

Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 30 September 2018

HIGHLIGHTS

Operations – a strong quarter with:

- Sustained improvement in safety, with the 12 month total recordable injury frequency rate (TRIFR) decreasing by 32%, from 21.7 to 14.8 over the last year;
- Copper production of 6,454 tonnes, the highest quarterly production on record;
- Quarterly gold production of 1,306 ounces;
- The low strip ratio¹ of 1.4:1 resulted in the continued build-up of low grade ore stockpiles to 2.6M tonnes at quarter end, equivalent to 9 months of processing; and
- Preferential treatment of high grade ore continued, with feed grade for the quarter of 0.80% copper (0.82% June quarter).

Cash Flow – the higher levels of production allowed the Company to reduce its creditor balance by \$8.5m and borrowings by \$4.0m during the quarter.

Fixed Pricing – the Company continued to replace its fixed pricing contracts, with 13,650 tonnes of copper sales fixed at an average price of \$8,925 per tonne at quarter end.

LOOKING FORWARD

2018 Guidance – gold production guidance has been increased from 2,500 – 3,500 ounces to 5,500 – 6,000 ounces, while guidance for copper production, C1 cost, capital and exploration expenditure remain unchanged.

Pumped Hydro – a shortlist of bidders was selected to progress to the binding bid stage with final offers due in the December 2018 quarter.

Growth Opportunities – work on the growth opportunities will continue, including:

- Underground – the underground development with all regulatory approvals in place, is well positioned as an alternative for pumped hydro, with a decision to commence the underground exploration drive likely to be made in the March 2019 quarter, pending pumped hydro bids.
- Kanappa – complete and assess the results of the current diamond drilling programme; and
- Kanmantoo Exploration – continue to prioritise Cu-Au targets around Kanmantoo with on-going sampling and geophysical programmes. The recent discovery of a coincident magneto-telluric conductivity zone, magnetic high, and IP chargeability area south of the Company's plant, will result in further work on this target before drilling in 2019.

Cashflow – forecast strong copper production combined with the fixed pricing contracts will allow the Company to return creditors back to normal terms, fully repay the \$4.0m Freeport Copper Prepay Facility, and build a healthy cash balance during the December quarter.

¹ Strip ratio: (tonnes of waste) / (tonnes of ore) above cut-off grade of 0.2%Cu

MANAGING DIRECTOR'S STATEMENT

With the tighter working areas as we approach the final stages of open-cut mining, mine production has slowed and unit costs have increased as expected – which was exacerbated with 16 days of weather delays in the September 2018 quarter. Despite these issues, the low strip ratio has allowed the Company to continue to accumulate ore stockpiles (which grew from 2.3M tonnes to 2.6M tonnes during the quarter). This has not only increased the resilience of the business, but has allowed the continuation of the preferential treatment of higher grade ores, which led to the highest quarterly copper production on record.

Stockpiles are expected to continue to increase until mid-2019 when mining ceases. At this time, we expect to have sufficient stockpiles to continue processing until the third quarter of 2020 and we should see cash generation increase as we will be operating on a lower cash cost during this period.

The record quarterly production has been supported by the strong fixed pricing contracts. At quarter end we still have 13,650 tonnes of fixed pricing available for future production, at an average copper price of \$8,925 per tonne. The Company continues the active management of exposures to the USD copper price and exchange rate. Subsequent to quarter end, an additional 1,500 tonnes of fixed pricing were added at an average price of \$8,810 per tonne.

Gold production has continued to be pleasing with 5,118 ounces produced for the first three quarters of this year. As a result, we have increased our 2018 gold production guidance from 2,500 – 3,500 ounces to 5,500 – 6,000 ounces.

With the record production and strong prices realised, the balance sheet has been strengthened through the reduction of creditors and liabilities – with the creditor balance reducing by \$8.5m and borrowings by \$4.0m during the quarter.

Looking forward, the coming six months is an exciting one for the Company, with results expected from a number of projects, including:

- Pumped hydro – the shortlisted parties will be providing their final binding offers;
- Underground – with all regulatory approvals already in place, Hillgrove can commence the exploration drive (pending the outcome of the pumped hydro offers); and
- Kanappa – the completion and assessment of the current diamond drilling program.



