

Friday, 12 October 2012

RESULTS FOR THE HALF-YEAR ENDED 31 JULY 2012

HILLGROVE GENERATES \$50.1 MILLION REVENUE FROM COPPER PRODUCTION AT KANMANTOO

- **Total operating revenue for the half-year of \$50.1 million (31 July 2011: \$1.3 million), derived from production at the Kanmantoo Copper Mine**
- **EBITDA for the half year (consolidated) was \$1.5 million (31 July 2011: loss of \$5.4 million) of which \$5.7 million was generated from Kanmantoo operations**
- **Half-year net loss after tax of \$14.7 million reflects bringing Kanmantoo into production and ramp up costs at the mine (31 July 2011: profit of \$0.5 million)**
- **Production of copper concentrate for the 6 month period was 23,596 tonnes**
- **Throughput achieving target capacity of 200,000 tonnes per month**
- **Exploration campaigns on nearby exploration targets at Kanmantoo**
- **Hillgrove recently completed programs in Indonesia at Sumba and Birds Head**

Hillgrove Resources Limited (ASX: HGO) is pleased to announce that the Company has generated total operating revenues of \$50.1 million for the half-year ended 31 July 2012 (31 July 2011: \$1.3 million), derived from the production of copper concentrate at the Company's Kanmantoo Copper Mine in South Australia.

The revenue growth is a result of Hillgrove bringing its principal operating asset, the Kanmantoo Copper Mine, into production and ramp up following initial commissioning at the end of 2011.

Investment in the mine and expenses associated with this major program, including an extended ramp up period at Kanmantoo, resulted in the Company producing a loss of \$14.7 million for the six months ended 31 July 2012 (2011: profit of \$0.5 million).

The loss after tax ('Statutory Loss') of \$14.7 million was primarily due to the EBITDA of \$1.5 million (31 July 2011: loss of \$5.4 million) combined with depreciation and amortisation of the development costs of constructing and commissioning the mine, plant and equipment, and other fixed assets of \$16.3 million. This was offset by a tax benefit of \$6.1 million.

The initial issues associated with bringing a new operation into production and the ramp up of operations have now been addressed. Kanmantoo is operating in steady state with processing throughput achieving targeted capacity and a positive outlook for the generation of free cash from the mine in future reporting periods.



The production of copper concentrate for the 6 month period was 23,596 tonnes, which contained 6,154 tonnes of copper, 2,491 ounces of gold and 52,858 ounces of silver, generating \$50.1 million in revenue.

The average realised payable price for copper and gold during the half-year remained strong in US dollar terms, however this was partly offset due to the strength of the Australian dollar relative to the US dollar. These strong prices in US dollar terms were supported by the attractive hedging program the Company has in place, with 1,540 tonnes sold into forward contracts during the period at an average price of \$A8,517 per tonne.

Hillgrove's acting CEO Russell Middleton said: "The Company is focused clearly on the objective of growing cash-flow from Kanmantoo. Hillgrove will continue to consolidate the significant operational gains at Kanmantoo to achieve the targeted annual production levels projected for the mine and resulting revenue."

"In the last two months we have seen a significant improvement across a number of the mine's key performance areas, as management focuses on steady production improvements and maintaining design throughput levels. I am pleased to advise shareholders that Kanmantoo is well positioned to deliver in excess of the original throughput target of 200,000 tonnes per month, and in doing so to ultimately produce between 70,000 and 80,000 dry metric tonnes of concentrate in a full year of production," Mr Middleton said.

Based on the recent performance of the Kanmantoo operations the Company is planning to progress the replacement of the primary crusher. The capital expenditure to install the new primary crusher is \$3.3 million. The new primary crusher will have a direct impact on operations and will reduce the unit cost of production, with a payback of less than 12 months. In addition, this new crusher will provide surge capacity and additional throughput to match the potential increase of the mill to 2.8M tonnes p.a.

The Company also invested \$7.0 million in exploration activities, which included \$1.7 million on nearby exploration targets at Kanmantoo and \$5.3 million in Indonesia.

At Kanmantoo, the focus of exploration work is on expanding the throughput and life of the mine, with the mine area set within a larger 500km² Exploration License where exploration potential and Resource expansion is considered high.

During the reporting period the Company has also progressed exploration activities at its Indonesian projects where Hillgrove is targeting epithermal gold and porphyry copper/gold deposits. At Sumba, exploration is pursuing a number of gold targets identified by the Company with an ongoing drilling campaign providing highly encouraging results. Additionally, at the Birds Head project in West Papua, Hillgrove is completing the drilling campaign and will be looking to determine next steps and future drill targets based on results from the highly promising West Delta porphyry prospect.

Hillgrove has sufficient working capital, with cash, trade debtors and inventories, of \$47.7 million at the end of the reporting period. In addition to this, subsequent to year end, the company raised an additional \$8.8 million through the issue of new shares in Hillgrove Resources Limited.

