman of the Board. Formal assessments of performance for the Managing Director/Chief Executive Officer and the senior executives were completed during the current year as they are done each year.

Further details of how the Company assesses the performance of the Managing Director/Chief Executive Officer and executive team are set out in the Remuneration Report on pages 36 to 46.

### Principle 2: Structure the Board to Add Value

#### Board composition

The structure and composition of the Board complies with the Recommendations made by the ASX Corporate Governance Council. The majority of the Board are independent Non-Executive Directors. The Chairman of the Board is an independent Non-Executive Director, and the roles of the Chairman and Chief Executive are not performed by the same individual.

The Board endeavours to ensure it is comprised of a diverse selection of highly qualified and experienced individuals with the highest levels of integrity, suited to the needs of the Company. Each Director is bound by the Company's charters, policies, procedures and codes of conduct, including without limitation, the Company's Securities Trading Policy, Continuous Disclosure Policy and Directors Code of Conduct.

## Corporate Governance Statement (continued)

### Principle 2: Structure the Board to Add Value (continued)

#### Independence

The Board consists of a majority of Non-Executive Directors to ensure independence. The law and market perceptions regarding the issue of “independence” of Directors is developing and changing rapidly both in Australia and overseas. Best practice recommends that rigid rules regarding what ‘does and does not’ constitute independence is no longer appropriate. Rather, it is more appropriate to adopt a set of matters to which consideration should be given in order to determine whether or not a Director is independent.

At the time of a Director’s appointment and thereafter, the Board considers independence by having regard to the answers to the following questions:

- Is the Director a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company?
- Has the Director, within the last three years, been employed in an executive capacity by the Company or by any related body corporate, or been a Director after ceasing to hold any such employment?
- Within the last three years has the Director been a Principal of a material professional adviser; a material consultant to the Company or a related body corporate, or an employee materially associated with the service provided by such adviser or consultant to the Company?
- Is the Director a material supplier or customer of the Company or any related body corporate or an officer of or otherwise associated directly or indirectly with a material supplier or customer?
- Does the Director have a material contractual relationship with the Company or related body corporate other than as a director of the Company?
- Has the Director served on the Board of Directors for a period that could, or reasonably be perceived to, materially interfere with the Director’s ability to act in the best interests of the Company?
- Is the Director free from any interest and any business or other relationship that could, or reasonably be perceived to, materially interfere with the Director’s ability to act in the best interests of the Company?

Based on the above considerations the following Directors are considered by the Company to be independent:

- Mr D C Brown (Chairman)
- Mr E J Zemancheff
- Mr J E Gooding
- Mr J A Quirke
- Mr D N Snedden.

Mr G C Hall (Managing Director/Chief Executive Officer) and Mr M W Loomes are not considered to be independent.

#### Regular assessments

The Board regularly assesses the independence of its Non-Executive Directors. Each Director of the Company must provide to the Board of the Company all information regarding his or her interests that are relevant to his or her independence. Where the independence of a Director is lost, this must be immediately disclosed to the market.

#### Chair

The Chairman of the Board is responsible for the leadership of the Board. The Chairman of the Board, The Hon DC Brown AO is an independent Non-Executive Director. The roles of the Chair and CEO are not exercised by the same individual.

## **Corporate Governance Statement (continued)**

### **Principle 2: Structure the Board to Add Value (continued)**

#### **Nomination Committee and Board committees**

The Board has a Nomination Committee in place. The Chairman of the Nomination Committee is an independent Non-Executive Director and membership consists of five individuals a majority of whom are independent Non-Executive Directors.

The duties of the Nomination Committee cover the composition and performance of the Board, appointments to the Board of Directors, evaluation of Board performance, appointment and re-election of Directors and succession planning. The Committee usually meets twice a year. The Committee has a clear charter that sets out its roles, responsibilities and structure. The charter can be found on the Company's website at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

In addition to the Nomination Committee the Board also has in place the Risk and Audit Committee, Remuneration Committee and Treasury Committee. Each Committee presents a summary of its meeting to the next Board Meeting. The Committee Charters and the membership details of each Committee can be located on the Company's website. Details of the number of Board and Committee meetings held during the year, and each Director's attendance at those meetings are set out in the Directors' Report.

#### **Selection and appointment of Directors**

The selection and appointment of Directors is carried out by the Board based on the recommendations of the Nomination Committee. The Committee regularly reviews its membership to ensure it has the appropriate mix of skills and experience required to meet the needs of the Company. When a Board vacancy exists or where it is considered a Director with particular skills or experience is required, the Committee will make a recommendation to the Board to make an appointment of a candidate with the appropriate skills, qualifications and experience.

#### **Board performance**

All Directors of the Company have in place formal appointment letters describing their terms, duties, rights and responsibilities and entitlements. Upon joining the company all Directors also receive an induction pack containing information about the Company including policies and procedures and other necessary information for them to familiarise themselves with the operations of the Company. Directors can seek independent professional advice at the cost of the Company. Any such request is to be approved by the Chairman of the Board.

In addition to attending the scheduled Board and Board Committee meetings during the year, Directors also spend time regularly with the company's personnel in order to gain a detailed knowledge and understanding of the Company's operations and associated risks and opportunities. The Board takes part in the Company's annual strategic planning process; risk management reviews and approves the business plan and budgets of the Company. The Board also receives and reviews comprehensive monthly management, financial and operational reports in relation to the Company performance.

A strategic review was undertaken in November 2013 and covered areas of corporate development and Board skills and experience required to meet the next phase in the Company's development. The Board's criteria include board experience with current Corporate Governance guidelines, financial, shareholder value-adding and mining expertise. As a result of this meeting a refresh and potential downsizing of the Board, to remain in line with the Company's current market cap, was agreed.

As a result of this review, one Director retired and a new Director was appointed, and further measures announced which are expected to be completed during 2014. The Board also undertook to continue to evaluate its performance on an annual basis.

#### **Retirement and re-election of Directors**

Retirement and rotation of Directors is governed by the ASX Listing Rules and Clause 6.3 of the Company's Constitution. Each year one third of the Directors retire and may offer themselves for re-election.

## Corporate Governance Statement (continued)

### Principle 2: Structure the Board to Add Value (continued)

The Company's Constitution also requires that Directors, excluding the Managing Director/Chief Executive Officer, who have been appointed by the Board, must retire and stand for re-election at the next annual general meeting following their appointment.

#### Company Secretary

The Company Secretary has a direct reporting line to the Chairman of the Board and is accountable to the Board on all governance matters. All Directors of the Board have access to the Company Secretary.

### Principle 3: Promote Ethical and Responsible Decision Making

#### Code of business conduct and Directors code of conduct

All Directors, managers and employees of the Company are expected to act with the utmost integrity and objectivity, striving at all times to enhance the performance of the consolidated entity.

Below is a summary of the Company's core policies which apply to Directors and employees.

The Code of Business Conduct was adopted by the Board to define basic principles of business conduct. The Code of Business Conduct requires officers and employees to adhere to the law and various policies of the company referred to in this Code. The standards set out in this Code are a practical set of principles giving direction and reflecting the Company's approach to business conduct. Directors and management monitor compliance and will act on any actions which are inconsistent with this Code. All employees also have an obligation to advise the Company of any illegal or unethical practices of which they become aware.

In addition, to the Code of Business Conduct Directors are also bound by the Directors Code of Conduct which sets out the standards to which each Director will adhere whilst conducting his or her duties.

In addition to the Code of Business conduct and Directors Code of Conduct the Company has the following policies in place to actively promote ethical and responsible decision making. Details of these policies can be found on the Company's website [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au):

- Company Security Trading Policy
- Conflicts of Interest Policy
- Fraud and Corruption Policy
- Privacy Policy.

The Board has also committed to adopt the principles of Fame and Good Character with all Directors having completed checks including bankruptcy and insolvency and national crime and will advise the Company of any changes to their status.

#### Diversity

The Company has a vision to establish Hillgrove Resources as a successful employer by providing genuine support for the development of employee diversity in the workplace. The Company is committed to providing an inclusive workplace and organisational culture that embraces diversity and provides support for broad based equal opportunity programs, multicultural awareness and representation, and a focus on women in senior management. The Company already has a diverse workforce. The Company's current employment philosophy promotes a culture that values differences, and emphasises tolerance. The workforce in Sydney and Kanmantoo is gender, culturally and ethnically diverse. At the major employment site of Kanmantoo there are programmes in place that are intended to benefit local communities adjacent to the mine. Employment of local residents has been established in the objectives of senior officers at Kanmantoo and the company currently employs 20% local employees and an additional 53% from the immediate region.

## Corporate Governance Statement (continued)

### Principle 3: Promote Ethical and Responsible Decision Making (continued)

Currently the Company has no women on the Board or executive team, with one woman employed as Company Secretary. Three out of eleven in the combined executive and management team are women, with 14% women employed in the Company in total. During the recent changeover to owner operated mining, emphasis was given to recruiting employees living locally, and 11 new female employees joined the company at this time.

The Board acknowledges that diversity can be an economic driver of competitiveness and that studies show that increased gender diversity on Boards has been shown to be linked to better financial performance. The Board is currently looking at ways to further promote diversity in the Executive and on the Board. The Company has established a Diversity Policy and after the significant change to the style of workforce this year, is currently formulating measurable objectives in relation to the policy and these will be published and reported in due course. For further information please refer to the Company's Diversity Policy which can be found at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

### Principle 4: Safeguard Integrity in Financial Reporting

#### Audit and Risk Committee

The Board has an Audit and Risk Committee consisting of a majority of independent Non-Executive Directors. The chair of the Committee is independent and is not the Chairman of the Board.

The Committee is comprised of the following:

- Mr D N Snedden (Chairman)
- The Hon. D C Brown, AO
- Mr M W Loomes.

Details of these Directors' attendance at Audit Committee meetings are set out in the Directors' Report on page 15.

The Audit and Risk Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Company operates.

The main responsibilities of the Committee are to:

- review, assess and approve the annual report, the half-year financial report and all other financial information published by the company or released to the market;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations;
- oversee the effective operation of the risk management framework;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

## **Corporate Governance Statement (continued)**

### **Principle 4: Safeguard Integrity in Financial Reporting (continued)**

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Committee has a formal charter which can be found on the Company's website.

#### **External auditors**

The Company and Audit and Risk Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers (PwC) was appointed as the external auditor in 2005. It is PwC's policy to rotate audit engagement partners on listed companies in accordance with the requirements of the Corporations Act 2001, which is generally after five years, subject to certain exceptions. In accordance with that policy a new audit engagement partner was introduced for the year ended 31 January 2014.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in note 6 to the Financial Statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Committee.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

### **Principle 5: Make Timely and Balanced Disclosure**

The Company is committed to providing relevant up-to-date information to its shareholders and investors in accordance with the continuous disclosure requirements under the ASX Listing Rules. The Company reports periodically to the ASX yearly, half yearly and quarterly. The Company has a Continuous Disclosure Policy, which outlines the processes for identifying information for disclosure. The policy aims to ensure that all market sensitive matters concerning the company are disclosed on a timely and balanced basis. The Company's Continuous Disclosure Policy is available on the Company's website.

In relation to the reporting of Mineral Resource and Ore Reserve information the Company uses experts in the form of competent persons in accordance with JORC code requirements. In addition to this expertise, independent consultants are called upon to verify conclusions drawn where appropriate prior to release to the market.

### **Principle 6: Respect the Rights of Shareholders**

The Board aims to ensure that shareholders are informed of all major developments affecting the consolidated entity's state of affairs as follows:

- The full annual financial report is lodged with the ASX, and distributed to all shareholders who elect to receive a copy, and includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments, in addition to the other disclosures required.
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year financial report is lodged with the ASX and sent to any shareholder who requests it.
- Quarterly reports are also issued covering production status, costs and cash position.

All documents that are released publicly are available on the ASX internet website at [www.asx.com.au](http://www.asx.com.au) and the consolidated entity website at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au). All press releases and public presentations are placed on the Company website after release to the ASX.

## Corporate Governance Statement (continued)

### Principle 6: Respect the Rights of Shareholders (continued)

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to shareholders as single resolutions. Shareholders are requested to vote on matters such as the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors and changes to the Constitution.

The Company keeps a history of all relevant releases and financial information from the previous four years on its website at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

Copies of the Constitution are available to any shareholder who requests it.

### Principle 7: Recognise and Manage Risk

The Board acknowledges it is responsible for the overall internal control framework of the Company and examines the adequacy of the nature, extent and effectiveness of the internal control processes of the consolidated entity on an ongoing basis. The Board, via the Audit and Risk Committee, oversees and monitors the Company's audit processes, including the Company's internal financial and business control activities.

#### Management of risks

The risks involved in a diversified resources, exploration and production company, and the specific uncertainties for the Company, are regularly monitored and reviewed.

The Company undertakes corporate risk reviews in order to ensure that risks are evaluated in terms of likelihood and consequence. The specific risks are then assessed in terms of the risk category and assigned risk treatments to manage, mitigate or eliminate the risk.

The risk framework and matrix is reported to and reviewed twice yearly by the Audit and Risk Committee and the Board to ensure an appropriate framework is in place and that risk levels and necessary actions are managed in line with the Company's risk tolerance set by the Board.

The Company has in place a Risk Management Policy which also forms part of the internal controls and corporate governance arrangement of the Company. The objective of the Risk Management Policy is to support the objectives of the Company by:

- identifying risks and formulating actions for management, mitigation or elimination of these risks;
- promoting a more risk aware culture throughout the Company; and
- protection of the Company's assets and image.

#### Internal control framework

The Company adopts internal processes and procedures for the effective management of risk:

- monthly management reporting including operations, finances, safety incidents and performance;
- delegation of Authority Policy setting out authority levels for all employees and officers;
- capital expenditure request process that requires a business case and justification prior to any capital spend;
- yearly strategic planning and business plan/budget process with all budgets and plans reviewed and approved by the Board;
- safety management; and
- environmental management.

## Corporate Governance Statement (continued)

### Principle 7: Recognise and Manage Risk (continued)

#### Financial commodity risk and hedging

A comprehensive financial and commodity risk management program supports the achievement of the Company objectives by enabling the identification and evaluation of risks, setting acceptable risk thresholds, identifying and mapping controls against these risks, and implementing policies and procedures to manage and monitor the risks.

The Company has in place a Financial Commodity Risk and Hedging Policy and this policy establishes the financial and commodity risk management framework and defines the procedures and controls for the effective management of the Company's risks that arise through the copper, gold and silver mining activities it conducts.