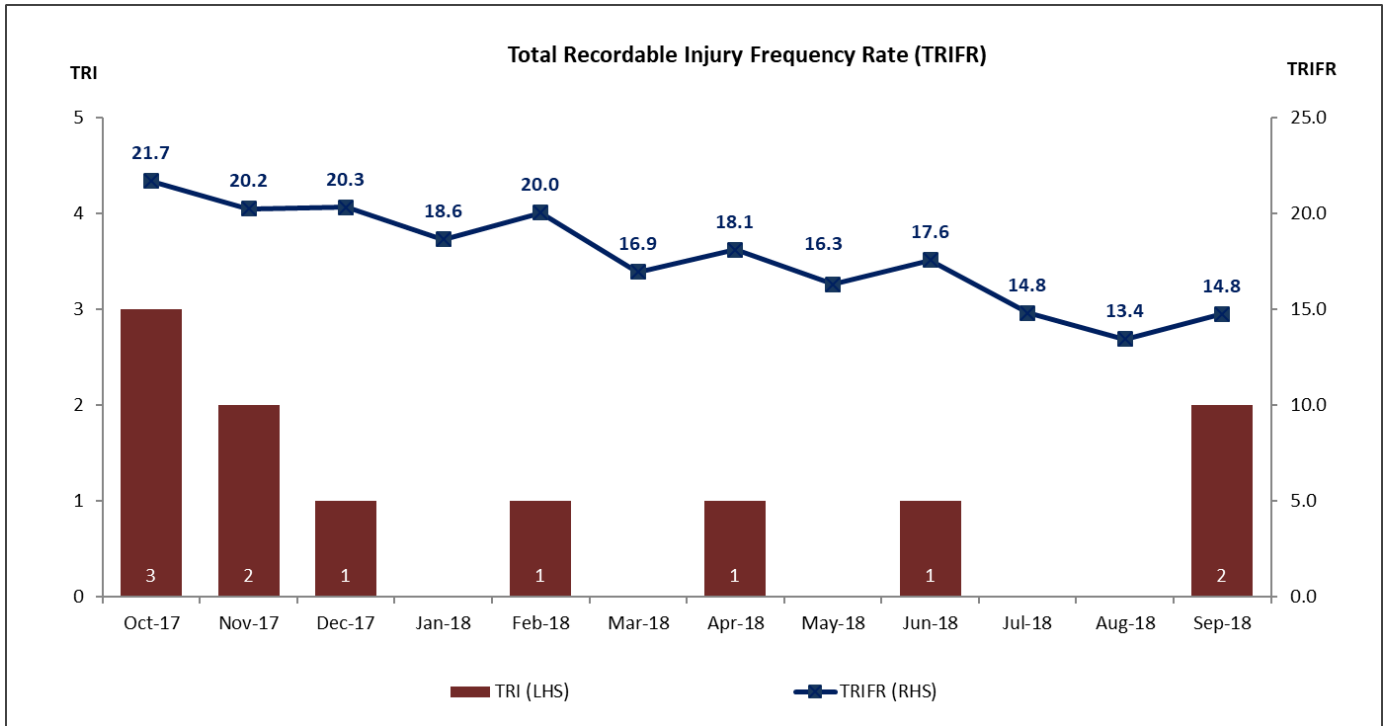
KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

Safety

The Company has improved the 12 month moving average TRIFR – from 21.7 in October 2017 to 14.8 at the end of the September 2018 quarter, despite two reportable injuries in the quarter. Please refer to Figure 1 below.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)