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ABOUT HILLGROVE

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on the operation of the Kanmantoo Copper Mine in South Australia, and exploration on its Indonesian tenements, where the Company is targeting the discovery of world class epithermal gold and porphyry copper/gold.

The Kanmantoo Copper Mine is located less than 55km from Adelaide in South Australia. With construction now completed, Kanmantoo is an open-cut mine, and is ramping up to an initial throughput of 2.4Mt per annum, to produce approximately 80,000 tonnes of concentrate per annum.

Global Mineral Resource (March 2012)

	JORC Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Bi (g/t)	Cu Metal (kt)
In Situ Resource	Measured	4.2	0.85	0.13	2.26	173	35.3
	Indicated	20.5	0.87	0.16	2.34	129	178.3
	Inferred	6.5	0.66	0.15	1.73	114	43.0
Long Term Stockpiles	Measured	1.1	0.46	N/A	N/A	N/A	5.0
	Indicated	0.5	0.18	N/A	N/A	N/A	0.9
	Total	32.8	0.80	0.15	2.20	132	262.6

Note: The estimation of Bi is based on limited sampling data. Bi is recognised as a potential penalty element.

As at end of March 2012.

2012 In Situ Resource > 0.25% Cu.

Long Term Stockpiles > 0.15% Cu. Au, Ag and Bi assays are not available.

Ore Reserve (April 2010)

Category	Tonnage Mt	Cu (%)	Au (g/t)	Ag (g/t)
Proved	2.3	0.87	0.13	3.2
Probable	12.5	0.84	0.18	3.1
Ore Reserve	14.8	0.85	0.17	3.1

Competent Person's Statements

The information in this release that relates to Kanmantoo Exploration Results, Exploration Targets and Stockpiles is based on information compiled by Mr Pat Manouge, who is a Member of The Australian Institute of Geoscientists. Mr Manouge is the Kanmantoo Copper Mine Exploration Manager for Hillgrove Resources 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'.

The information in this release that relates to in situ Mineral Resource estimates is based on information compiled by Mr Aaron Meakin, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Meakin is a full-time employee of AMC Consultants Pty Ltd 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'.

The information in this release that relates to Ore Reserve estimates is based on information compiled by Mr Geoff Davidson, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Davidson is a Principal Consultant and Director of Mining and Cost Engineering Pty Ltd and has sufficient relevant experience to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'.

The Competent Persons have consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.



**Interim Report
for the Half-Year Ended
31 July 2012**

**Hillgrove Resources Limited
and its Controlled Entities**

ACN 004 297 116

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Directors' Report

The Directors present their report on the consolidated entity consisting of Hillgrove Resources Limited and its controlled entities ("Company") for the six month period to 31 July 2012.

Directors

The directors of the Company during this period were:

- The Hon. Dean Brown, AO
- John Gooding
- John Quirke
- Edwin Zemancheff
- Douglas Snedden
- Drew Simonsen (resigned 27 July 2012).

Principal Activities

The principal activities for the Consolidated Entity during the period were mining of copper, gold, and silver at the Kanmantoo Copper Mine (located in South Australia), sale of copper concentrate, and exploration activities in Indonesia in West Papua and on the Island of Sumba.

Consolidated Result

The loss after tax attributable to Hillgrove Resources shareholders for the half-year ended 31 July 2012 was \$14.7 million (31 July 2011: Profit of \$0.5 million).

1. Overview

During the reporting period, the Company continued to ramp up its principal operating asset to full production. Hillgrove generated operating revenue of \$50.1 million (31 July 2011: \$1.3 million) from the production of copper concentrate for the 6 month period at the Kanmantoo Copper Mine. Due to the investment in the mine and expenses associated with this program (including the ramp up period taking longer than expected), the Company produced a loss of \$14.7 million for the six months ended 31 July 2012 (2011: profit of \$0.5 million). Hillgrove believes the initial issues associated with bringing a new operation into production and ramp-up of those operations have been addressed, with processing throughput achieving name plate capacity by the end of the period, with a positive outlook for the generation of free cash in future reporting periods.

The Statutory Loss of \$14.7 million for the six months ended 31 July 2012 was primarily due to the EBITDA of \$1.5 million, combined with depreciation and amortisation of the development costs of constructing and commissioning the mine, plant and equipment, and other fixed assets of \$16.3 million. This was offset by a tax benefit of \$6.1 million.

The Company invested \$4.1 million in oxide, transition and low grade primary inventories. The value of payable copper contained in these inventories was more than \$30 million, based on current market prices. All inventories are carried at the lower of Net Realisable Value (NRV) or cost.

The total additions to fixed assets for the reporting period was \$15.1 million which primarily comprised the tailings storage facility (\$6.5 million), mobile crusher (\$1.3 million), and deferred mining (\$4.5 million).