The policy guides all activities for managing commodity and foreign exchange transactional risks faced by the Company. Hedge strategies are focused primarily on the management of market price risk while the Financial Commodity Risk and Hedging Policy also covers credit risk that arises from any hedging contracts that are used to manage market price risk, together with other risks such as operational, accounting and liquidity risks. The policy is regularly reviewed and updated and can be found on the Company's website at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

The Board has received assurance from the Managing Director/Chief Executive Officer and the Chief Financial Officer for the financial statements and records for the year ended 31 January 2014 in the form of a declaration provided in accordance with s295 of the Corporations Act.

### Principle 8: Remunerate Fairly and Responsibly

#### Remuneration Committee

The Remuneration Committee advises the Board on remuneration and incentive policies, and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, senior executives and Non-Executive Directors. Committee members receive briefings as required from an external independent remuneration expert on recent developments on remuneration and related matters.

The Committee has a formal charter that sets out its roles and responsibilities, composition and structure and a Remuneration and Benefits Policy that clearly sets out the structure of and distinguishes between remuneration for Non-Executive Directors, Executive Directors and other key executives. This charter and policy can be found on the Company's website.

The Remuneration Committee is composed of the following Non-Executive Directors all of whom are independent:

- Mr E J Zemancheff (Chairman)
- The Hon. D C Brown, AO
- Mr J E Gooding
- Mr D N Snedden.

Details of these Directors attendance at Remuneration Committee meetings are set out in the Directors' Report on page 15.

For further details in relation to Director and executive remuneration please refer to the Remuneration Report in the Directors Report.

# Annual Financial Report – 31 January 2014

## Contents

|                                                | Page |
|------------------------------------------------|------|
| Financial Statements                           | 56   |
| Consolidated Income Statement                  | 57   |
| Consolidated Statement of Comprehensive Income | 58   |
| Consolidated Balance Sheet                     | 59   |
| Consolidated Statement of Changes in Equity    | 60   |
| Consolidated Cash Flow Statement               | 61   |
| Notes to the Financial Statements              | 62   |
| Directors' Declaration                         | 112  |
| Independent Auditor's Report to the Members    | 113  |

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

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

Hillgrove Resources Limited  
Suite 1709, Level 17 Australia Square Tower  
264-278 George Street  
Sydney NSW 2000

The financial statements were authorised for issue by the Directors on 30 April 2014. The Directors have the power to amend and reissue the financial statements.

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

## Consolidated Income Statement For the year ended 31 January 2014

|                                                                                                           | Note | 2014<br>\$'000 | 2013<br>\$'000  |
|-----------------------------------------------------------------------------------------------------------|------|----------------|-----------------|
| Revenue from sale of concentrates                                                                         | 4    | 139,157        | 115,395         |
| Other income                                                                                              | 5    | 793            | 1,210           |
| Cost of production                                                                                        |      | (84,125)       | (89,790)        |
| Changes in inventories of ore and concentrate                                                             |      | (79)           | 9,114           |
| Materials and services costs                                                                              |      | (4,993)        | (4,007)         |
| Employee benefit expenses                                                                                 |      | (6,650)        | (6,204)         |
| Royalties expense                                                                                         |      | (1,605)        | (1,420)         |
| Foreign exchange losses                                                                                   |      | (1,385)        | (111)           |
| Unrealised losses on derivative financial instruments                                                     | 28   | (289)          | (5,741)         |
| Share of net profit from associates                                                                       |      | -              | 651             |
| Impairment of assets                                                                                      |      | -              | (803)           |
| Impairment of available for sale financial assets                                                         |      | (315)          | (704)           |
| Impairment of exploration expenditure                                                                     |      | -              | (727)           |
| Gain / (Loss) on disposal of assets                                                                       |      | 11             | (3)             |
| Depreciation and amortisation expenses                                                                    | 6    | (29,157)       | (26,492)        |
| Corporate and other administration costs                                                                  |      | (3,218)        | (4,422)         |
| Financing expenses                                                                                        | 6    | (5,898)        | (6,525)         |
| <b>Profit / ( Loss) before income tax</b>                                                                 |      | <b>2,247</b>   | <b>(20,579)</b> |
| Income tax (expense) / benefit                                                                            | 7    | (751)          | 8,794           |
| <b>Profit / (Loss) for the year</b>                                                                       |      | <b>1,496</b>   | <b>(11,785)</b> |
| <b>Profit / (Loss) for the year is attributable to:</b>                                                   |      |                |                 |
| Equity holders of Hillgrove Resources Limited                                                             |      | 1,496          | (11,206)        |
| Non-controlling interests                                                                                 |      | -              | (579)           |
|                                                                                                           |      | <b>1,496</b>   | <b>(11,785)</b> |
| <b>Earnings per share for Profit / (Loss) attributable to the ordinary equity holders of the Company:</b> |      |                |                 |
|                                                                                                           |      | <b>Cents</b>   | <b>Cents</b>    |
| Basic earnings per share                                                                                  | 8    | 0.14           | (1.24)          |
| Diluted earnings per share                                                                                | 8    | 0.13           | (1.24)          |

The Consolidated Income Statement is to be read in conjunction with the notes to the financial statements set out on pages 62 to 111.

## Consolidated Statement of Comprehensive Income For the year ended 31 January 2014

|                                                                    | Note | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------------------|------|----------------|----------------|
| <b>Profit / (Loss) for the year</b>                                |      | 1,496          | (11,785)       |
| <b>Other comprehensive income</b>                                  |      |                |                |
| <i>Items that may be reclassified to profit or loss</i>            |      |                |                |
| Available-for-sale financial assets                                | 26   | (167)          | 86             |
| Employee share option plan                                         | 26   | 471            | (100)          |
| Exchange differences on translation of foreign operations          | 26   | (642)          | -              |
| Unrealised (loss) / gain on cash flow hedges taken to equity       | 26   | (5,112)        | 5,483          |
| Income tax relating to components of other comprehensive income    | 26   | 1,533          | (1,645)        |
| <b>Other comprehensive income for the year (net of tax)</b>        |      | (3,917)        | 3,824          |
| <b>Total comprehensive income for the year</b>                     |      | <b>(2,421)</b> | <b>(7,961)</b> |
| <b>Total comprehensive income for the year is attributable to:</b> |      |                |                |
| Equity holders of Hillgrove Resources Limited                      |      | (2,421)        | (7,961)        |
| Non-controlling interests                                          |      | -              | -              |
|                                                                    |      | <b>(2,421)</b> | <b>(7,961)</b> |

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 62 to 111.

## Consolidated Balance Sheet As at 31 January 2014

|                                      | Note | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------|------|----------------|----------------|
| <b>Current assets</b>                |      |                |                |
| Cash and cash equivalents            | 9    | 16,452         | 27,405         |
| Trade and other receivables          | 10   | 5,024          | 6,398          |
| Available-for-sale financial assets  | 11   | 192            | 733            |
| Inventories                          | 12   | 26,162         | 19,731         |
| Derivative financial instruments     | 28   | 4,016          | 4,570          |
| <b>Total current assets</b>          |      | <b>51,846</b>  | <b>58,837</b>  |
| <b>Non-current assets</b>            |      |                |                |
| Property, plant and equipment        | 13   | 225,680        | 233,158        |
| Intangible assets                    | 14   | 279            | 615            |
| Exploration and evaluation expenses  | 15   | 30,550         | 27,440         |
| Derivative financial instruments     | 28   | -              | 3,044          |
| Deferred tax asset                   | 17   | 13,845         | 12,879         |
| <b>Total non-current assets</b>      |      | <b>270,354</b> | <b>277,136</b> |
| <b>Total assets</b>                  |      | <b>322,200</b> | <b>335,973</b> |
| <b>Current liabilities</b>           |      |                |                |
| Trade and other payables             | 18   | 23,936         | 39,993         |
| Provisions                           | 19   | 404            | 451            |
| Borrowings                           | 20   | 30,619         | 29,461         |
| Employee benefits payable            | 21   | 3,017          | 1,571          |
| Derivative financial instruments     | 28   | 4,491          | 4,227          |
| <b>Total current liabilities</b>     |      | <b>62,467</b>  | <b>75,703</b>  |
| <b>Non-current liabilities</b>       |      |                |                |
| Provisions                           | 22   | 11,363         | 9,807          |
| Deferred tax liability               | 23   | -              | -              |
| Borrowings                           | 24   | 11,050         | 20,806         |
| Derivative financial instruments     | 28   | 8,781          | 9,047          |
| <b>Total non-current liabilities</b> |      | <b>31,194</b>  | <b>39,660</b>  |
| <b>Total liabilities</b>             |      | <b>93,661</b>  | <b>115,363</b> |
| <b>Net assets</b>                    |      | <b>228,539</b> | <b>220,610</b> |
| <b>Equity</b>                        |      |                |                |
| Contributed equity                   | 25   | 206,860        | 196,510        |
| Reserves                             | 26   | (3,320)        | 597            |
| Retained profits                     | 27   | 24,999         | 23,503         |
| <b>Total equity</b>                  |      | <b>228,539</b> | <b>220,610</b> |

The Consolidated Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 62 to 111.

## Consolidated Statement of Changes in Equity

### For the year ended 31 January 2014

|                                                      | Contributed<br>equity<br>\$'000 | Reserves<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>\$'000 | Non-<br>controlling<br>interests<br>\$'000 | Total<br>equity<br>\$'000 |
|------------------------------------------------------|---------------------------------|--------------------|--------------------------------|-----------------|--------------------------------------------|---------------------------|
| <b>Balance 1 February 2012</b>                       | 178,343                         | (3,227)            | 34,709                         | 209,825         | 193                                        | 210,018                   |
| <b>Loss for the year</b>                             | -                               | -                  | (11,206)                       | (11,206)        | (579)                                      | (11,785)                  |
| <b>Other comprehensive<br/>income for the year</b>   | -                               | 3,824              | -                              | 3,824           | -                                          | 3,824                     |
| <b>Transactions with owners:</b>                     |                                 |                    |                                |                 |                                            |                           |
| Contributions of equity, net<br>of transaction costs | 18,167                          | -                  | -                              | 18,167          | -                                          | 18,167                    |
| Non-controlling interests                            | -                               | -                  | -                              | -               | 386                                        | 386                       |
| <b>Balance 31 January 2013</b>                       | 196,510                         | 597                | 23,503                         | 220,610         | -                                          | 220,610                   |
| <b>Profit for the year</b>                           | -                               | -                  | 1,496                          | 1,496           | -                                          | 1,496                     |
| <b>Other comprehensive<br/>income for the year</b>   | -                               | (3,917)            | -                              | (3,917)         | -                                          | (3,917)                   |
| <b>Transactions with owners:</b>                     |                                 |                    |                                |                 |                                            |                           |
| Contributions of equity, net<br>of transaction costs | 10,350                          | -                  | -                              | 10,350          | -                                          | 10,350                    |
| <b>Balance 31 January 2014</b>                       | 206,860                         | (3,320)            | 24,999                         | 228,539         | -                                          | 228,539                   |

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 62 to 111.

## Consolidated Cash Flow Statement For the year ended 31 January 2014

|                                                              | Note | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------------|------|----------------|----------------|
| <b>Cash flows from operating activities</b>                  |      |                |                |
| Cash receipts in the course of operations                    |      | 121,328        | 106,832        |
| Cash payments in the course of operations                    |      | (107,544)      | (75,314)       |
| <b>Net cash provided by operating activities</b>             | 31   | 13,784         | 31,518         |
| <b>Cash flows from investing activities</b>                  |      |                |                |
| Payments for exploration and evaluation expenditure          |      | (3,751)        | (8,627)        |
| Payments for property, plant and equipment                   |      | (18,996)       | (38,104)       |
| Proceeds on sale of available for sale financial assets      |      | 46             | -              |
| Proceeds from sale of investment in subsidiary               |      | -              | 320            |
| Dividends from associate                                     | 16   | -              | 279            |
| Capital distribution from associate                          | 16   | -              | 459            |
| Proceeds on sale of plant and equipment                      |      | 453            | 5              |
| <b>Net cash used in investing activities</b>                 |      | (22,248)       | (45,668)       |
| <b>Cash flows from financing activities</b>                  |      |                |                |
| Proceeds from issue of shares                                | 25   | 10,759         | 18,570         |
| Transaction costs from issue of shares                       | 25   | (593)          | (782)          |
| Repayment of borrowings                                      |      | (9,826)        | (5,894)        |
| Repayments of deferred settlement on construction contracts  |      | -              | (2,872)        |
| Interest received from investments                           |      | 460            | 870            |
| Interest paid on borrowings                                  |      | (3,289)        | (3,998)        |
| Proceeds from borrowings                                     |      | -              | 15,000         |
| <b>Net cash (used in) / provided by financing activities</b> |      | (2,489)        | 20,894         |
| <b>Net (decrease) / increase in cash held</b>                |      | (10,953)       | 6,744          |
| Cash at beginning of financial year                          |      | 27,405         | 20,661         |
| <b>Cash at end of the financial year</b>                     | 9    | 16,452         | 27,405         |

The Consolidated Cash Flow Statement is to be read in conjunction with the notes to the financial statements set out on pages 62 to 111.