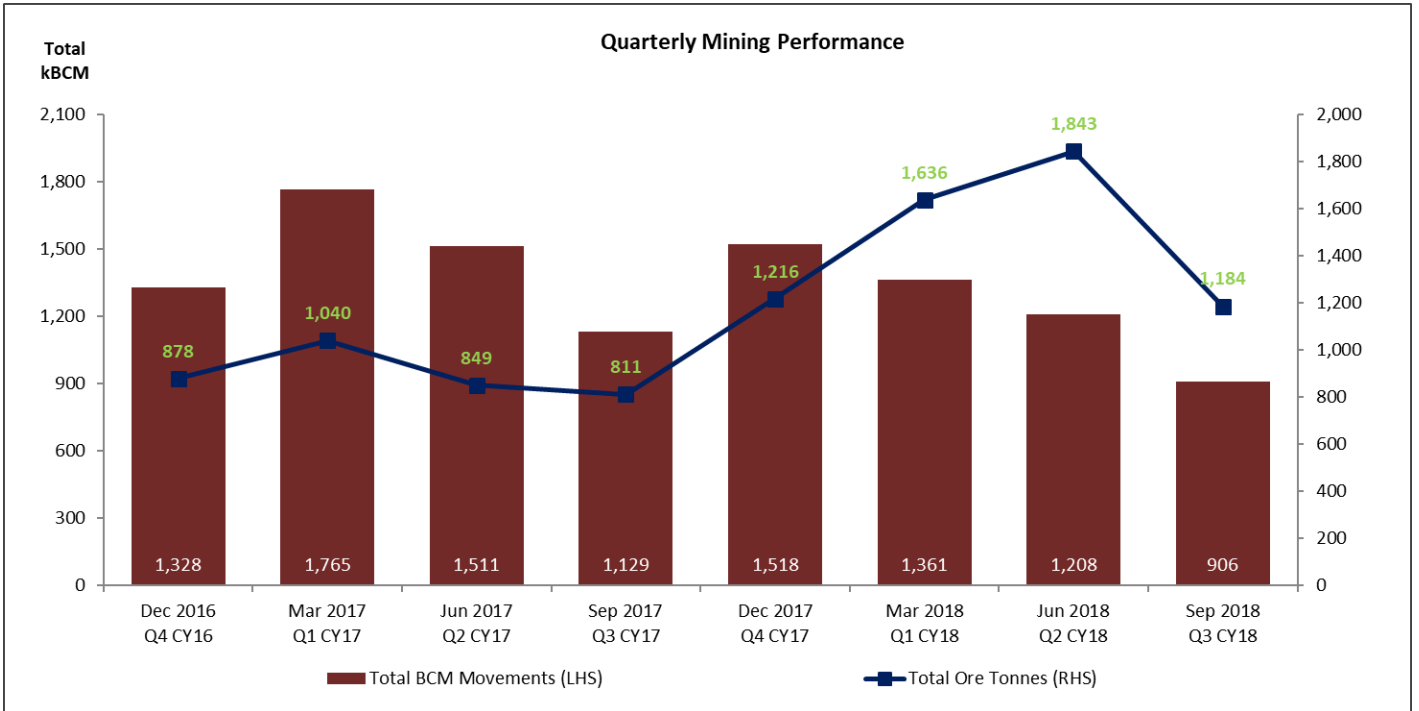
Note to Figure 1: TRIFR is calculated per million man hour

Operations Overview

Mining production was 906k BCM in the quarter, down 25% on the prior quarter (refer Figure 2), resulting from the increasingly tight working area, as the pit approaches the final months of mining, and also due to weather delays. As the pit gets deeper, mining efficiency is expected to reduce further, as the work area eventually becomes too small to manage load/haul and drill/blast activities concurrently. With this reduced efficiency in the pit, the Company has taken the opportunity to utilise the idle equipment to accelerate the earthworks associated with the rehabilitation obligations prior to the completion of mining in the June 2019 quarter. It must be noted that these movements are not reflected in Figure 2.