During the reporting period, the Company also invested \$7.0 million in exploration activities that included \$1.7 million on nearby exploration targets at Kanmantoo and \$5.3 million in Indonesia.

Directors' Report (continued)

The financial position of the Company was strengthened after the balance sheet date with a combined capital raising and share purchase plan (SPP), raising \$8.8 million.

2. Review of Kanmantoo Operation

During the ramp up period, Kanmantoo experienced bottlenecks and equipment reliability issues, namely the lower than expected performance of the crushing circuit. These in turn restricted the throughput of the plant, and hence the production of concentrate. These problems have largely been addressed with the acquisition of a mobile crusher in the first quarter to support the primary crusher, with throughput now achieving name plate capacity of 200,000 tonnes per month.

During the period, 6.9 million tonnes of material was mined, which included 1.0 million tonnes of ore and 0.5 million tonnes of oxide, transition and low grade primary ore that was stockpiled for use at a later date (with the payable metal content valued at more than \$30 million).

The waste to ore strip ratio for the period was 3.4:1.0 on the basis of all ore produced. Exploration at Kanmantoo amounted to \$1.7 million for the period. This expenditure was targeted at near mine exploration with the objective of increasing the estimated Resource and Reserve, and in turn extending the current mine life.

3. Revenue

The production of copper concentrate for the 6 month period was 23,596 tonnes, which contained 6,154 tonnes copper, 2,491 ounces gold and 52,858 ounces silver (generating revenue of \$50.1 million). Please refer to the following table for further information:

		6 Months to 31 July 2012
Production Volumes		
Copper	mt	6,154
Gold	oz	2,491
Silver	oz	52,858
Sales Volumes		
Copper	mt	6,236
Gold	oz	2,664
Silver	oz	58,048
Payable Volumes		
Copper	mt	5,995
Gold	oz	2,382
Silver	oz	52,245
Realised Payable Prices		
Copper	A\$/tonne	7,495
Gold	A\$/oz	1,567
Silver	A\$/oz	28
Average AUD:USD		1.04
Revenue		
Copper	\$'000	44,935
Gold	\$'000	3,734
Silver	\$'000	1,480
TOTAL SALES REVENUE	\$'000	50,149

Directors' Report (continued)

The average realised payable prices for copper and gold during the half year remained strong in US dollar terms, however this was partly offset due to the strength of the Australian dollar relative to the US dollar. These strong prices in US dollar terms were supported by the attractive hedging program the Company has in place, with 1,540 tonnes sold into forward contracts during the period at an average price of \$A8,517 per tonne.

4. Operational Costs

Costs for the period reflected an increase in maintenance and operating activity primarily as a result of managing the primary crusher.

Cost of sales of \$39.4 million includes all direct costs of production of \$43.0 million and the change in inventories of (\$3.6 million), but excludes \$16.3 million for depreciation and amortisation.

The C1 cash cost of production ("C1 cost") at Kanmantoo for the period was US\$2.55 per pound of copper, after by-product credits. This was mainly impacted by the lower production volumes for the period, combined with the higher costs associated with the ramp up (due to the rehandling of ore on the ROM stockpiles as well as the crusher issues previously noted). In addition to this, the strength of the Australian dollar relative to the US dollar has also increased the C1 cash costs. Please refer to the following table for a breakdown:

MINE COSTS

Period to 31 July 2012	US cents per lb
Mining Costs	123
Processing Costs	98
Other Direct Cash Costs	25
Total Onsite Costs	246
Transport & Shipping	18
Treatment, Refining & Smelter Charges	33
Total Offsite Costs	51
Precious Metals Credits	(42)
Total Direct Operating Costs (C1 Cash Costs)	255
Royalties	4
D&A	123
TOTAL	382

5. Other Financial Matters

5.1 Gains / (losses) on financial derivatives

In the six month period to 31 July 2012, an unrealised loss on financial derivatives was charged to the profit and loss for \$2.9 million. This loss reflected the change in the time value of copper options. As the copper options have been designated in cash flow relationships, the accounting standard on financial instruments requires the change in the time value to be taken to the profit and loss as opposed to the Reserves.

Directors' Report (continued)

5.2 Depreciation and amortisation

The depreciation and amortisation expensed for the six months to 31 July 2012 was \$16.3 million, which was predominantly associated with the depreciation of Mine Development (\$8.4 million) and depreciation of Plant and Equipment (\$7.5 million). It must be noted that any increase to the ore Reserve life will reduce the annual depreciation and amortisation expense in future periods.

5.3 Corporate and administration costs

Corporate and administration costs were \$2.2 million (31 July 2011: \$1.8 million), with the slight increase due to the increased level of reporting and statutory compliance resulting from ramp up of the mine to full production capability, as expected.