## Notes to the Financial Statements

### For the year ended 31 January 2014

#### Contents

|                                                                            | Page |
|----------------------------------------------------------------------------|------|
| 1. Statement of significant accounting policies                            | 63   |
| 2. Critical accounting estimates and judgements                            | 76   |
| 3. Financial reporting by segment                                          | 78   |
| 4. Revenue                                                                 | 80   |
| 5. Other Income                                                            | 80   |
| 6. Expenses                                                                | 81   |
| 7. Income tax expense                                                      | 82   |
| 8. Earnings per share                                                      | 84   |
| 9. Current assets – Cash and cash equivalents                              | 85   |
| 10. Current assets – Trade and other receivables                           | 85   |
| 11. Current assets – Available-for-sale financial assets                   | 86   |
| 12. Current assets – Inventories                                           | 86   |
| 13. Non-current assets – Property, plant and equipment                     | 87   |
| 14. Non-current assets – Intangibles                                       | 89   |
| 15. Non-current assets – Exploration and evaluation expenditure            | 89   |
| 16. Non-current assets – Investments accounted for using the equity method | 89   |
| 17. Non-current assets – Deferred tax assets                               | 90   |
| 18. Current liabilities – Trade and other payables                         | 90   |
| 19. Current liabilities – Provisions                                       | 90   |
| 20. Current liabilities – Borrowings                                       | 91   |
| 21. Current liabilities – Employee benefits payable                        | 91   |
| 22. Non-current liabilities – Provisions                                   | 92   |
| 23. Non-current liabilities – Deferred tax liability                       | 92   |
| 24. Non-current liabilities – Borrowings                                   | 93   |
| 25. Contributed equity                                                     | 93   |
| 26. Reserves                                                               | 94   |
| 27. Retained profits                                                       | 96   |
| 28. Financial risk management                                              | 96   |
| 29. Subsidiaries                                                           | 103  |
| 30. Commitments                                                            | 104  |
| 31. Notes to the cash flow statement                                       | 105  |
| 32. Key management personnel disclosures                                   | 106  |
| 33. Related party transactions                                             | 108  |
| 34. Events subsequent to the balance sheet date                            | 108  |
| 35. Contingent liabilities                                                 | 109  |
| 36. Share-based payments                                                   | 109  |
| 37. Parent entity information                                              | 111  |

## Notes to the Financial Statements For the year ended 31 January 2014

### 1. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

#### Going concern

As at 31 January 2014 the group had a working capital deficiency of \$10,621k (31 January 2013: negative working capital of \$16,866k). This is mainly due to the reclassification of \$10.8m of borrowings from Non-Current to Current. 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.

The Profit for the year ended 31 January 2014 of \$1,496k (31 January 2013: loss of \$11,785k) is primarily due to a significant improvement in EBITDA for the period, offset mainly by costs and lower production during the new mining plan implementation.

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.

#### Compliance with IFRSs

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

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets to fair value through equity and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

#### Critical accounting estimates

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

#### (b) Principles of consolidation

##### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hillgrove Resources Limited ("Company" or "parent entity") as at 31 January 2014 and the results of all subsidiaries for the year then ended. Hillgrove Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Non-controlling interests in the results and equity of the subsidiaries are shown separately in the consolidated income statement.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(h)).

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

##### (ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

##### (d) Foreign currency translation

###### (i) Functional and presentation currency

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

###### (ii) Transactions and balances

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

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

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

##### (e) Revenue recognition

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

The Group recognises revenue when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been for each of the Group's activities as described below. The amount of the revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results taking into account the type of customer, the type of transaction, and the specifics of each arrangement.

The Group sells copper concentrate and sales of product are recognised when a group entity has delivered the commodities to the customer. Delivery does not occur until the product has either been sold at the port to the customer or has been loaded onto a ship on the basis of a CIF sale.

The market price of the copper in concentrate is declared by the customer one calendar month prior to the month of shipment. The price can be declared as either one of, one month before the month of shipment or 5 months after the month of arrival at the discharge port.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset. Commodity revenue is recognised at the date of shipping.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

##### (f) Income tax

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

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Hillgrove Resources Limited and its wholly-owned Australian controlled entities are entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditures (e.g. the Research and Development Tax incentive regime in Australia). The Group accounts for such allowances as tax credits, which means the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Hillgrove Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. On adoption of the legislation, the entities in the tax consolidated group entered into a tax sharing agreement and a tax funding agreement. Further details of these agreements can be found in Note 7.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

##### (g) Leases

Leases of property, plant and equipment where the Group substantially holds all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

##### (h) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Acquisition related costs, other than those relating to the issue of equity instruments, are recognised in profit or loss as incurred. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

##### (i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

##### (g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

##### (k) Investments and other financial assets

###### Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

###### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

###### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

###### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

###### (iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

###### (v) Recognition and measurement

Purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially measured at fair value.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

###### (vi) Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

##### (vii) Impairment

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

##### (l) Trade receivables

Trade receivables are recognised initially at fair value. Early payments are made within 3 days of invoice based on 85% of the value. First provisional payment (10%) is made upon shipment and paid within 3 days. Second provisional payment (5%) is made within 45 days of shipment.

##### (m) Derivative financial instruments and hedging activities

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

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

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

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 28. Movements on the hedging reserve in other comprehensive income are shown in Note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

##### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) – net'. Changes in the fair value of the derivative attributable to hedged risk are recognised in the income statement within the respective income or expense line item (e.g. 'finance cost' if hedging interest rate risk; 'revenue' if hedging forecasted future sales).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity.

##### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/(losses) – net'.

##### (n) Inventories

Inventory in process and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and directly attributable plant hire. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

##### (o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

##### (p) Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets, excluding mine development is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

|                                     |                         |
|-------------------------------------|-------------------------|
| • Buildings                         | 10 years                |
| • Furniture, fittings and equipment | 3 - 8 years             |
| • Plant and equipment               | 10 - 15 years           |
| • Vehicles                          | 4 - 6 years             |
| • Mine development                  | Production/Total Output |

Mine development is depreciated based on units of production, proportionate to the forecast output of the mine.

Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

##### (q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days from the end of month of tax invoice date.

##### (r) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

##### (s) Borrowing costs

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

##### (t) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through the sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs include mine infrastructure, pre-production development costs, development excavation, project execution costs and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment. Development costs are carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward development costs are to be amortised on a units of production basis over the life of economically recoverable reserves.

Development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, development assets are allocated to cash-generating units to which the development activity relates. The cash generating unit shall not be larger than the area of interest.

##### (u) Intangible assets

Costs incurred in developing systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or costs reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over three years.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

##### (v) Provisions for close down, restoration and for environmental clean-up costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs.

The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period where material. The amortisation of the discount is shown as a financial cost, rather than as an operating cost.

Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within fixed assets. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance sheet date. All other costs of continuous rehabilitation are charged to the income statement as incurred.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the balance sheet date. These costs are charged to the income statement. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwind of the discount which is shown as a financing cost.

##### (w) Employee benefits

###### (i) Wages and salaries, annual leave, sick leave and superannuation

Liabilities for wages and salaries, including non-monetary benefits, annual leave, accumulating sick leave, and superannuation expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

###### (ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

###### (iii) Share-based payments

Share-based compensation benefits were provided to employees and contractors via the Employee Share Option Plan and Executive Performance Rights plan. These plans have now been replaced by the Options and Performance Rights Plan (OPRP). The securities issued under these plans are collectively referred to as options throughout the financial statements.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model (for options issued under the Employee Share Option Plan) or a binomial approximation option valuation model and a Monte Carlo simulation model (for Executive Performance Rights and Options and Performance Rights plans). All models take into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, service periods). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense over the vesting period.

##### (x) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

##### (y) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance sheet date.

##### (z) Earnings per share

###### (i) Basic earnings per share

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

###### (ii) Diluted earnings per share

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

##### (aa) Goods and Services Tax (GST)

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

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

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

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

##### (bb) Parent entity financial information

The financial information for the parent entity, Hillgrove Resources Limited, disclosed in Note 37 has been prepared on the same basis as the consolidated financial statements, except as set out below.

##### (i) Investments in subsidiaries and associates

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

##### (ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

##### (iii) Share based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

##### (cc) 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.

##### (dd) Standards and interpretations in issue

###### *Standards adopted in the current reporting period*

**AASB 2011-9 "Presentation of items of other comprehensive income"**. The company has separated items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future (e.g. deferred gains and losses on hedges).

**AASB 10 and AASB 12, revised AASB 127 and AASB 128 "Consolidations, joint arrangements and associated disclosures"**. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and separate financial statements*, and Interpretation 12 *Consolidation – special purpose entities*. AASB 12 sets out the required disclosures for entities reporting under the two new standards - AASB 10 and AASB 11 - and replaces the disclosure requirements currently found in AASB 127, AASB 128 and AASB 131. This has not impacted the current period's results.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 1. Statement of significant accounting policies (continued)

**AASB 13 “Fair value measurement”.** AASB 13 is prospective in application. The standard explains how to measure fair value and aims to enhance fair value disclosures; it does not change when an entity is required to use fair value to measure an asset or liability. For the year ended 31 January 2014, this has resulted in some minor changes to the method of valuation of commodity derivatives.

**AASB 119 (Revised 2011) “Employee Benefits”.** This amendment to AASB 119 requires employee benefits to be distinguished between short-term and long-term. This has resulted in some minor changes to the classification of annual leave obligations, and has a minor effect on the presentation of remuneration disclosures.

**IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”.** The accounting treatment changed during the year by the implementation of IFRIC 20 which specifies the accounting for production phase stripping costs only. The Group’s accounting policy for production phase stripping costs for 2014 and previous years was to defer costs where this was the most appropriate basis for matching the costs against the related economic benefits and the effect was material.

#### *Standards and interpretations in issue not yet adopted*

**AASB 9 “Financial Instruments”.** Addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of AASB 139 “Financial Instruments: Recognition and Measurement” that relate to the classification and measurement of financial instruments. The Group has not early-adopted any parts of the standard. As a general rule it will be easier to apply hedge accounting going forward.

**AASB 1053 “Application of Tiers of Australian Accounting Standards”.** A reduced disclosure regime (the first stage of implementation) which introduces a second tier to the current financial reporting framework. There is no impact to listed entities.

**IFRIC 21 “Accounting for levies”.** Clarifies when to recognise a liability to pay a levy. A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation. IFRIC 21 does not apply to items that are within the scope of other Standards (such as income taxes that are within the scope of AASB 112 Income Taxes) or fines and penalties. The pronouncement is applicable for annual reporting periods commencing 1 January 2014.

**AASB 2013-3 Limited amendment Impairment disclosures.** Amendments to the disclosures required by AASB 136 *Impairment of Assets* around the requirement to disclose the recoverable amount of an asset or cash generating unit (CGU), and the disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. The pronouncement is applicable for annual reporting periods commencing 1 January 2014.

#### 2. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 2. Critical Accounting Estimates and Judgements (continued)

##### (i) Exploration Costs

The Group accumulates certain costs associated with exploration activities on specific areas of interest where the Group has rights of tenure. The Group's policy is to expense any exploration and associated costs relating to non-specific projects and properties. Significant property acquisition, exploration, evaluation and development costs relating to specific properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is sold, abandoned or placed into production.

Costs are also deferred where exploration and evaluation activities in the area of interest have not reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves.

No costs are deferred on a mineral property that is considered to be impaired in value. As at 31 January 2014, the Group has capitalised exploration costs of approximately \$30.5 million (2013: \$27.4 million). During the year, \$3.1 million was capitalised as Exploration costs.

##### (ii) Restoration, rehabilitation and environmental expenditure

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

Provision is made for the costs of decommissioning and site rehabilitation costs when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs as outlined in Note 19 and 22.

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

##### (iii) Impairment of exploration, evaluation and development costs

Key estimates and assumptions used to determine whether exploration, evaluation and development costs are impaired are described in Note 15.

The determination of economically recoverable reserves and remaining mine life affects the carrying value of a number of the Group's assets and liabilities including deferred exploration and evaluation expenses and the rehabilitation provision.

##### (iv) Share-based payments

The key estimates and assumptions used by management in order to determine the fair value of share-based payments are described in Note 36.

##### (v) Valuation of financial instruments

As described in Note 28(d), Hillgrove uses valuation techniques that include observable inputs for the asset or liability that are not quoted prices in active markets for identical assets and liabilities. Note 28(d) provides detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

## Notes to the Financial Statements For the year ended 31 January 2014 (continued)

### 2. Critical Accounting Estimates and Judgements (continued)

#### (vi) Ore Reserve estimates

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

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

#### (vii) Income tax

In calculating the tax expense for the current period the Group has estimated the Research and Development costs for the year 2014 as \$2,950,000. This has resulted in the current tax expense and current tax payable being reduced by \$295,000.

#### (viii) Deferred Mining Expenditure

The Group defers mining costs incurred during the production stage of its operations which are calculated in accordance with accounting policy. Changes in individual operating pits will generally result in changes to the ratio of waste to contained copper (life of mine, pit/stage). As a result, changes to deferred mining can change on a pit to pit basis without a change to the life of mine ratios and are accounted for prospectively.

### 3. Financial Reporting by Segment

Management has determined the operating segments based on the reports reviewed by the Executive and Board, as the chief operating decision maker. These reports focus on geography and indicate two reportable operating segments:

**Australia** – Mineral extraction and production

**Indonesia** – Mining exploration in Sumba and Birds Head

Within the Australia reporting segment, management reviews its production operations separate from 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 reportable segments 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.