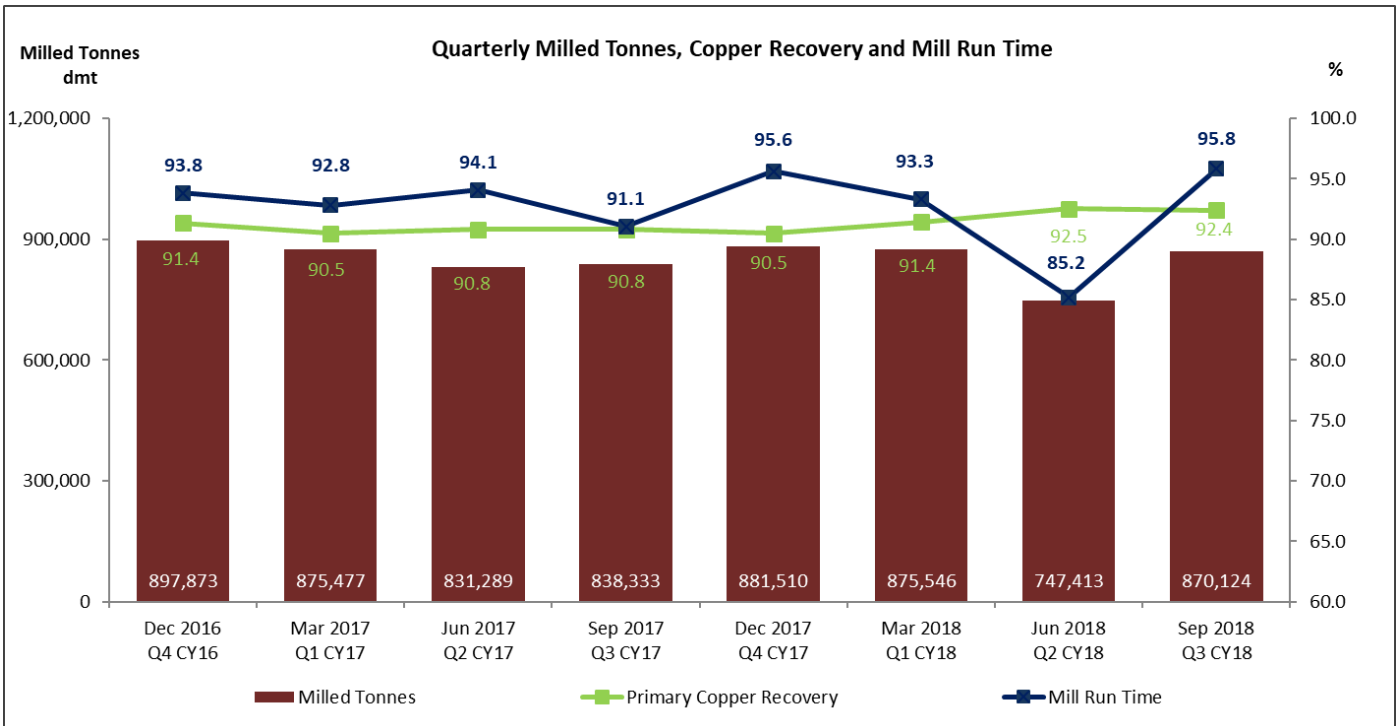
Following completion of the Giant Pit cutback, the strip ratio remained low at 1.4:1. This enabled Hillgrove to increase ore stockpiles from 2.3M at the end of the previous quarter to over 2.6M tonnes at the close of the September 2018 quarter. The ore inventory stockpile increases business resilience by allowing stockpiles to be processed if there are any unplanned mining interruptions, and copper production to be optimised by enabling high grade ore to be selectively processed.

FIGURE 2. KANMANTOO QUARTERLY MINING PERFORMANCE



Mill throughput for the quarter was 870k tonnes at a run time of 95.8% (refer Figure 3), with the copper recovery rate for the quarter of 92.4%.