5.4 Finance Costs

Finance costs of \$3.5 million were higher than the corresponding prior period (2011: \$0.9 million) due to the full draw down of debt facilities for the entire period. These facilities include the Kanmantoo Project Loan Facility (\$30.0 million), Parent Mezzanine Facility (\$10.0 million) and the Gold Loan (\$15.0 million – drawn in March 2012).

5.5 Income Tax benefit

The income tax benefit of \$6.1 million in the current period is based on a tax loss of \$20.2 million, resulting in an effective tax rate of 29.2%. This rate is marginally lower than the Australian company tax rate of 30% due to the add-back of non-deductible expenditure.

6. Statement of Cash Flows

Cash held at 31 July 2012 increased by \$6.2 million as a result of operating activities (\$2.9 million) and financing activities (\$17.9 million), which were offset by \$14.5 million in investing activities.

6.1 Cash Flow – Operating Activities

During the six months to 31 July 2012, the company received \$45.5 million, which comprised of payments received from Freeport Metals & Concentrates LLC (\$43.6 million) and copper swap settlements (\$1.8 million) resulting from the Company's strong hedging program.

6.2 Cash Flow – Investing Activities

Net cash used in investing activities during the 6 month period was \$14.5 million, which was a decrease of 80% from the previous period as a result of the completion of mine development in December 2011. This \$14.5 million predominantly comprised of exploration activity in Kanmantoo and Indonesia (\$6.2 million) as well as investment in plant and equipment and capitalisation of waste material for the Kanmantoo tailings storage facility (\$8.6 million).

6.3 Cash Flow – Financing Activities

In the current period, the financing cash flow includes \$10.1 million from the issue of shares and \$15.0 million from the proceeds of the Gold Loan. This was offset against borrowings (\$1.8 million), deferred settlement for construction contracts (\$2.9 million) and interest payments (\$2.3 million).

7. Balance Sheet

7.1 Working Capital

The Company has sufficient working capital, with cash, trade debtors and inventories of \$47.7 million, exceeding trade payables of \$28.9 million by \$18.8 million.

Directors' Report (continued)

7.2 Net Assets and Total Equity

Net Assets and Total Equity increased by \$14.7 million during the half year to \$224.7 million. This was largely as a result of the increase in the value of the copper swaps, and is testament to the Company's strong hedging program.

7.3 Inventory movements

Low grade primary ore increased by \$2.4 million from \$1.8 million in January 2012 to \$4.2 million in July 2012 due to the stockpiling of lower grade ore mined allowing for the processing of higher grade material through the plant.

Oxide and transition ore has increased to \$5.1 million from \$3.5 million for the six months prior due to the long term stock piling of supplementary feed to the ROM after the Net Realisable Value write off.

7.4 Net Debt and Gearing

As at 31 July 2012 Hillgrove had Net Debt of \$26.6 million, with a gearing ratio of 23.8%.

8. Events subsequent to the balance sheet date

In August 2012, the Company raised \$8.8 million through the issuance of new shares in Hillgrove Resources Limited. This consisted of two components:

- Issue of 57,415,803 shares at 8.5 cents which was the conditional component of the share placement, which raised \$4.9 million; and
- Issue of 52,443,372 shares at 7.53 cents under the Share Purchase Plan from existing shareholders, which raised \$3.9 million.

Rounding of Amounts

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

Auditor's Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

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

Dated at Sydney this 12th day of October 2012



The Hon. Dean C Brown AO
Chairman



Mr Douglas N Snedden
Director



Auditor's Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half year ended 31 July 2012, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink that reads 'D A Turner'.

Darren Turner
Partner
PricewaterhouseCoopers

Newcastle
12 October 2012

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Consolidated Income Statement For the half-year ended 31 July 2012

	Note	Half-year	
		2012 \$'000	2011 \$'000
Revenue from sale of concentrates		50,149	1,323
Other income		394	2,251
Cost of production		(43,000)	(598)
Changes in inventories of ore and concentrate		3,648	-
Materials and services costs		(2,190)	-
Employee benefit expenses		(3,092)	(2,011)
Royalties expense		(593)	(60)
Net foreign exchange gains/ (losses)		(137)	(81)
Unrealised gains/ (losses) on financial derivatives	3	(2,936)	277
Share of net profit from associates using equity method		192	4,499
Revaluation of investment in associates		-	(2,191)
Impairment of assets		-	(267)
Impairment of available for sale financial instruments		(496)	(546)
Impairment of exploration expenditure		(727)	-
Depreciation and amortisation expenses		(16,264)	(289)
Corporate and other administration costs		(2,185)	(1,844)
Financing expenses		(3,470)	(941)
Loss before income tax		(20,707)	(478)
Income tax benefit		6,056	981
(Loss) / Profit for the half year		(14,651)	503
(Loss) / Profit for the half year is attributable to:			
Equity holders of Hillgrove Resources		(14,507)	335
Non-controlling interest		(144)	168
		(14,651)	503
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
		\$	\$
Basic earnings per share		(0.018)	0.001
Diluted earnings per share		(0.017)	0.001