#### Revenue from major products and services

Hillgrove's product is copper concentrate. All external revenue recognised in the segment note relates to copper concentrate.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 3. Financial Reporting by Segment (continued)

|                                                          | Australia       |                     | Indo-<br>nesia | Consol<br>-idated | Australia       |                     | Indo-<br>nesia | Consol<br>-idated |
|----------------------------------------------------------|-----------------|---------------------|----------------|-------------------|-----------------|---------------------|----------------|-------------------|
|                                                          | Copper          | Other<br>operations |                |                   | Copper          | Other<br>operations |                |                   |
|                                                          | \$'000          | \$'000              | \$'000         | \$'000            | \$'000          | \$'000              | \$'000         | \$'000            |
|                                                          | 31 January 2014 |                     |                |                   | 31 January 2013 |                     |                |                   |
| Revenue from sale of concentrates                        | 139,157         | -                   | -              | 139,157           | 115,395         | -                   | -              | 115,395           |
| Other income                                             | 81              | 47                  | 218            | 346               | 16              | 211                 | 178            | 405               |
| Cost of production                                       | (84,125)        | -                   | -              | (84,125)          | (89,790)        | -                   | -              | (89,790)          |
| Changes in inventories of ore and concentrate - cash     | (209)           | -                   | -              | (209)             | 7,216           | -                   | -              | 7,216             |
| Materials and services costs                             | (4,993)         | -                   | -              | (4,993)           | (4,007)         | -                   | -              | (4,007)           |
| Employee benefit expenses                                | (2,470)         | (3,792)             | (388)          | (6,650)           | (2,423)         | (3,781)             | -              | (6,204)           |
| Royalties expense                                        | (1,605)         | -                   | -              | (1,605)           | (1,420)         | -                   | -              | (1,420)           |
| Foreign exchange gains/ (losses)                         | (1,388)         | 5                   | (2)            | (1,385)           | 238             | (1)                 | (348)          | (111)             |
| Corporate and other administration costs                 | (1,132)         | (1,989)             | (97)           | (3,218)           | (94)            | (4,324)             | (4)            | (4,422)           |
| <b>Adjusted EBITDA</b>                                   | <b>43,316</b>   | <b>(5,729)</b>      | <b>(269)</b>   | <b>37,318</b>     | <b>25,131</b>   | <b>(7,895)</b>      | <b>(174)</b>   | <b>17,062</b>     |
| Depreciation and amortisation expenses                   | (29,040)        | (108)               | (9)            | (29,157)          | (26,304)        | (150)               | (38)           | (26,492)          |
| Unrealised (losses) on derivative financial instruments  | (289)           | -                   | -              | (289)             | (5,741)         | -                   | -              | (5,741)           |
| Share of net profit from associates                      | -               | -                   | -              | -                 | -               | 651                 | -              | 651               |
| Impairment of assets                                     | -               | -                   | -              | -                 | (756)           | (47)                | -              | (803)             |
| Impairment of available for sale financial assets        | -               | (315)               | -              | (315)             | -               | (704)               | -              | (704)             |
| Impairment of exploration expenditure                    | -               | -                   | -              | -                 | -               | (727)               | -              | (727)             |
| Gain / (loss) from disposal of fixed assets              | 10              | 1                   | -              | 11                | (3)             | -                   | -              | (3)               |
| Changes of inventories of ore and concentrate – non cash | 130             | -                   | -              | 130               | 1,898           | -                   | -              | 1,898             |
| <b>EBIT</b>                                              | <b>14,127</b>   | <b>(6,151)</b>      | <b>(278)</b>   | <b>7,698</b>      | <b>(5,775)</b>  | <b>(8,872)</b>      | <b>(212)</b>   | <b>(14,859)</b>   |
| Net financing income / expenses                          | (4,761)         | (689)               | (1)            | (5,451)           | (4,988)         | (732)               | -              | (5,720)           |
| <b>EBT</b>                                               | <b>9,366</b>    | <b>(6,840)</b>      | <b>(279)</b>   | <b>2,247</b>      | <b>(10,763)</b> | <b>(9,604)</b>      | <b>(212)</b>   | <b>(20,579)</b>   |
| Income Tax (expense) / benefit                           |                 |                     |                | (751)             |                 |                     |                | 8,794             |
| <b>Net profit / (loss) after tax</b>                     |                 |                     |                | <b>1,496</b>      |                 |                     |                | <b>(11,785)</b>   |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 3. Financial Reporting by Segment (continued)

##### Geographical information

Hillgrove's external revenues are derived from the USA, with the final destination for copper concentrate being China.

|                                         | Australia       |                     | Indo-<br>nesia | Consol-<br>idated | Australia       |                     | Indo-<br>nesia | Consol-<br>idated |
|-----------------------------------------|-----------------|---------------------|----------------|-------------------|-----------------|---------------------|----------------|-------------------|
|                                         | Copper          | Other<br>operations |                |                   | Copper          | Other<br>operations |                |                   |
|                                         | \$'000          | \$'000              | \$'000         | \$'000            | \$'000          | \$'000              | \$'000         | \$'000            |
|                                         | 31 January 2014 |                     |                |                   | 31 January 2013 |                     |                |                   |
| <b>Segment assets</b>                   | 263,225         | 29,456              | 29,519         | 322,200           | 271,587         | 37,755              | 26,631         | 335,973           |
| <b>Additions to non-current assets*</b> | 21,821          | 24                  | 3,066          | 24,911            | 38,647          | 330                 | 9,448          | 48,425            |
| <b>Segment liabilities</b>              | 81,124          | 12,467              | 70             | 93,661            | 102,586         | 12,381              | 396            | 115,363           |

\* Other than financial assets and deferred tax

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

|                           | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------|----------------|----------------|
| <b>Non-current assets</b> |                |                |
| Australia                 | 227,017        | 234,777        |
| Indonesia                 | 29,492         | 26,436         |
|                           | <u>256,509</u> | <u>261,213</u> |

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

##### Information about major customers

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

#### 4. Revenue from Sale of Concentrates

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| Revenue from sale of concentrates | 139,157        | 115,395        |
| <b>Total Revenue</b>              | <u>139,157</u> | <u>115,395</u> |

#### 5. Other Income

|                            |            |              |
|----------------------------|------------|--------------|
| Interest                   | 447        | 805          |
| Other income               | 346        | 194          |
| Gain on sale of investment | -          | 211          |
| <b>Total other income</b>  | <u>793</u> | <u>1,210</u> |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 6. Expenses

Profit before income tax includes the following expenses:

|                                                        | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------|----------------|----------------|
| <b>Depreciation and amortisation</b>                   |                |                |
| Computer and equipment                                 | 170            | 212            |
| Furniture and fittings                                 | 11             | 14             |
| Motor vehicles                                         | 172            | 151            |
| Leasehold improvements                                 | -              | 7              |
| Mine development                                       | 16,732         | 14,621         |
| Plant and equipment                                    | 11,736         | 11,152         |
| Intangible assets                                      | 336            | 335            |
| <b>Total depreciation and amortisation</b>             | <b>29,157</b>  | <b>26,492</b>  |
| <b>Operating lease payments</b>                        | <b>269</b>     | <b>296</b>     |
| <b>Finance costs</b>                                   |                |                |
| Bank charges and fees                                  | 1,108          | 1,129          |
| Discount on unwind of rehabilitation provision         | 719            | 261            |
| <b>Total finance costs</b>                             | <b>1,827</b>   | <b>1,390</b>   |
| <b>Interest</b>                                        |                |                |
| Interest on bank borrowings                            | 3,821          | 4,746          |
| Interest payable on financial liabilities              | 250            | 389            |
| <b>Total interest</b>                                  | <b>4,071</b>   | <b>5,135</b>   |
| <b>Total financing expenses</b>                        | <b>5,898</b>   | <b>6,525</b>   |
| <b>Impairment of assets</b>                            |                |                |
| Impairment of crusher                                  | -              | 756            |
| Impairment of furniture, fittings and office equipment | -              | 47             |
|                                                        | <b>-</b>       | <b>803</b>     |

#### Assurance Services

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

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 6. Expenses (Continued)

|                                                                                                                      | 2014<br>\$     | 2013<br>\$     |
|----------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>(a) Audit services</b>                                                                                            |                |                |
| Fees paid to PricewaterhouseCoopers Australian firm:                                                                 |                |                |
| Audit and review of financial reports and other audit work under the Corporations Act 2001                           | 279,605        | 285,852        |
| Fees paid to other firms:                                                                                            |                |                |
| Audit and review of financial reports (Crowe Horwath)                                                                | 16,817         | 14,685         |
| <b>Total remuneration for audit services</b>                                                                         | <b>296,422</b> | <b>300,537</b> |
| <b>Taxation services</b>                                                                                             |                |                |
| Fees paid to PricewaterhouseCoopers Australian firm:                                                                 |                |                |
| Tax compliance services                                                                                              | -              | 4,000          |
| Fees paid to other firms:                                                                                            |                |                |
| Tax compliance services, including review of Company income tax returns (Deloitte Touche Tohmatsu and Crowe Horwath) | 81,656         | 77,106         |
| Research and Development concession claims (Deloitte Touche Tohmatsu)                                                | 82,805         | 132,470        |
| <b>Total remuneration for taxation services</b>                                                                      | <b>164,461</b> | <b>213,576</b> |

#### 7. Income Tax Expense/(Benefit)

|                                                                        | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------------------------------------------|----------------|----------------|
| <b>(a) Income tax expense/(benefit)</b>                                |                |                |
| Current income tax                                                     | -              | -              |
| Deferred income tax                                                    | 501            | (8,794)        |
| Adjustments for income tax of prior periods                            | 250            | -              |
|                                                                        | <b>751</b>     | <b>(8,794)</b> |
| Deferred income tax expense/(benefit) in income tax expense comprises: |                |                |
| - Decrease/(Increase) in deferred tax assets                           | 352            | (14,501)       |
| - (Decrease)/Increase in deferred tax liabilities                      | 149            | 5,707          |
| - Adjustment of income tax for prior periods                           | 250            | -              |
|                                                                        | <b>751</b>     | <b>(8,794)</b> |
| Income tax expense / (benefit) is attributable to:                     |                |                |
| Profit / (Loss) from continuing operations                             | 751            | (8,794)        |
|                                                                        | <b>751</b>     | <b>(8,794)</b> |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 7. Income Tax Expense/(Benefit) (continued)

|                                                                                      | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------------------------------------|----------------|----------------|
| <b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b> |                |                |
| Profit / (Loss) from continuing operations before income tax (benefit)/expense       | 2,247          | (20,579)       |
| Tax at the Australian tax rate of 30%                                                | 674            | (6,174)        |
| Tax effect of amounts which are not deductible in calculating taxable income:        |                |                |
| - Share based payments                                                               | 141            | (30)           |
| - Non-deductible expenses                                                            | 244            | 171            |
| - Sundry items                                                                       | 42             | (267)          |
| - Investment in Kalbar Resources                                                     | -              | (76)           |
| - Accounting loss / (profit ) on sale of Investment                                  | 4              | (63)           |
| - Impairment of available for sale assets                                            | 95             | 211            |
| - Research and development concession                                                | (295)          | (2,446)        |
| - Tax Loss on sale of available for sale assets                                      | (404)          | -              |
| - Tax offsets for franked dividends                                                  | -              | (120)          |
| - Adjustment for income tax of prior periods                                         | 250            | -              |
| <b>Income tax expense/(benefit)</b>                                                  | <b>751</b>     | <b>(8,794)</b> |

#### (c) Amounts recognised directly in equity

|                                                        |       |         |
|--------------------------------------------------------|-------|---------|
| Deferred tax – debited / (credited) directly to equity | 1,706 | (1,266) |
|--------------------------------------------------------|-------|---------|

#### (d) Tax consolidation legislation

Hillgrove Resources Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation. The head entity, Hillgrove Resources Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Hillgrove Resources Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

On adoption of the legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity Hillgrove Resources Limited.

The entities have also entered a tax funding agreement under which the wholly-owned entities fully compensate Hillgrove Resources Limited for any current tax payable assumed and are compensated by Hillgrove Resources for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Hillgrove Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 7. Income Tax Expense/(Benefit) (continued)

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practical after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group. Any difference between the amounts assumed and amount receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

#### 8. Earnings Per Share

##### *Classification of securities as ordinary shares*

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

##### *Classification of securities as potential shares*

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

|                                                                                                        | 2014<br>\$'000 | 2013<br>\$'000  |
|--------------------------------------------------------------------------------------------------------|----------------|-----------------|
| <b>(a) Basic earnings</b>                                                                              |                |                 |
| Profit / (Loss) from continuing operations attributable to the ordinary equity holders of the Company  | 1,496          | (11,206)        |
| <b>Profit / (Loss) attributable to ordinary equity holders of the Company</b>                          | <b>1,496</b>   | <b>(11,206)</b> |
| <b>(b) Diluted earnings</b>                                                                            |                |                 |
| Profit / (Loss) from continuing operations attributable to the ordinary equity holders of the Company. | 1,496          | (11,206)        |
| <b>Profit / (Loss) attributable to ordinary equity holders of the Company</b>                          | <b>1,496</b>   | <b>(11,206)</b> |

Weighted average number of shares used as the denominator

|                                                           | 2014<br>Number       | 2013<br>Number     |
|-----------------------------------------------------------|----------------------|--------------------|
| <b>Number for Basic earnings per share</b>                |                      |                    |
| Ordinary shares                                           | 1,076,822,536        | 903,759,484        |
| <b>Number for Diluted earnings per share</b>              |                      |                    |
| Ordinary shares                                           | 1,076,822,536        | 903,759,484        |
| Adjustment for calculation of diluted earnings per share: |                      |                    |
| Options on issue                                          | 68,018,489           | 38,230,362         |
|                                                           | <b>1,144,841,025</b> | <b>941,989,846</b> |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 8. Earnings per Share (continued)

|                                                                                                       | 2014<br>Cents | 2013<br>Cents |
|-------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>(a) Basic earnings per share</b>                                                                   |               |               |
| Profit / (Loss) from continuing operations attributable to the ordinary equity holders of the Company | 0.14          | (1.24)        |
|                                                                                                       | 0.14          | (1.24)        |
| <b>(b) Diluted earnings per share</b>                                                                 |               |               |
| Profit / (Loss) from continuing operations attributable to the ordinary equity holders of the Company | 0.13          | (1.24)        |
|                                                                                                       | 0.13          | (1.24)        |

#### 9. Current Assets – Cash and Cash Equivalents

|                                 | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------|----------------|----------------|
| Cash at bank and on hand        | 5,192          | 14,621         |
| Restricted cash                 | 11,068         | 12,592         |
| Bank Guarantees                 | 192            | 192            |
| Total cash and cash equivalents | 16,452         | 27,405         |

Restricted cash relates to amounts that cannot be accessed without prior consent from the banks.

Bank guarantees relate to amounts required for the security deposit of the lease at Australia Square Tower. The maximum exposure to credit risk and interest rate risk at the reporting date is the carrying amount of each class of asset reported above. The maximum exposure to foreign exchange risk is \$14,069 (2013: \$191,852).

