

**Chairman's Address**

**Hillgrove Resources Limited - Annual General Meeting 2016**

Ladies and Gentlemen, welcome to the 2016 Annual General Meeting of Hillgrove Resources Limited.

I am extremely proud that despite the significant challenges facing the Company, there have been two important achievements. The total recordable injury frequency rate has reduced by forty four percent. Secondly the Company and the Kanmantoo Callington Community Consultative Committee were joint winners of the SA Premier's Award – Excellence in Supporting Communities.

The safety of our employees and contractors is critical. Maintaining a social licence to operate, especially near established communities, is essential.

In the past year the Company has faced considerable financial challenges, particularly through lower commodity prices and the physical performance of the Kanmantoo Copper Mine.

Immediately following the Chairman's Address, Steve McClare, the Managing Director, will provide a presentation that explains the key issues in further detail.

The working capital position has deteriorated since the last AGM due to revenue being considerably lower. More than half of this reduction is due to the underperformance of the historic oxide material. The remainder is due to



underperformance of the satellite pits and the upper periphery of the Giant Pit cutback. Fortunately the satellite pits are now finished and closed, and the treatment of stored oxide ore is completed.

This loss of revenue was partially offset by lower expenses. Mining costs were lower with the reduced volume moved, concentrate transport costs were lower due to the reduced volume, and corporate costs have been reduced by about 40%, which reflects the moving of the Head Office from Sydney to Adelaide and the associated staff reduction.

Whilst the cutback of the Giant Pit is well advanced, the operation of the Mine encounters high strip ratios for the remainder of this year. Then the free cash flow will be applied to debt repayment during 2017. During 2018 and beyond, it is expected cash will accumulate for the benefit of the shareholders.

The challenge is to navigate the cashflow constraint and enable the return of value to shareholders.

The Company has taken numerous initiatives to address the cashflow challenge to date, and into the future. These include the following:

- Salary reductions and deferrals:
  - Board – minus 20%
  - CEO & Managing Director – minus 15%
  - Employees – minus 10% or to award conditions
- Strong support from contractors and suppliers.
- SA Government assistance is being discussed.
- Asset sales.
- Improved payment terms on sales of copper concentrate.
- Operating cost savings.
- Corporate cost reductions.

- The Indonesian assets remain on care and maintenance.

Despite these challenges, the Board believes there is considerable value for the shareholders in the Kanmantoo Copper Mine.

Previously I have stressed the priority is to push ahead with the cutback of the Giant Pit so that higher grade ore can be accessed. So far the Company has invested about \$70m. in that cutback. During the past three months better grade ore has been mined, producing 13% additional copper.

I want to acknowledge the ongoing support of our many stakeholders, including our shareholders, in challenging times, not only for the Company but for the resource industry globally. I urge you to continue to back your Company as it navigates a path through to unlocking value. I thank the employees of Hillgrove, the management team led ably by Steve McClare, and the contractors and suppliers for their commitment to the task. It has not been easy for them. The Board has appreciated their dedication. Equally I thank the Directors for the clarity of their advice and their strong support.

**The Hon. Dean Brown, AO**

Chairman