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

**Consolidated Statement of Comprehensive Income
For the half-year ended 31 July 2012**

	Half-year	
	2012	2011
	\$'000	\$'000
(Loss) / Profit for the half year	(14,651)	503
Other comprehensive income		
Available-for-sale financial assets	0	(44)
Employee share option plan	(103)	262
Unrealised gains/ losses on cash flow hedges taken to equity	28,698	14,058
Income tax relating to components of other comprehensive income	(8,609)	(4,218)
Other comprehensive income for the half year (net of tax)	19,986	10,058
Total comprehensive income for the half year	5,335	10,561
Total comprehensive income for the half year is attributable to:		
Equity holders of Hillgrove Resources	5,479	10,395
Non-controlling interest	(144)	166
	5,335	10,561

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

Consolidated Balance Sheets As at 31 July 2012

	Note	31 July 2012 \$'000	31 Jan 2012 \$'000
Current assets			
Cash and cash equivalents		26,907	20,661
Trade and other receivables		7,161	6,406
Derivative financial instruments	3	9,953	4,240
Available-for-sale financial assets		583	1,079
Inventories	4	13,615	9,251
Total current assets		58,219	41,637
Non-current assets			
Property, plant and equipment	5	228,428	229,445
Intangible Assets		783	950
Exploration and evaluation expenses	6	25,044	18,758
Derivative financial instruments	3	13,035	3,374
Investments accounted for using the equity method		-	88
Deferred tax asset		2,797	5,350
Total non-current assets		270,087	257,965
Total assets		328,306	299,602
Current liabilities			
Trade and other payables		28,886	15,954
Borrowings	7	25,801	5,092
Deferred settlement on Construction Contracts		8,339	9,266
Employee benefits payable		1,132	1,199
Derivative financial instruments	3	2,479	407
Total current liabilities		66,637	31,918
Non-current liabilities			
Provisions		9,310	9,327
Borrowings	8	27,679	34,052
Deferred settlement on Construction Contracts		-	1,853
Derivative financial instruments	3	-	12,434
Total non-current liabilities		36,989	57,666
Total liabilities		103,626	89,584
Net assets		224,680	210,018
Equity			
Contributed equity	9	187,669	178,343
Reserves		16,759	(3,227)
Retained earnings		20,058	34,709
Capital and reserves attributable to the owners of Hillgrove Resources Limited		224,486	209,825
Non-controlling interest		194	193
Total equity		224,680	210,018

The above consolidated balance sheets should be read in conjunction with the accompanying notes.

**Consolidated Statement of Changes in Equity
For the half-year ended 31 July 2012**

	Attributable to owners of Hillgrove Resources Limited				Non- controlling interests \$'000	Total equity \$'000
	Contributed equity	Reserves	Retained earnings	Total		
	\$'000	\$'000	\$'000	\$'000		
Balance 1 February 2011	178,343	(37,007)	43,171	184,507	334	184,841
Total comprehensive income for the half-year	-	10,058	503	10,561	-	10,561
Transactions with owners:						
Contributions of equity, net of transaction costs	-	-	-	-	-	-
Non- controlling interests	-	-	-	-	(166)	(166)
Balance 31 July 2011	178,343	(26,949)	43,674	195,068	168	195,236
Balance 1 February 2012	178,343	(3,227)	34,709	209,825	193	210,018
Total comprehensive income for the half-year	-	19,986	(14,651)	5,335	-	5,335
Transactions with owners:						
Contributions of equity, net of transaction costs	9,326	-	-	9,326	-	9,326
Non- controlling interests	-	-	-	-	1	1
Balance 31 July 2012	187,669	16,759	20,058	224,486	194	224,680

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

Consolidated Statement of Cash Flows For the half-year ended 31 July 2012

Note	Half-year	
	July 2012 \$'000	July 2011 \$'000
Cash flows from operating activities		
Cash receipts in the course of operations	45,451	1,585
Cash payments in the course of operations	(42,581)	(5,380)
Income tax paid	-	-
Net cash provided/ (used) in operating activities	2,870	(3,795)
Cash flows from investing activities		
Payments for exploration evaluation and development	(6,177)	(38,473)
Payments for plant and equipment	(8,600)	(34,453)
Payments for Investments	-	(225)
Dividends from Associate	279	-
Proceeds on sale of available for sale financial assets	-	371
Proceeds on sale of plant and equipment	-	8
Net cash used in investing activities	(14,498)	(72,772)
Cash flows from financing activities		
Proceeds from issue of shares	10,120	-
Transaction costs from issue of shares	(706)	-
Repayment of borrowings	(1,822)	-
Repayment of Deferred settlement on Construction Contracts	(2,872)	-
Interest paid	(2,294)	-
Interest received	448	2,251
Proceeds from borrowings	15,000	12,000
Transaction costs of borrowings	-	(212)
Net cash provided by financing activities	17,874	14,039
Net increase/ (decrease) in cash held	6,246	(62,528)
Cash at beginning of the half year	20,661	117,859
Cash at end of the half year	26,907	55,331

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

Notes to the Financial Statements For the half-year ended 31 July 2012

1. Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 July 2012 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 January 2012 and any public announcements made by Hillgrove Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year and corresponding interim reporting periods.