#### 10. Current Assets – Trade and Other Receivables

|                   |       |       |
|-------------------|-------|-------|
| Trade receivables | 2,611 | 3,444 |
| Prepayments       | 769   | 928   |
| Other receivables | 123   | 157   |
| GST receivable    | 1,521 | 1,869 |
|                   | 5,024 | 6,398 |

Trade receivables relate to funds due from customers in respect of sales of copper concentrate. Early payments are invoiced at the port and paid within three days of invoice based on 85% of its value. First provisional payment (10%) is invoiced upon shipment and paid within three days. Second provisional payment (5%) is invoiced within 45 days of shipment. GST receivables are represented by the Goods and Services Tax which is claimed on a monthly basis. Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. There were no impaired or past due but not impaired receivables for the Group in 2014 or 2013. Information about the Group's and the parent entity's exposure to credit risk and interest rate risk is provided in Note 28.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 11. Current Assets – Available-for-sale Financial Assets

|                                                                                                                                                                                                                      | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Listed equity securities</b>                                                                                                                                                                                      | 192            | 733            |
| The maximum exposure to price risk at the reporting date is the carrying amount of the investments mentioned above. Information about the Group's and parent entity's exposure to price risk is provided in Note 28. |                |                |
| <b>At beginning of year</b>                                                                                                                                                                                          | 733            | 1,079          |
| Additions                                                                                                                                                                                                            | -              | 272            |
| Disposals (sale and redemption)                                                                                                                                                                                      | (59)           | -              |
| Revaluation (shortfall)/ surplus transfer to equity                                                                                                                                                                  | (482)          | (618)          |
| <b>At end of year</b>                                                                                                                                                                                                | 192            | 733            |

#### 12. Current Assets – Inventories

|                          |        |        |
|--------------------------|--------|--------|
| Concentrates             | 1,824  | 1,740  |
| ROM stockpile            | 1,118  | 1,455  |
| Oxide and transition ore | 9,574  | 7,872  |
| Low grade primary ore    | 4,186  | 5,713  |
| Stores and consumables   | 3,118  | 2,951  |
| Deferred mining costs    | 6,342  | -      |
|                          | 26,162 | 19,731 |

During the year, the methodology for accounting for mining costs was changed from a basis of costs incurred to one in which mining costs are normalised for the impact of strip ratios and copper grades over the life of specific pits. Application of this methodology may result in the deferral of mining costs to the balance sheet 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 31 January 2014, deferred mining costs amounted to \$6.3 million and is expected to unwind in the next 9-12 months. Mining costs incurred for pre-strip activity will continue to be capitalised and amortised over the life of the mine.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 13. Non-current Assets - Property, Plant and Equipment

|                                                 | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------|----------------|----------------|
| <b>Land</b>                                     |                |                |
| At cost                                         | 8,841          | 8,841          |
| <b>Furniture, fittings and office equipment</b> |                |                |
| At cost                                         | 1,348          | 1,329          |
| Accumulated Depreciation                        | (1,203)        | (1,026)        |
|                                                 | 145            | 303            |
| <b>Plant and equipment</b>                      |                |                |
| At cost                                         | 100,492        | 99,530         |
| Accumulated Depreciation                        | (24,296)       | (13,421)       |
|                                                 | 76,196         | 86,109         |
| <b>Motor vehicles</b>                           |                |                |
| At cost                                         | 1,165          | 1,097          |
| Accumulated Depreciation                        | (422)          | (328)          |
|                                                 | 743            | 769            |
| <b>Mine development</b>                         |                |                |
| At cost                                         | 173,023        | 154,372        |
| Accumulated Depreciation                        | (33,968)       | (17,236)       |
|                                                 | 139,055        | 137,136        |
| <b>Assets in the course of construction</b>     |                |                |
| Building at cost                                | 700            | -              |
| <b>Total property, plant and equipment</b>      | <b>225,680</b> | <b>233,158</b> |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 13. Non-current Assets - Property, Plant and Equipment (continued)

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

|                                                 | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------|----------------|----------------|
| <b>Land</b>                                     |                |                |
| Carrying amount at beginning of year            | 8,841          | 8,535          |
| Additions                                       | -              | 306            |
| <b>Carrying amount at end of year</b>           | <b>8,841</b>   | <b>8,841</b>   |
| <b>Furniture, fittings and office equipment</b> |                |                |
| Carrying amount at beginning of year            | 303            | 498            |
| Additions                                       | 23             | 84             |
| Depreciation                                    | (181)          | (232)          |
| Impairment                                      | -              | (47)           |
| <b>Carrying amount at end of year</b>           | <b>145</b>     | <b>303</b>     |
| <b>Plant and equipment</b>                      |                |                |
| Carrying amount at beginning of year            | 86,109         | 102,499        |
| Additions                                       | 2,252          | 3,857          |
| Disposals                                       | (429)          | -              |
| Depreciation                                    | (11,736)       | (11,152)       |
| Impairment                                      | -              | (756)          |
| Deferred settlement on construction contract    | -              | (8,339)        |
| <b>Carrying amount at end of year</b>           | <b>76,196</b>  | <b>86,109</b>  |
| <b>Motor vehicles</b>                           |                |                |
| Carrying amount at beginning of year            | 769            | 627            |
| Additions                                       | 174            | 298            |
| Disposals                                       | (28)           | (5)            |
| Depreciation                                    | (172)          | (151)          |
| <b>Carrying amount at end of year</b>           | <b>743</b>     | <b>769</b>     |
| <b>Mine development</b>                         |                |                |
| Carrying amount at beginning of year            | 137,136        | 117,286        |
| Additions                                       | 18,651         | 34,471         |
| Depreciation                                    | (16,732)       | (14,621)       |
| <b>Carrying amount at end of year</b>           | <b>139,055</b> | <b>137,136</b> |
| <b>Assets in the course of construction</b>     |                |                |
| Building                                        | 700            | -              |
|                                                 | <b>700</b>     | <b>-</b>       |
| <b>Total property, plant and equipment</b>      | <b>225,680</b> | <b>233,158</b> |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 14. Non-current Assets – Intangible

|                                                                                    | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------------------------------------------------------|----------------|----------------|
| <b>Software</b>                                                                    |                |                |
| At cost                                                                            | 1,007          | 1,007          |
| Accumulated amortisation                                                           | (728)          | (392)          |
|                                                                                    | <u>279</u>     | <u>615</u>     |
| <b>Reconciliation of the carrying amount for intangible asset is set out below</b> |                |                |
| Carrying amount at beginning of year                                               | 615            | 950            |
| Amortisation                                                                       | (336)          | (335)          |
| <b>Carrying amount at end of the financial year</b>                                | <u>279</u>     | <u>615</u>     |

#### 15. Non-current Assets – Exploration and Evaluation Expenditure

|                                                         |               |               |
|---------------------------------------------------------|---------------|---------------|
| <b>Exploration, evaluation and expenditure</b>          | 30,550        | 27,440        |
| Balance at beginning of financial year                  | 27,440        | 18,758        |
| Additions                                               | 3,110         | 9,409         |
| Impairment of exploration / development expenditure     | -             | (727)         |
| <b>Carrying amount at the end of the financial year</b> | <u>30,550</u> | <u>27,440</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.

#### 16. Non-current Assets – Investments Accounted for Using the Equity Method

|                                                     |          |          |
|-----------------------------------------------------|----------|----------|
| Shares in Associates                                | -        | -        |
| <b>Movement in carrying amounts</b>                 |          |          |
| Carrying amount at the beginning of the year        | -        | 88       |
| Share of profits after income tax                   | -        | 650      |
| Dividend received                                   | -        | (279)    |
| Capital distribution                                | -        | (459)    |
| <b>Carrying amount at end of the financial year</b> | <u>-</u> | <u>-</u> |

During the previous year, Hillgrove Resources Limited cancelled its holding of 19.6 million shares in Kalbar Resources Limited and received \$459,295 in return.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 17. Non-current Assets – Deferred Tax Assets

The balance comprises temporary differences attributable to:

|                                                                              | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------------------------------------------------|----------------|----------------|
| Total deferred tax assets                                                    | 29,306         | 28,191         |
| Set-off of deferred tax liabilities pursuant to set off provisions (Note 23) | (15,461)       | (15,312)       |
| <b>Net deferred tax assets</b>                                               | <b>13,845</b>  | <b>12,879</b>  |
| Deferred tax assets to be recovered within 12 months                         | 1,582          | 4,860          |
| Deferred tax assets to be recovered after more than 12 months                | 27,723         | 23,331         |
|                                                                              | <b>29,306</b>  | <b>28,191</b>  |

| Movements – Consolidated               | Tax losses<br>\$'000 | Derivative financial liability<br>\$'000 | Share issues costs<br>\$'000 | Other<br>\$'000 | Total<br>\$'000 |
|----------------------------------------|----------------------|------------------------------------------|------------------------------|-----------------|-----------------|
| <b>At 31 January 2012</b>              | 9,603                | 2,348                                    | 1,119                        | 1,886           | 14,956          |
| Credited (charged) to income statement | 12,602               | 994                                      | 67                           | 838             | 14,501          |
| Charged directly to equity             | -                    | (1,645)                                  | 379                          | -               | (1,266)         |
| <b>At 31 January 2013</b>              | 22,205               | 1,697                                    | 1,565                        | 2,724           | 28,191          |
| Credited (charged) to income statement | (1,366)              | (500)                                    | (695)                        | 1,970           | (591)           |
| Charged directly to equity             | -                    | 1,533                                    | 178                          | (5)             | 1,706           |
| <b>At 31 January 2014</b>              | 20,839               | 2,730                                    | 1,048                        | 4,689           | 29,306          |

#### 18. Current Liabilities – Trade and Other Payables

|                             | 2014<br>\$'000 | 2013<br>\$'000 |
|-----------------------------|----------------|----------------|
| Trade payables              | 15,494         | 33,213         |
| Other payables and accruals | 8,442          | 6,780          |
|                             | <b>23,936</b>  | <b>39,993</b>  |

Information about the Group's exposure to liquidity risk is provided in Note 28.

#### 19. Current Liabilities - Provisions

|                          |     |     |
|--------------------------|-----|-----|
| Rehabilitation provision | 404 | 451 |
|--------------------------|-----|-----|

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to repair land disturbed by exploration activities. The current balance is in respect of the Comet Vale tenement. Outflows are expected to occur over the next 12 months.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 20. Current Liabilities – Borrowings

|                                           | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------|----------------|----------------|
| <b>Secured</b>                            |                |                |
| Bank Loan – Mezzanine facility            | -              | 10,000         |
| Bank Loan – Project finance               | 25,000         | 15,000         |
| Less transaction costs on loans           | (531)          | (349)          |
| Gold Loan                                 | 5,799          | 4,646          |
| <b>Total secured current borrowings</b>   | <b>30,268</b>  | <b>29,297</b>  |
| <b>Unsecured</b>                          |                |                |
| Lease liabilities                         | 351            | 164            |
| <b>Total unsecured current borrowings</b> | <b>351</b>     | <b>164</b>     |
| <b>Total current borrowings</b>           | <b>30,619</b>  | <b>29,461</b>  |

The fair value of current borrowings equals their carrying amount.

##### (a) Security and fair value disclosures

Information about the fair value of each of the borrowing is provided in Note 28. Information on the security of borrowings is provided in Note 24.

##### (b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 28.

#### 21. Current Liabilities – Employee Benefits Payable

|                           |       |       |
|---------------------------|-------|-------|
| Employee benefits payable | 3,017 | 1,571 |
|---------------------------|-------|-------|

The entire annual leave obligation is presented as current, since the Group does not have an unconditional right to defer settlement beyond 12 months. However, based on past experience, the Group is not expected to settle the full amount within 12 months.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 22. Non-current Liabilities – Provisions

|                                                | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------------------|----------------|----------------|
| Rehabilitation provision                       | 11,239         | 9,807          |
| Make good provision                            | 124            | -              |
|                                                | <u>11,363</u>  | <u>9,807</u>   |
| <b>Movement in provisions</b>                  |                |                |
| Carrying value at the beginning of the year    | 9,807          | 9,327          |
| Additional provision recognised                | 902            | 916            |
| Discount on unwind of rehabilitation provision | 719            | 261            |
| Transfer from / (to) Current Provisions        | 47             | (451)          |
| Expenditure charged to provision               | (112)          | (246)          |
| <b>Balance at the end of the year</b>          | <u>11,363</u>  | <u>9,807</u>   |

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to repair land disturbed by exploration and mining activities. The balance is in respect of the Comet Vale tenement and the Kanmantoo mine. The Make good provision of \$124k is in respect of repairs to damaged equipment.

#### 23. Non-current Liabilities – Deferred Tax Liability

|                                                                         |               |               |
|-------------------------------------------------------------------------|---------------|---------------|
| Total deferred tax liabilities                                          | 15,461        | 15,312        |
| Set-off of deferred tax assets pursuant to set off provisions (Note 17) | (15,461)      | (15,312)      |
| <b>Net deferred tax liabilities</b>                                     | <u>-</u>      | <u>-</u>      |
| Deferred tax liabilities to be recovered within 12 months               | 1,905         | -             |
| Deferred tax liabilities to be recovered after more than 12 months      | 13,556        | 15,312        |
|                                                                         | <u>15,461</u> | <u>15,312</u> |

| Movements – Consolidated               | Property, plant and equipment, and exploration expenditure<br>\$'000 | Inventory – deferred mining costs<br>\$'000 | Investments in associates and Other<br>\$'000 | Total<br>\$'000 |
|----------------------------------------|----------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------|-----------------|
| <b>At 31 January 2012</b>              | 8,806                                                                | -                                           | 800                                           | 9,606           |
| Credited (charged) to income statement | 6,506                                                                | -                                           | (800)                                         | 5,706           |
| <b>At 31 January 2013</b>              | 15,312                                                               | -                                           | -                                             | 15,312          |
| Credited (charged) to income statement | (1,756)                                                              | 1,903                                       | 2                                             | 149             |
| Charged directly to equity             | -                                                                    | -                                           | -                                             | -               |
| <b>At 31 January 2014</b>              | <u>13,556</u>                                                        | <u>1,903</u>                                | <u>2</u>                                      | <u>15,461</u>   |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 24. Non-current Liabilities – Borrowings

|                                               | 2014<br>\$'000 | 2013<br>\$'000 |
|-----------------------------------------------|----------------|----------------|
| <b>Secured</b>                                |                |                |
| Bank Loan – Project finance                   | -              | 15,000         |
| Bank Loan – Mezzanine facility                | 10,000         | -              |
| Less transaction costs on loans               | (5)            | (572)          |
| Gold Loan                                     | -              | 5,799          |
| <b>Total secured non-current borrowings</b>   | <b>9,995</b>   | <b>20,227</b>  |
| <b>Unsecured</b>                              |                |                |
| Lease liabilities                             | 1,055          | 579            |
| <b>Total unsecured non-current borrowings</b> | <b>1,055</b>   | <b>579</b>     |
| <b>Total non-current borrowings</b>           | <b>11,050</b>  | <b>20,806</b>  |

In December 2010, Hillgrove finalised a Project financing facility with Macquarie Bank and Barclays Bank to finance the construction of the Kanmantoo mine. The total available amount under the facility was \$30 million. The full facility was drawn down in October 2011. The floating interest rate of the loan is BBSY plus 375bps.

Hillgrove also drew down on a Mezzanine facility with Macquarie Bank in December 2011 for \$10 million, at a floating interest rate of BBSW plus 500bps.

The \$30 million bank loan – Project facility is secured by a charge over Hillgrove Copper Pty Limited. The \$10 million bank loan – Mezzanine facility is secured by a deed of charge granted by Hillgrove Resources Limited.