Hillgrove Resources Limited decided in the interim financial reporting period to condense the classification of its revenues and expenses in the income statement in line with the commencement of production. We believe that this will provide more relevant information to our stakeholders as it is more in line with common practice and industries Hillgrove Resources Limited is operating in. The comparative information has been reclassified accordingly.

Going Concern

As at 31 July 2012 the group had a working capital deficiency of \$8,418k (31 January 2012: positive working capital of \$9,719k). The loss for the half year ended 31 July 2012 of \$14,651k (half year to 31 July 2011: profit of \$503k) is predominantly the result of the group generating lower revenue as a result of initial issues associated with bringing a new operation into production, such as equipment reliability and performance. The Directors are of the opinion that these initial issues have been addressed and that capital raising achieved post balance date along with production throughput will allow the group to generate free cash in future reporting periods.

The interim 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.

New accounting standards and interpretations

The following new standards and amendments to standards have been adopted in these financial statements:

AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011-12 *Amendments to Australian Accounting Standards arising from Interpretation 20* (effective 1 January 2013)

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the ore body) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body.

Notes to the Financial Statements For the half-year ended 31 July 2012 (continued)

1. Basis of preparation (continued)

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This has not affected the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group has adopted the new standard from 1 July 2012.

Impact of standards issued but not yet applied by the entity

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group has recognised such losses in other comprehensive income. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

2. Financial reporting by segment

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

Australia: Mineral exploration and mining development.

Indonesia: Mineral exploration in Sumba and Birds Head.

Within the Australia reportable reporting segment, management review 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 business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

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

Notes to the Financial Statements For the half-year ended 31 July 2012 (continued)

2. Financial reporting by segment (continued)

	Australia			Indo- nesia	Consol- -idated	Australia		Indo- nesia	Consol- -idated
	Copper	Other Operations				Copper	Other Operations		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	31 July 2012				31 July 2011				
Revenue from sale of concentrates	50,149	-	-	50,149	-	1,323	-	1,323	
Other income	13	-	-	13	-	101	-	101	
Cost of production	(43,000)	-	-	(43,000)	-	(598)	-	(598)	
Changes in inventories of ore and concentrate - cash	2,493	-	-	2,493	-	-	-	-	
Materials and services costs	(2,190)	-	-	(2,190)	-	-	-	-	
Employee benefit expenses	(1,125)	(1,967)	-	(3,092)	-	(2,011)	-	(2,011)	
Royalties expense	(593)	-	-	(593)	-	(60)	-	(60)	
Net foreign exchange gains/ (losses)	39	-	(176)	(137)	-	(81)	-	(81)	
Revaluation of investment in associates	-	-	-	-	-	(2,191)	-	(2,191)	
Corporate and other administration costs	(73)	(2,112)	-	(2,185)	(64)	(1,780)	-	(1,844)	
EBITDA	5,713	(4,079)	(176)	1,458	(64)	(5,297)	-	(5,361)	
Depreciation and amortisation expenses	(16,150)	(81)	(33)	(16,264)	(18)	(271)	-	(289)	
Unrealised gains/ (losses) on financial derivatives	(2,936)	-	-	(2,936)	277	-	-	277	
Share of net profit from associates using equity method	-	192	-	192	-	4,499	-	4,499	
Impairment of assets	-	-	-	-	-	(267)	-	(267)	
Impairment of available for sale instruments	-	(496)	-	(496)	-	(546)	-	(546)	
Impairment of exploration expenditure	-	(727)	-	(727)	-	-	-	-	
Changes of inventories of ore and concentrate – non cash	1,155	-	-	1,155	-	-	-	-	
EBIT	(12,218)	(5,191)	(209)	(17,618)	195	(1,882)	-	(1,687)	
Net financing income / expenses	(2,675)	(414)	-	(3,089)	(965)	2,174	-	1,209	
EBT	(14,893)	(5,605)	(209)	(20,707)	(770)	292	-	(478)	
Income Tax benefit				6,056				981	
Net (loss) / profit after tax				(14,651)				503	

Notes to the Financial Statements For the half-year ended 31 July 2012 (continued)

2. Financial reporting by segment (continued)

	Australia			Consol- -idated	Australia			Consol- -idated
	Copper	Other Operations	Indo- nesia		Copper	Other Operations	Indo- nesia	
	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000	
	31 July 2012				31 July 2011			
Segment assets	282,017	23,855	22,434	328,306	251,110	31,677	17,125	299,602
Additions to non-current assets	16,461	319	5,318	22,098	322,041	1,457	8,499	331,997
Segment liabilities	90,603	12,276	747	103,626	77,538	11,902	144	89,584

Revenue from major products and services

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

Geographical information

In the half-year, Hillgrove's external revenues are derived from the USA, with the final destination of China, for copper concentrate.

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

	31 Jul 2012	31 Jan 2012
	\$'000	\$'000
Australia	231,159	231,263
Indonesia	22,313	17,028
	<u>253,472</u>	<u>248,291</u>

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

Information about major customers

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

Notes to the Financial Statements
For the half-year ended 31 July 2012 (continued)

3. Derivative Financial Instruments

	31 Jul 2012	31 Jul 2011
	\$'000	\$'000
Unrealised gains/ (losses) on financial derivatives	(2,936)	277

In the current period, the unrealised loss is mainly due to the changes in the time value of copper options. The copper options have been designated in cash flow hedge relationships. However, the current hedge accounting rules do not allow for the change in time value to be deferred in other comprehensive income and has therefore been recognised in the income statement.

	31 Jul 2012	31 Jan 2012
	\$'000	\$'000
Current Assets		
- Swaps	9,545	2,480
- Gold	408	-
- Options	-	1,760
	<u>9,953</u>	<u>4,240</u>
Non -Current Assets		
- Swaps	12,412	3,374
- Gold	623	-
	<u>13,035</u>	<u>3,374</u>
Current Liabilities		
- Options	1,866	407
- FX Forwards	613	-
	<u>2,479</u>	<u>407</u>
Non-Current Liabilities		
- Swaps	-	11,429
- Options	-	1,005
	<u>-</u>	<u>12,434</u>

The value of the copper Swaps has increased during the period due to the decrease in copper prices, as Hillgrove has locked in the copper prices through these Swaps.

Notes to the Financial Statements
For the half-year ended 31 July 2012 (continued)

4. Current assets – Inventories

	31 Jul 2012	31 Jan 2012
	\$'000	\$'000
Concentrates	559	1,051
Ore stockpile	1,384	1,363
Oxide and transition ore	5,129	3,491
Low grade primary	4,243	1,762
Stores and consumables	2,300	1,584
	13,615	9,251

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

	31 Jul 2012	31 Jan 2012
	\$'000	\$'000
<i>Land and Buildings</i>		
At cost	8,848	8,542
Accumulated Depreciation	(7)	(7)
	8,841	8,535
<i>Furniture, Fittings & Office equipment</i>		
At cost	1,503	1,457
Accumulated Depreciation	(1,085)	(959)
	418	498
<i>Plant & Equipment</i>		
At cost	106,615	104,888
Accumulated Depreciation	(9,894)	(2,389)
	96,721	102,499
<i>Motor vehicles</i>		
At cost	1,087	809
Accumulated Depreciation	(251)	(182)
	836	627
<i>Mine Development</i>		
At cost	132,625	119,902
Accumulated Depreciation	(11,013)	(2,616)
	121,612	117,286
Total property, plant and equipment	228,428	229,445

Notes to the Financial Statements
For the half-year ended 31 July 2012 (continued)

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

	31 Jul 2012 \$'000	31 Jan 2012 \$'000
<i>Land and Buildings</i>		
Carrying amount at beginning of year	8,535	8,529
Additions	306	15
Impairment	-	(8)
Depreciation	-	(1)
Carrying amount at end of year	8,841	8,535
<i>Furniture, Fittings & Office Equipment</i>		
Carrying amount at beginning of year	498	282
Additions	45	332
Disposals	-	(3)
Depreciation	(125)	(113)
Carrying amount at end of year	418	498
<i>Plant & Equipment</i>		
Carrying amount at beginning of year	102,499	27,248
Additions	1,727	80,377
Assets transferred to Mine Development	-	(2,500)
Disposals	-	-
Impairment	-	(258)
Depreciation	(7,505)	(2,368)
Carrying amount at end of year	96,721	102,499
<i>Motor Vehicles</i>		
Carrying amount at beginning of year	627	9
Additions	278	637
Depreciation	(69)	(19)
Carrying amount at end of year	836	627
<i>Mine Development</i>		
Carrying amount at beginning of year	117,286	-
Additions	12,723	117,402
Assets transferred from Plant & Equipment	-	2,500
Depreciation	(8,397)	(2,616)
Carrying amount at end of year	121,612	117,286
Total Property, plant & equipment	228,428	229,445

Notes to the Financial Statements
For the half-year ended 31 July 2012 (continued)

6. Non-current assets – exploration, evaluation and development expenditure

Consolidated	Exploration and Evaluation		Development		Total	
	Jul 2012	Jan 2012	Jul 2012	Jan 2012	Jul 2012	Jan 2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Exploration, evaluation and development expenditure	25,044	18,758	-	-	25,044	18,758
Balance at beginning of financial year	18,758	39,315	-	36,732	18,758	76,047
Additions	7,018	10,709	-	121,427	7,018	132,136
Transferred to property, plant and equipment	-	(29,188)	-	(150,060)	-	(179,248)
Transfer to non-assets accounts	-	(2,078)	-	(5,033)	-	(7,111)
Impairment of exploration/development expenditure	(732)	-	-	(3,066)	(732)	(3,066)
Total exploration, evaluation, and development expenditure	25,044	18,758	-	-	25,044	18,758

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.