In March 2012, Hillgrove finalised a Gold Loan facility with Macquarie Bank and Barclays Bank. The total amount under the facility was \$15 million. The full facility was drawn down in March 2012 and is repayable in aggregate of about 10,413 ounces of gold in quarterly instalments over the period June 2012 to September 2014.

#### 25. Contributed Equity

##### Share capital

|                                                                                     |         |         |
|-------------------------------------------------------------------------------------|---------|---------|
| Issued and paid up capital 1,179,889,221 shares<br>(2013: 1,022,760,221) fully paid | 206,860 | 196,510 |
|-------------------------------------------------------------------------------------|---------|---------|

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 25. Contributed Equity (continued)

##### Ordinary Shares Issued

|                                                   | 2014<br>No. of shares | 2013<br>No. of shares | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------------------------|-----------------------|-----------------------|----------------|----------------|
| <b>Movements during the year</b>                  |                       |                       |                |                |
| Opening balance                                   | 1,022,760,221         | 793,698,575           | 196,510        | 178,343        |
| Share placement                                   | 153,700,000           | -                     | 10,759         | -              |
| Unconditional share issue                         | -                     | 119,054,786           | -              | 10,120         |
| Conditional share issue                           | -                     | 57,415,803            | -              | 4,880          |
| Share purchase plan                               | -                     | 52,443,372            | -              | 3,949          |
| Employee share schemes/issues                     | 3,429,000             | 147,685               | -              | -              |
| Less – transaction costs                          | -                     | -                     | (593)          | (1,162)        |
| Deferred tax credit recognised directly in equity | -                     | -                     | 184            | 380            |
| <b>Balance at 31 January</b>                      | <b>1, 179,889,221</b> | <b>1,022,760,221</b>  | <b>206,860</b> | <b>196,510</b> |

##### Terms and Conditions

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. In the event of winding up the Company, ordinary shareholders rank after all other share-holders and creditors and are fully entitled to any proceeds of liquidation.

In September 2013, the Company raised \$10.8 million through the issuance of 153,700,000 shares at seven cents (\$0.07), in Hillgrove Resources Limited via a share placement.

##### Capital Risk Management

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

#### 26. Reserves

|                                                    | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------------------------------|----------------|----------------|
| Employee Share Options reserve                     | 2,102          | 1,631          |
| Available for sale investments revaluation reserve | 314            | 481            |
| Cash flow hedges                                   | (5,094)        | (1,515)        |
| Foreign currency translation                       | (642)          | -              |
|                                                    | <b>(3,320)</b> | <b>597</b>     |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 26. Reserves (continued)

|                                                                                                    | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Movements</b>                                                                                   |                |                |
| <b>Employee share options reserve</b>                                                              |                |                |
| Balance 31 January 2013                                                                            | 1,631          | 1,731          |
| Option expense                                                                                     | 471            | (100)          |
| <b>Balance 31 January 2014</b>                                                                     | <b>2,102</b>   | <b>1,631</b>   |
| <b>Available for sale investments revaluation reserve</b>                                          |                |                |
| Balance 31 January 2013                                                                            | 481            | 395            |
| Impairment charge transferred to income statement                                                  | 315            | 704            |
| Revaluation net of amounts transferred to income statement                                         | (482)          | (618)          |
| <b>Balance 31 January 2014</b>                                                                     | <b>314</b>     | <b>481</b>     |
| <b>Cash flow hedges</b>                                                                            |                |                |
| Balance 31 January 2013                                                                            | (1,515)        | (5,353)        |
| (Loss)/Gain arising on changes in fair value of hedging instruments designated as cash flow hedges | (5,112)        | 5,483          |
| Deferred tax (Note 17)                                                                             | 1,533          | (1,645)        |
| <b>Balance 31 January 2014</b>                                                                     | <b>(5,094)</b> | <b>(1,515)</b> |
| <b>Foreign currency translation</b>                                                                |                |                |
| Balance 31 January 2013                                                                            | -              | -              |
| Currency translation differences arising during the year                                           | (642)          | -              |
| <b>Balance 31 January 2014</b>                                                                     | <b>(642)</b>   | <b>-</b>       |

#### Nature and purpose of reserves

##### (i) Available-for-sale-investments revaluation reserve

Changes in the fair value of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve. Amounts are recognised in the profit and loss when the associated assets are sold or impaired.

##### (ii) Employee share option reserve

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

##### (iii) Hedge reserve

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

##### (iv) Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in Other Comprehensive Income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to Profit and Loss when the net investment is disposed of.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 27. Retained Profits

|                                                              | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------------|----------------|----------------|
| Retained profits at beginning of the year                    | 23,503         | 34,709         |
| Profit / (Loss) attributable to members of the parent entity | 1,496          | (11,206)       |
| <b>Retained profits at end of the year</b>                   | <b>24,999</b>  | <b>23,503</b>  |

No dividend was paid during the current year. (2013: Nil). The company has \$21.3 million of franking credits available for future periods (2013: \$21.3 million).

#### 28. Financial Risk Management

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

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

The derivatives held by the Group is summarised below:

##### Current asset

|                          |              |              |
|--------------------------|--------------|--------------|
| Copper swaps             | 2,844        | 4,314        |
| Gold embedded derivative | 1,172        | 256          |
|                          | <b>4,016</b> | <b>4,570</b> |

##### Non-current asset

|                          |          |              |
|--------------------------|----------|--------------|
| Copper swaps             | -        | 2,700        |
| Gold embedded derivative | -        | 344          |
|                          | <b>-</b> | <b>3,044</b> |

##### Current liability

|                          |                |                |
|--------------------------|----------------|----------------|
| Copper swaps             | (4,335)        | (1,587)        |
| Copper options           | -              | (2,640)        |
| Foreign currency forward | (156)          | -              |
|                          | <b>(4,491)</b> | <b>(4,227)</b> |

##### Non-current liability

|              |                |                |
|--------------|----------------|----------------|
| Copper swaps | (8,781)        | (9,047)        |
|              | <b>(8,781)</b> | <b>(9,047)</b> |

#### Amounts recognised in profit or loss and other comprehensive income

During the year, the following cash flow hedges related amounts were recognised in profit or loss and other comprehensive income:

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 28. Financial Risk Management (continued)

|                                                                                  | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------------------------------------------------------------|----------------|----------------|
| <b>Amounts recognised in profit or loss</b>                                      |                |                |
| Net (loss) for ineffective portion of derivatives designated as cash flow hedges | (967)          | (5,915)        |
| Net gain on other derivatives                                                    | 678            | 174            |
| Unrealised losses on derivative financial instruments                            | (289)          | (5,741)        |
| <b>Net gains (losses) recognised in other comprehensive income (Note 26)</b>     |                |                |
| Cash flow hedges                                                                 | (5,112)        | (5,483)        |
| Income tax relating to cash flow hedges                                          | 1,533          | (1,645)        |

#### (a) Market risk

##### (i) Copper – Price and foreign exchange risk management

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

The Group has a policy of maintaining an appropriate level of hedging for up to the next three years to manage its commodity price and US dollar exposure, with the objective of providing more predictable revenue cash flows. The Group has entered into copper commodity swaps and options contracted in Australian dollars to hedge both the US copper price risk and A\$/US\$ exchange rate risk.

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

| 2014 (\$'000) |                                             | Gross contract amounts to be received by the Group |                |              |              |              |                   |         | Fair value(b) |           |
|---------------|---------------------------------------------|----------------------------------------------------|----------------|--------------|--------------|--------------|-------------------|---------|---------------|-----------|
|               | Average contracted A\$ price <sup>(a)</sup> | Less than 1 year                                   | 1 to 2 year(s) | 2 to 3 years | 3 to 4 years | 4 to 5 years | More than 5 years | Total   | Asset         | Liability |
| Swaps         | 7.898                                       | 131,171                                            | 103,417        | 17,482       | -            | -            | -                 | 252,071 | 2,844         | 13,116    |

| 2013 (\$'000) |                                             | Gross contract amounts to be received by the Group |                |              |              |              |                   |         | Fair value <sup>(b)</sup> |           |
|---------------|---------------------------------------------|----------------------------------------------------|----------------|--------------|--------------|--------------|-------------------|---------|---------------------------|-----------|
|               | Average contracted A\$ price <sup>(a)</sup> | Less than 1 year                                   | 1 to 2 year(s) | 2 to 3 years | 3 to 4 years | 4 to 5 years | More than 5 years | Total   | Asset                     | Liability |
| Swaps         | 8,108                                       | 84,158                                             | 93,787         | 88,514       | 17,482       | -            | -                 | 283,941 | 7,014                     | 10,635    |
| Options       | 7,500                                       | 16,095                                             | -              | -            | -            | -            | -                 | 16,095  | -                         | 2,640     |
|               |                                             |                                                    |                |              |              |              |                   |         | 7,014                     | 13,275    |

(a) Average prices for the individual periods do not materially differ from the overall average price disclosed. The amount is A\$ per metric tonne.

(b) \$5.4 million loss net of tax (2013: \$1.5 million loss) on commodity contracts was deferred to equity as at 31 January 2014 as the losses relate to effective portion of the cash flow hedges of highly probable forecast transactions.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 28. Financial Risk Management (continued)

The Group does not have committed volumes of copper under its off-take agreement. However it expects revenue cash flows from sale of copper concentrate in future years which will exceed the value of contracted amounts to be paid under the copper commodity derivative contracts.

The tables below have been drawn-up based on the quantities contracted under the commodity swap contracts and the average forward price on the reporting date.

| 2014<br>(\$'000)                      | Less<br>than 1<br>year | 1 to 2<br>year(s) | 2 to 3<br>years | 3 to 4<br>years | 4 to 5<br>years | More<br>than 5<br>years | Total   |
|---------------------------------------|------------------------|-------------------|-----------------|-----------------|-----------------|-------------------------|---------|
| Hedged revenue from<br>sale of copper | 132,706                | 110,395           | 19,797          | -               | -               | -                       | 262,898 |

| 2013<br>(\$'000)                      | Less<br>than 1<br>year | 1 to 2<br>year(s) | 2 to 3<br>years | 3 to 4<br>years | 4 to 5<br>years | More<br>than 5<br>years | Total   |
|---------------------------------------|------------------------|-------------------|-----------------|-----------------|-----------------|-------------------------|---------|
| Hedged revenue from<br>sale of copper | 81,231                 | 91,176            | 95,411          | 20,215          | -               | -                       | 288,033 |

The fair value of the copper commodity derivative contracts in A\$ will be impacted by the US copper price and the A\$/US\$ exchange rate.

The following table details the Group's sensitivity as at 31 January 2014:

- to a 5% increase/decrease in the US\$ copper prices assuming all other variables, such as A\$/US\$ exchange rate, gold and silver prices, are constant; and
- to a 10% increase/decrease in the A\$/US\$ exchange rate assuming all other variables, such as US\$ copper, gold and silver prices, are constant.

| 2014<br>(\$ '000)                                                                                                | Impact on<br>profit or loss |          | Impact on<br>other equity |          |
|------------------------------------------------------------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                                                                                  | Increase                    | Decrease | Increase                  | Decrease |
| Impact of 5% increase/decrease in US dollar copper price on fair value of Copper Commodity Swaps <sup>(a)</sup>  | -                           | -        | (12,787)                  | 12,787   |
| Impact of 10% increase/decrease in A\$/US\$ exchange rate on fair value of Copper Commodity Swaps <sup>(b)</sup> | -                           | -        | 23,249                    | (28,415) |

| 2013<br>(\$ '000)                                                                                                            | Impact on<br>profit or loss |          | Impact on<br>other equity |          |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                                                                                              | Increase                    | Decrease | Increase                  | Decrease |
| Impact of 5% increase/decrease in US dollar copper price on fair value of Copper Commodity Swaps and Options <sup>(a)</sup>  | 74                          | 79       | (13,842)                  | 13,842   |
| Impact of 10% increase/decrease in A\$/US\$ exchange rate on fair value of Copper Commodity Swaps and Options <sup>(b)</sup> | 3                           | (3)      | 23,686                    | (28,950) |

(a) The sensitivity on the fair value of copper commodity swaps has been calculated with respect to the relevant US\$ copper forward price. The sensitivity calculations on the fair value of the copper commodity options do not include option premiums and are based only on the US\$ copper spot price at the reporting date.

(b) The sensitivity on the fair value of copper commodity swaps has been calculated with respect to the relevant exchange rate applicable for forward US\$ copper price. The sensitivity calculations on the fair value of the copper commodity options do not include option premiums and are based only on the spot A\$/US\$ exchange rate at the reporting date.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 28. Financial Risk Management (continued)

##### (i) Gold – Price and foreign exchange risk management

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

In March 2012, Hillgrove had finalised and fully drawn down a \$15 million Gold Loan facility with Macquarie Bank and Barclays Bank. The facility is repayable in gold in quarterly instalments over the period to September 2014. The repayment in gold has been accounted for as an embedded derivative and designated in a cash flow hedge relationship with the copper swaps.

The following tables summarise the quantity of gold payable under this facility and the fair value of the embedded derivative.

| 2014 | Gold Quantity to be delivered under the Gold Loan Facility |              |              |              |              |                   |            | Fair value   |                  |
|------|------------------------------------------------------------|--------------|--------------|--------------|--------------|-------------------|------------|--------------|------------------|
|      | Less than 1 year                                           | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | More than 5 years | Total (oz) | Asset \$'000 | Liability \$'000 |
| Gold | 3,417                                                      | -            | -            | -            | -            | -                 | 3,417      | 1,172        |                  |

| 2013 | Gold Quantity to be delivered under the Gold Loan Facility |              |              |              |              |                   |            | Fair value   |                  |
|------|------------------------------------------------------------|--------------|--------------|--------------|--------------|-------------------|------------|--------------|------------------|
|      | Less than 1 year                                           | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | More than 5 years | Total (oz) | Asset \$'000 | Liability \$'000 |
| Gold | 2,866                                                      | 3,417        | -            | -            | -            | -                 | 6,284      | 601          | -                |

The fair value of the gold embedded derivative in A\$ will be impacted by the US gold price and the A\$/US\$ exchange rate. The following table details the Group's sensitivity as at 31 January 2014:

- to a 5% increase/decrease in the US\$ gold prices assuming all other variables, such as A\$/US\$ exchange rate, copper and silver prices, are constant; and
- to a 10% increase/decrease in the A\$/US\$ exchange rate assuming all other variables, such as US\$ copper, gold and silver prices, are constant.

| 2014<br>(\$'000)                                                                                        | Impact on profit or loss |          | Impact on other equity |          |
|---------------------------------------------------------------------------------------------------------|--------------------------|----------|------------------------|----------|
|                                                                                                         | Increase                 | Decrease | Increase               | Decrease |
| Impact of 5% increase/decrease in US\$ gold price on the fair value of the gold embedded derivative     | -                        | -        | (243)                  | 243      |
| Impact of 10% increase/decrease in A\$/US\$ exchange rate on fair value of the gold embedded derivative | -                        | -        | 441                    | (539)    |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 28. Financial Risk Management (Continued)

| 2013<br>(\$'000)                                                                                        | Impact on<br>profit or loss |          | Impact on<br>other equity |          |
|---------------------------------------------------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                                                                         | Increase                    | Decrease | Increase                  | Decrease |
| Impact of 5% increase/decrease in US\$ gold price on the fair value of the gold embedded derivative     | 35                          | (35)     | (541)                     | 541      |
| Impact of 10% increase/decrease in A\$/US\$ exchange rate on fair value of the gold embedded derivative | (64)                        | 79       | 984                       | (1,203)  |

#### (b) Cash flow and fair value interest rate risk

##### (i) Interest rate risk management

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

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

|            | 2014<br>Weighted<br>average<br>interest rate | 2013<br>Weighted<br>average<br>interest rate | 2014<br>\$'000 | 2013<br>\$'000 |
|------------|----------------------------------------------|----------------------------------------------|----------------|----------------|
| Borrowings | 8.0%                                         | 9.0%                                         | 41,669         | 50,267         |
|            | 8.0%                                         | 9.0%                                         | 41,669         | 50,267         |

The percentage of total borrowings which are at variable rates is 83% (2013: 78%).

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

Details of borrowings have been provided in Note 20 and 24. At 31 January 2014, if interest rates had increased/decreased by 100 basis points from the year-end rates with all other variables held constant, pre-tax profit for the year would have been decreased/increased by \$185,000 (2013: \$126,000). This is mainly attributable to the company's exposure to interest rates on its variable rate borrowings.

##### (ii) Equity price risk

The Group has a number of short-term trading investments in companies listed on the Australian Securities Exchange. There is an equity price risk in these balances.

Management has considered the impact of equity price risk for equity investments held by the Group and it is deemed not to be material.

##### (iii) Foreign exchange risk

The Group sells copper concentrate, the sales value of which is affected by the prevailing US dollar exchange rate. The Group has entered into copper commodity derivatives contracted in Australian dollars to hedge both the US copper price risk and the US dollar exchange rate risk. The Group has also entered into an A\$ Gold Loan facility which is repayable in gold in order to hedge both the US gold price risk and the US dollar exchange rate risk. Hence the Group has cash flow exposure to the US dollar only on the unhedged portion of future sales. Sales of copper concentrate in the year ended 31 January 2014 totalled \$139,157,209 (2013: \$115,394,673).

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 28. Financial Risk Management (Continued)

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

The impact of A\$/US\$ exchange rate on the fair value of the copper commodity derivatives and the gold embedded derivative have been detailed above in Note 28(a)(i) and (ii).

The Group has US\$ denominated trade receivables of US\$2,287,838 (2013: US\$3,579,750). The carrying amount of the trade receivables in Australian dollars will be impacted by the A\$/US\$ exchange rate.

The following table details the Group's sensitivity as at 31 January 2014 and 31 January 2013:

| (\$'000)                                                                                        | 2014                     |          | 2013                     |          |
|-------------------------------------------------------------------------------------------------|--------------------------|----------|--------------------------|----------|
|                                                                                                 | Impact on profit or loss |          | Impact on profit or loss |          |
|                                                                                                 | Increase                 | Decrease | Increase                 | Decrease |
| Impact of 10% increase/decrease in A\$/US\$ exchange rate on US\$ denominated trade receivables | (237)                    | 290      | (313)                    | 383      |

The Group and parent entity also hold bank accounts denominated in US\$ and IDR which had carrying values of \$2,537 and \$10,208 respectively, at 31 January 2014 (2013: \$58,746 and \$133,106 respectively). Management has considered the impact of foreign exchange risk on the cash balance and it is deemed not to be material.

#### (c) Credit risk

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

The Group has trade receivables of \$2,610,792 (2013: \$3,444,054). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

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

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

#### (d) Liquidity risk

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

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 28. Financial Risk Management (Continued)

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

##### *Maturities of financial liabilities*

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

| As at 31 January 2014<br>\$'000       | Less than<br>1 year | 1 to 2<br>year(s) | 2 to 3<br>years | 3 to 4<br>years | 4 to 5<br>years | More than<br>5 years |
|---------------------------------------|---------------------|-------------------|-----------------|-----------------|-----------------|----------------------|
| Trade and other payables              | 23,936              |                   |                 |                 |                 |                      |
| Borrowings                            | 33,175              | 10,996            | 221             | 158             | 182             | -                    |
| Copper Commodity Swaps <sup>(a)</sup> | 4,459               | 6,978             | 2,315           | -               | -               | -                    |
| <b>Total</b>                          | <b>61,510</b>       | <b>17,974</b>     | <b>2,536</b>    | <b>158</b>      | <b>182</b>      | <b>-</b>             |

| As at 31 January 2013<br>\$'000                   | Less than<br>1 year | 1 to 2<br>year(s) | 2 to 3<br>years | 3 to 4<br>years | 4 to 5<br>years | More than<br>5 years |
|---------------------------------------------------|---------------------|-------------------|-----------------|-----------------|-----------------|----------------------|
| Trade and other payables                          | 39,993              | -                 | -               | -               | -               | -                    |
| Borrowings                                        | 33,060              | 21,701            | 330             | 73              | -               | -                    |
| Copper Commodity Swaps <sup>(a)</sup>             | 1,588               | 266               | 6,897           | 2,732           | -               | -                    |
| Deferred Premium on Copper Options <sup>(a)</sup> | 2,685               | -                 | -               | -               | -               | -                    |
| <b>Total</b>                                      | <b>77,326</b>       | <b>21,967</b>     | <b>7,227</b>    | <b>2,805</b>    | <b>-</b>        | <b>-</b>             |

(a) Settlement of copper commodity derivative instruments will be offset by revenue from the sale of copper concentrate.

#### (e) Fair value estimation

The Group carries only derivative financial instruments (copper commodity swaps and options, and gold embedded derivative) and available-for-sale financial assets (listed equity securities) at fair value on the balance sheet at the reporting date. The fair values of derivative financial instruments (Note 28(a)(i) and (ii)) and available-for-sale financial assets (Note 11) are determined to be of Level 2 and Level 1 respectively based on the fair value hierarchy definition below.

The different levels have been defined as follows:

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 28. Financial Risk Management (Continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of the copper commodity swaps and options, and the gold embedded derivative, are determined to be in this level. The fair value of copper commodity swaps and gold embedded derivatives have been determined using copper, gold and foreign currency forward rates at balance sheet date.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The carrying amount of receivables and payables approximate their fair values due to their short-term nature. The carrying amount of borrowings also approximates their fair values as the majority of borrowings are floating rate debt.

The carrying amount of all other financial assets and financial liabilities recorded by the Group represents their respective fair value.

#### 29. Subsidiaries

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

| Name of controlled entity         | Country of incorporation | Class of share | Equity holding 2014 % | Equity holding 2013 % |
|-----------------------------------|--------------------------|----------------|-----------------------|-----------------------|
| 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                    | -                     |
| 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.

\* During the year, PT Akram Resources Pte Ltd received approvals to operate as a foreign owned entity under the Indonesian Mining Laws and regulations and its equity ownership was transferred accordingly.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 29. Subsidiaries (continued)

##### Transactions with non-controlling interests

There were no transactions with non-controlling interests in 2014.

#### 30. Commitments

##### (a) Non-cancellable operating lease expense commitments

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

|                                                | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------------------|----------------|----------------|
| Within one year                                | 222            | 217            |
| One year or later and no later than five years | 664            | 870            |
|                                                | <u>886</u>     | <u>1,087</u>   |

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

##### (b) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

##### Property plant and equipment

|                                                |            |            |
|------------------------------------------------|------------|------------|
| Within one year                                | 494        | 885        |
| One year or later and no later than five years | 79         | -          |
|                                                | <u>573</u> | <u>885</u> |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 31. Notes to the Cash Flow Statement

##### (a) Reconciliation of cash

For the purposes of the Cash Flow Statement, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as set out in Note 9.

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

|                                                                                           | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Operating Profit / (loss) after income tax</b>                                         | 1,496          | (11,785)       |
| <b>Add/(less) items classified as investing/financing activities</b>                      |                |                |
| Gain on sale of investments                                                               | 13             | (211)          |
| Net Interest expense                                                                      | 2,829          | 3,128          |
| Other items                                                                               | -              | 386            |
| <b>Add/(less) non-cash items</b>                                                          |                |                |
| Depreciation and amortisation                                                             | 29,157         | 26,492         |
| Net (gain) / loss on sale of non-current assets                                           | (11)           | 3              |
| Employee share options                                                                    | 471            | (100)          |
| Net exchange differences                                                                  | 1,387          | 111            |
| Impairment losses on available for sale financial assets                                  | 315            | 704            |
| Discount on unwind of rehabilitation provision                                            | 720            | 261            |
| Impairment of assets and exploration tenements                                            | -              | 1,529          |
| Unrealised (gain) / loss on financial derivatives                                         | (1,672)        | 5,915          |
| Share of net profits of associates accounted for using equity method                      | -              | (650)          |
| Amortisation of deferred mining costs                                                     | 3,308          | -              |
| <b>Net cash generated by operating activities before change in assets and liabilities</b> | 38,013         | 25,783         |
| <b>Changes in operating assets and liabilities</b>                                        |                |                |
| (Increase) / Decrease in receivables, prepayments and inventories                         | (11,538)       | (10,964)       |
| (Decrease)/ Increase in trade creditors and accruals                                      | (14,829)       | 25,366         |
| Decrease / (Increase) in net DTA                                                          | 751            | (8,794)        |
| Increase in provisions                                                                    | 1,387          | 127            |
| <b>Net cash generated by operating activities</b>                                         | 13,784         | 31,518         |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 32. Key Management Personnel Disclosures

##### (a) Key management personnel compensation

|                              | 2014<br>\$'000   | 2013<br>\$'000   |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 1,440,526        | 1,264,399        |
| Post-employment benefits     | 65,045           | 62,794           |
| Termination benefits         | -                | 123,289          |
| Share based payments         | 511,053          | 206,529          |
|                              | <u>2,016,624</u> | <u>1,657,011</u> |

Further detail regarding key management personnel compensation can be found on pages 36 to 46 of the Remuneration Report.

##### (b) Rights provided as remuneration

During the reporting period, 13,500,000 rights were issued to key management personnel but did not vest. The details of these rights are available above. All rights refer to rights over ordinary shares of Hillgrove Resources Limited, which are exercisable on a one-for-one basis under the Options and Performance Rights Plan (OPRP). All rights under the OPRP expire on termination of employment.

##### (c) Rights holdings

The movement during the reporting period in the number of rights over ordinary shares in Hillgrove Resources Limited held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities, is as follows:

| 2014                                  | Held at 31<br>January<br>2013 | Granted<br>as rem-<br>uneration | Exercised<br>/forfeited | Held at 31<br>January<br>2014 | Vested<br>number | Vested and<br>exercisable<br>at 31/01/14 |
|---------------------------------------|-------------------------------|---------------------------------|-------------------------|-------------------------------|------------------|------------------------------------------|
| <b>Directors</b>                      |                               |                                 |                         |                               |                  |                                          |
| Mr G C Hall*                          | -                             | 7,750,000                       | -                       | 7,750,000                     | -                | -                                        |
| <b>Other key management personnel</b> |                               |                                 |                         |                               |                  |                                          |
| Mr R L S Middleton                    | 1,975,000                     | 2,500,000                       | (500,000)               | 3,975,000                     | -                | -                                        |
| Mr S P McClare                        | 6,000,000                     | 2,500,000                       | (4,000,000)             | 4,500,000                     | -                | -                                        |
| Mrs S Smith                           | 400,000                       | 750,000                         | (80,000)                | 1,070,000                     | -                | -                                        |

\* Mr G C Hall was appointed on 11 February 2013.

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 32. Key Management Personnel Disclosures (continued)

##### (d) Rights held and transactions in the prior year

| 2013                                  | Held at 31<br>January<br>2012 | Granted<br>as rem-<br>uneration | Exercised<br>/forfeited | Held at 31<br>January<br>2013 | Vested<br>number | Vested and<br>exercisable<br>at 31/01/13 |
|---------------------------------------|-------------------------------|---------------------------------|-------------------------|-------------------------------|------------------|------------------------------------------|
| <b>Directors</b>                      |                               |                                 |                         |                               |                  |                                          |
| Mr D A Simonsen*                      | 3,875,000                     | -                               | (3,875,000)             | -                             | -                | -                                        |
| <b>Other key management personnel</b> |                               |                                 |                         |                               |                  |                                          |
| Mr R L S Middleton                    | 2,797,685                     | 825,000                         | (1,647,685)             | 1,975,000                     | -                | -                                        |
| Mr C J Schubert                       | 1,050,000                     | -                               | (1,050,000)             | -                             | -                | -                                        |
| Mr S P McClare                        | -                             | 6,000,000                       | -                       | 6,000,000                     | -                | -                                        |
| Ms S Smith                            | 200,000                       | 200,000                         | -                       | 400,000                       | -                | -                                        |

\* Mr D A Simonsen resigned on 27 July 2012.

Note: Each right converts into one share upon exercising.