Impairment of exploration costs was a result of tenements being relinquished and no continuous use.

7. Current liabilities – borrowings

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 10,100 ounces of gold in quarterly instalments over the period June 2012 to September 2014. In the next 12 months, \$5.6 million of the loan will be repaid.

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.

**Notes to the Financial Statements
For the half-year ended 31 July 2012 (continued)**

7. Current liabilities – borrowings (continued)

	31 Jul 2012	31 Jan 2012
	\$'000	\$'000
Secured		
Bank Loan – Project finance	10,000	5,000
Bank Loan – Mezzanine facility	10,000	-
Gold Loan	5,652	-
Total secured current borrowings	25,652	5,000
Unsecured		
Lease liabilities	149	92
Total unsecured current borrowings	149	92
Total current borrowings	25,801	5,092

8. Non-current liabilities – borrowings

	31 Jul 2012	31 Jan 2012
	\$'000	\$'000
Secured		
Bank Loan – Project finance	20,000	25,000
Bank Loan – Mezzanine facility	-	10,000
Gold Loan	8,248	-
Less transaction costs on loans	(1,181)	(1,413)
Total secured non-current borrowings	27,067	33,587
Unsecured		
Lease liabilities	612	465
Total unsecured non-current borrowings	612	465
Total non-current borrowings	27,679	34,052

Notes to the Financial Statements For the half-year ended 31 July 2012 (continued)

8. Non-current liabilities – borrowings (continued)

Contractual maturities of financial liabilities (\$'000)	Less than 6 months	6-12 months	1 – 2 years	2- 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
At 31 July 2012							
Non-derivatives							
Trade and other payables	28,886	-	-	-	-	28,886	28,886
Deferred settlement on construction contracts	6,687	1,870	-	-	-	8,557	8,557
Borrowings	10,712	18,954	17,912	12,600	-	60,178	60,178
Total non-derivatives	46,285	20,824	17,912	12,600	-	97,621	97,621
At 31 January 2012							
Non-derivatives							
Trade and other payables	15,954	-	-	-	-	15,954	15,954
Deferred settlement on construction contracts	3,706	6,449	1,927	-	-	12,082	12,082
Borrowings	-	8,123	21,843	15,849	-	45,815	45,815
Total non-derivatives	19,660	14,572	23,770	15,849	-	73,851	73,851

Financing arrangements

The group had no undrawn borrowing facilities as at 31 July 2012.

9. Contributed Equity

	31 Jul 2012 \$'000	31 Jan 2012 \$'000
Share capital		
Issued and paid up capital 912,753,361 shares (Jan 2012: 793,698,575) fully paid	187,669	178,343
Ordinary Shares		
<i>Movements during the year</i>		
Balance as at beginning of year	178,343	178,343
Shares Issued:		
• 119,054,786 – conditional share issue	10,120	-
• Transaction costs arising from share issues	(794)	-
Balance at end of year	187,669	178,343

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

Notes to the Financial Statements For the half-year ended 31 July 2012 (continued)

10. Related party transactions

Loans to controlled entities are netted on consolidation.

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

11. Events subsequent to the balance sheet date

In August 2012, the conditional component of the share placement was approved by shareholders at an Extraordinary General Meeting held on 23 August 2012 and an amount of \$4.9m was raised by issuing 57,415,803 shares at 8.5 cents per share.

In addition to the above, \$3.9m was also raised in August 2012 by issuing 52,443,372 shares at 7.53 cents under the Share Purchase Plan from existing shareholders. The shares were issued at a discount of 5% to the volume weighted average price during the five days prior to issue.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 24 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 July 2012 and of its performance for the half- year ended on that date; and
- (b) there are reasonable grounds to believe that Hillgrove Resources Limited will be able to pay its debts as and when they become due and payable.

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

Dated at Sydney this 12th day of October 2012



The Hon. Dean C Brown AO
Chairman



Mr Douglas N Snedden
Director



Independent auditor's review report to the members of Hillgrove Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Hillgrove Resources Limited, which comprises the balance sheet as at 31 July 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Hillgrove Resources Limited (the consolidated entity). The consolidated entity comprises both Hillgrove Resources Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 July 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hillgrove Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 July 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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A handwritten signature in black ink that reads 'D A Turner'.

Darren Turner
Partner

Newcastle
12 October 2012