##### (e) Equity holdings and transactions

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

| 2014                                  | Held at 31<br>January 2013 | Received on<br>exercise of rights | Net other<br>changes | Held at 31<br>January 2014 |
|---------------------------------------|----------------------------|-----------------------------------|----------------------|----------------------------|
| <b>Directors</b>                      |                            |                                   |                      |                            |
| Hon. D C Brown, AO                    | 648,245                    | -                                 | 280,000              | 928,245                    |
| Mr J E Gooding                        | 147,647                    | -                                 | -                    | 147,647                    |
| Mr M W Loomes*                        | -                          | -                                 | 1,575,000            | 1,575,000                  |
| Mr J A Quirke**                       | 182,955                    | -                                 | (182,955)            | -                          |
| Mr D N Snedden                        | 599,203                    | -                                 | -                    | 599,203                    |
| Mr E J Zemancheff                     | 185,000                    | -                                 | -                    | 185,000                    |
| Mr G C Hall                           | -                          | -                                 | 534,800              | 534,800                    |
| <b>Other key management personnel</b> |                            |                                   |                      |                            |
| Mr R L S Middleton                    | 1,300,825                  | 75,000                            | -                    | 1,375,825                  |
| Mr S P McClare                        | -                          | 3,300,000                         | 2,000,000            | 5,300,000                  |
| Mrs S Smith                           | 50,000                     | 12,000                            | -                    | 62,000                     |

Note: Shares held include direct, indirect and family holdings.

\* Mr M W Loomes was appointed on 25 November 2013

\*\* Mr J A Quirke retired on 25 November 2013

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 32. Key Management Personnel Disclosures (continued)

##### (f) Equity holdings and transactions held in prior year

| 2013                                  | Held at 31<br>January 2012 | Received on<br>exercise of rights | Net other<br>changes | Held at 31<br>January 2013 |
|---------------------------------------|----------------------------|-----------------------------------|----------------------|----------------------------|
| <b>Directors</b>                      |                            |                                   |                      |                            |
| Hon. D C Brown, AO                    | 272,571                    | -                                 | 375,674              | 648,245                    |
| Mr D A Simonsen*                      | 750,000                    | -                                 | (750,000)            | -                          |
| Mr G C Hall                           | -                          | -                                 | -                    | -                          |
| Mr E J Zemancheff                     | 185,000                    | -                                 | -                    | 185,000                    |
| Mr J A Quirke                         | 182,955                    | -                                 | -                    | 182,955                    |
| Mr J E Gooding                        | 30,000                     | -                                 | 117,647              | 147,647                    |
| Mr D N Snedden                        | -                          | -                                 | 599,203              | 599,203                    |
| <b>Other key management personnel</b> |                            |                                   |                      |                            |
| Mr R L S Middleton                    | 1,153,140                  | 147,685                           | -                    | 1,300,825                  |
| Mr C J Schubert                       | -                          | -                                 | -                    | -                          |
| Mr S P McClare                        | -                          | -                                 | -                    | -                          |
| Mrs S Smith                           | 50,000                     | -                                 | -                    | 50,000                     |

Note: Shares held include direct, indirect and family holdings.

\* Mr D A Simonsen resigned on 27 July 2012.

#### 33. Related Party Transactions

##### (a) Parent entities

The parent entity within the Group is Hillgrove Resources Limited.

##### (b) Subsidiaries

Interests in subsidiaries are set out in Note 29.

##### (c) Key management personnel

Disclosures relating to key management personnel are set out in Note 32.

##### (d) Related parties

Loans to controlled entities are netted on consolidation.

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

#### 34. Events Subsequent to the Balance Sheet Date

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

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 35. Contingent Liabilities

|                                                                                                                                                             | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Guarantees</b>                                                                                                                                           |                |                |
| Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site | 2,775          | 3,250          |
| Environmental bond required under the mining and rehabilitation plan for Kanmantoo                                                                          | 16,750         | 16,750         |
| Security bonds on rental properties                                                                                                                         | 192            | 192            |
|                                                                                                                                                             | <u>19,717</u>  | <u>20,192</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 January 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.

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

#### 36. Share-based Payments

##### Options and Performance Rights Plan (OPRP)

The Options and Performance Rights Plan (OPRP) replaced the previous Employee and Executive Share Option Plans (ESOP) following a review of taxation regulation and industry remuneration best practice. The OPRP is designed to provide long-term incentives for senior managers and above (including Executive Directors) to deliver ongoing improvements in shareholder returns.

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

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

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

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 36. Share-based payments (continued)

- The satisfaction of all the Performance Conditions (KPI's);
- The invitee achieving an Annual Performance Appraisal Rating of 50% or more;
- The invitee complying with all Company policy and procedure (e.g. no disciplinary action against the invitee between offer and vesting); and
- The invitee meeting the Service Condition (continued employment) for the rights.

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

#### Fair value of share options granted in the year

The assessed fair value at grant date of all options and Executive Performance Rights granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model (for options issued under the ESOP) or a Binominal Approximation option valuation model and a Monte Carlo simulation model (for Executive Performance Rights). All models take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. Expected volatility is based on the Group's daily closing share price for the 12 months period prior to the grant.

The weighted fair value Executive Performance Rights granted during the financial year was 5.6 cents per option (2013: 9.3 cents per option).

The model inputs for the two tranches of options and Executive Performance Rights granted during the financial year ended 31 January 2014 included:

| Executive Performance Rights granted | 21 June 2013 | 22 July 2013   |
|--------------------------------------|--------------|----------------|
| Grant date share price               | \$0.0603     | \$0.071        |
| Exercise price                       | \$0.00       | \$0.00         |
| Expected volatility                  | 65%          | 65%            |
| Expiry date                          | 22 July 2014 | 21 August 2016 |
| Option life                          | 366 days     | 1,096 days     |
| Expected dividend yield              | Nil          | Nil            |
| Risk-free interest rate              | 2.79%        | 2.60%          |

#### Movements in share options during the year

|                              | 2014              |                                 | 2013              |                                 |
|------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                              | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance at beginning of year | 12,370,000        | \$0.00                          | 12,057,685        | \$0.08                          |
| Granted during the year      | 18,200,000        | \$0.00                          | 10,215,000        | \$0.00                          |
| Forfeited during the year    | (3,531,000)       | \$0.00                          | (7,235,000)       | \$0.10                          |
| Exercised during the year    | (3,429,000)       | \$0.00                          | (147,685)         | \$0.00                          |
| Expired during the year      | -                 | -                               | (2,520,000)       | -                               |
| Balance at end of year       | 23,610,000        | \$0.00                          | 12,370,000        | \$0.00                          |
| Exercisable at end of year   | -                 | -                               | -                 | -                               |

## Notes to the Financial Statements

### For the year ended 31 January 2014 (continued)

#### 36. Share-based payments (continued)

##### Share options outstanding at the end of the year

At the end of the year there are 23,610,000 share options outstanding that have been issued under the EPR. The exercise price of these share options are \$ Nil (2013: \$ Nil), and the weighted average remaining contractual life at the end of the period was 2.2 years (2013: 1.5 years).

##### Expenses arising from share-based payment transactions

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

|                                           | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------|----------------|----------------|
| Options issued under employee option plan | 471            | (100)          |

#### 37. Parent Entity Information

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

|                                   | Parent         |                 |
|-----------------------------------|----------------|-----------------|
| Profit / (Loss) after income tax  | (7,561)        | (10,181)        |
| <b>Total comprehensive income</b> | <b>(7,257)</b> | <b>(10,195)</b> |
| <b>Balance Sheets</b>             |                |                 |
| Total current assets              | 5,663          | 11,972          |
| <b>Total assets</b>               | <b>262,849</b> | <b>266,959</b>  |
| Total current liabilities         | 1,503          | 11,137          |
| <b>Total liabilities</b>          | <b>11,526</b>  | <b>11,222</b>   |
| <b>Equity</b>                     |                |                 |
| Contributed equity                | 206,860        | 196,510         |
| <b>Reserves</b>                   |                |                 |
| Available for sale investments    | 314            | 1,631           |
| Employee share options            | 2,102          | 481             |
| Retained profits                  | 40,513         | 57,115          |
| <b>Total equity</b>               | <b>249,789</b> | <b>255,737</b>  |

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

##### Significant accounting policies

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

##### Contingent liabilities

|                                    |     |     |
|------------------------------------|-----|-----|
| Security bond on rental properties | 192 | 192 |
|------------------------------------|-----|-----|

## Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 56 to 111 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 January 2014 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

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

Dated at Sydney this 30<sup>th</sup> day of April 2014



**The Hon. Dean Brown, AO**  
Chairman



**Mr Gregory Hall**  
CEO and Managing Director



## Independent auditor's report to the members of Hillgrove Resources Limited

### *Report on the financial report*

We have audited the accompanying financial report of Hillgrove Resources Limited (the company), which comprises the balance sheet as at 31 January 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Hillgrove Resources Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

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

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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*Auditor's opinion*

In our opinion:

- (a) the financial report of Hillgrove Resources Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 January 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

***Report on the Remuneration Report***

We have audited the remuneration report included in pages 36 to 46 of the directors' report for the year ended 31 January 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of Hillgrove Resources Limited for the year ended 31 January 2014 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'John Campion'.

John Campion  
Partner

Newcastle  
30 April 2014

## Shareholder Information for Listed Public Companies

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

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

### (a) Voting rights and classes of equity securities

As at 28 April 2014, the Company has 1,180,889,221 listed fully paid ordinary shares. Each fully paid share carries on a poll, one vote.

The company also has 72,610,000 unquoted options on issue which are held by 20 holders.

#### Holders of unquoted options greater than 20 per cent

| Name of holder         | Exercise price | Type     | Number of options |
|------------------------|----------------|----------|-------------------|
| Macquarie Bank Limited | \$0.135        | Unlisted | 50,000,000        |

### (b) The number of shareholdings holding less than a marketable parcel of ordinary shares was 1,677

### (c) Distribution schedule of Fully Paid Ordinary Shares as at 28 April 2014

| Size of holding  | Number of shareholders |
|------------------|------------------------|
| 1 - 1,000        | 435                    |
| 1,001 - 5,000    | 1,087                  |
| 5,001 - 10,000   | 892                    |
| 10,001 - 100,000 | 2,910                  |
| 100,001 and over | 1,017                  |
|                  | 6,341                  |

### (d) Securities exchange listing

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

### (e) Company Secretary

Mrs Shanthi Smith is the Company Secretary.

### (f) On-market buy-back

There is no current on-market buy-back.

## Shareholder information for listed Public Companies (continued)

### (g) Substantial shareholders as at 28 April 2014

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

| Name                                                                                                                                                          | Issued capital |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| IOOF Holdings – Perennial Investment Partners Limited                                                                                                         | 11.9%          |
| Portfolio Services Pty Limited, Platinum Partners Value Arbitrage Fund LP and Platinum Partners Liquid Opportunity Master Fund LT – Ariadne Australia Limited | 11.4%          |
| Renaissance Smaller Companies                                                                                                                                 | 8.4%           |
| Commonwealth Bank of Australia                                                                                                                                | 5.5%           |

### Twenty largest listed shareholders

The twenty largest shareholders hold 58.2% of the total ordinary shares issued. The names of the 20 largest shareholders as at 28 April 2014 are listed below:

| Shareholder                                                        | No. of ordinary shares held | % of issued shares |
|--------------------------------------------------------------------|-----------------------------|--------------------|
| 1 Citicorp Nominees Pty Limited                                    | 163,170,469                 | 13.818             |
| 2 National Nominees Limited                                        | 101,288,115                 | 8.577              |
| 3 HSBC Custody Nominees (Australia) Limited - A/C 3                | 66,681,609                  | 5.647              |
| 4 J P Morgan Nominees Australia Limited                            | 57,177,404                  | 4.842              |
| 5 Bell Potter Nominees Ltd <BB Nominees A/C>                       | 55,929,772                  | 4.736              |
| 6 HSBC Custody Nominees (Australia) Limited                        | 43,719,336                  | 3.702              |
| 7 BNP Paribas Noms Pty Ltd <DRP>                                   | 36,774,953                  | 3.114              |
| 8 Portfolio Services Pty Ltd                                       | 36,232,434                  | 3.068              |
| 9 HSBC Custody Nominees (Australia) Limited - GSCO ECA             | 27,636,580                  | 2.340              |
| 10 Citicorp Nominees Pty Limited <Colonial First State Inv. A/C>   | 18,817,144                  | 1.593              |
| 11 Neweconomy Com Au Nominees Pty Limited <900 Account>            | 13,252,976                  | 1.122              |
| 12 RBC Investor Services Australia Nominees Pty Limited <Piselect> | 12,668,569                  | 1.073              |
| 13 J P Morgan Nominees Australia Limited <Cash Income A/C>         | 12,332,747                  | 1.044              |
| 14 Portfolio Services Pty Ltd                                      | 10,300,000                  | 0.872              |
| 15 Pakasoluto Pty Limited <Barkl Family Super Fund A/C>            | 6,174,638                   | 0.523              |
| 16 Rapaki Pty Ltd <Rapaki Share A/C>                               | 5,400,000                   | 0.457              |
| 17 Avanteos Investments Limited <2477966 DNR A/C>                  | 5,340,909                   | 0.452              |
| 18 Mr Cameron Beavis <The Schindler S/F A/C>                       | 5,000,000                   | 0.423              |
| 19 Hot Springs Pty Limited                                         | 5,000,000                   | 0.423              |
| 20 Helen Ma Pty Ltd <Stevema Super Fund A/C>                       | 4,387,000                   | 0.371              |
|                                                                    | 687,284,655                 | 58.201             |

## Shareholder information for listed Public Companies (continued)

### (h) Interests in mining tenements

| Tenement     | Location                     | Percentage |
|--------------|------------------------------|------------|
| ML 6345      | Kanmantoo, South Australia   | 100%       |
| EML 6340     | Kanmantoo, South Australia   | 100%       |
| EL 4401      | Kanmantoo, South Australia   | 100%       |
| EL 3298      | Kanmantoo, South Australia   | 100%       |
| EL 4354      | Wheal Ellen, South Australia | 100%       |
| ELA 86/11    | Aclare South Australia       | 100%       |
| ML 755       | Armidale, New South Wales    | 100%       |
| IUP 322/2009 | Sumba, Indonesia             | 80%        |
| IUP 40/2010  | Bird's Head, Indonesia       | 80%        |

### (i) Other information

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

## Competent Persons

The information in this release that relates to Mineral Resources is based upon information compiled by 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.

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

## Offices and Officers

### Corporate and Registered Office

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### Kanmantoo Copper Mine

Éclair Mine Road  
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Tel: + 61 8 8538 6800  
Fax: + 61 8 8538 5255

### Share Registry

Boardroom Pty Limited  
Level 7, 207 Kent Street  
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Australia  
Tel: + 61 2 9290 9600  
Fax: + 61 2 9279 0664

### Auditors

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### Web Site

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### Sumba Project Office

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### Birds Head Project Office

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### Bankers

Westpac Banking Corporation  
31 Willoughby Road  
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### General Enquiries

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