FIGURE 3. KANMANTOO QUARTERLY PROCESSING PERFORMANCE

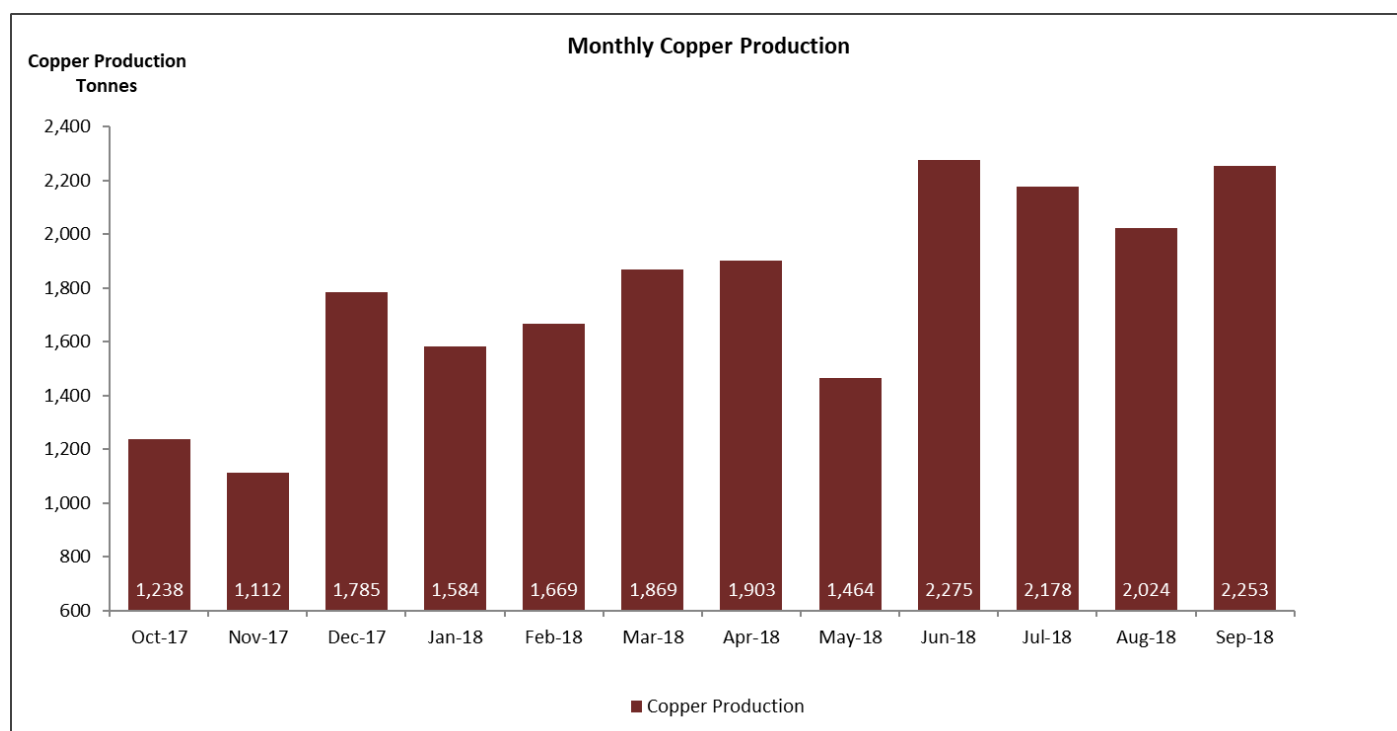


Total production for the quarter was 26,794 DMT of concentrate, containing 6,454 tonnes of copper metal and 1,306 ounces of gold. Quarterly copper production was the highest and September 2018 copper production the third highest monthly production on record, reflecting the completion of the Giant Pit cutback and the availability of higher grade material.

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		CY17 12 MTHS	MAR-18 QTR 3 MTHS	JUN-18 QTR 3 MTHS	SEP-18 QTR 3 MTHS	CY18 YTD 9 MTHS
Ore to ROM from Pit	kt	3,915	1,636	1,843	1,184	4,664
Mined Waste	kt	14,388	2,571	1,889	1,614	6,074
Total Tonnes Mined	kt	18,303	4,207	3,733	2,799	10,738
Strip Ratio	W:O	3.7:1	1.6:1	1.0:1	1.4:1	1.3:1
Closing Ore Stocks	kt	524	1,257	2,331	2,643	2,643
Mining Grade	%	0.48	0.47	0.54	0.62	0.54
Ore Milled	kt	3,427	876	747	870	2,493
Milled Grade - Cu	%	0.48	0.64	0.82	0.80	0.75
- Au	g/t	0.12	0.12	0.15	0.08	0.11
Recovery - Cu	%	90.6	91.4	92.5	92.4	92.2
- Au	%	51.8	54.3	55.5	58.5	55.9
Cu Concentrate Produced	Dry mt	67,265	21,653	24,023	26,794	72,470
Concentrate Grade - Cu	%	22.0	23.7	23.5	24.1	23.8
- Au	g/t	3.1	2.5	2.6	1.5	2.2
Contained Metal in Con. - Cu	t	14,802	5,122	5,642	6,454	17,218
- Au	oz	6,785	1,770	2,042	1,306	5,118
- Ag	oz	110,551	36,996	40,139	45,247	122,381
Total Concentrate Sold	Dry mt	65,161	23,395	23,335	26,391	73,121

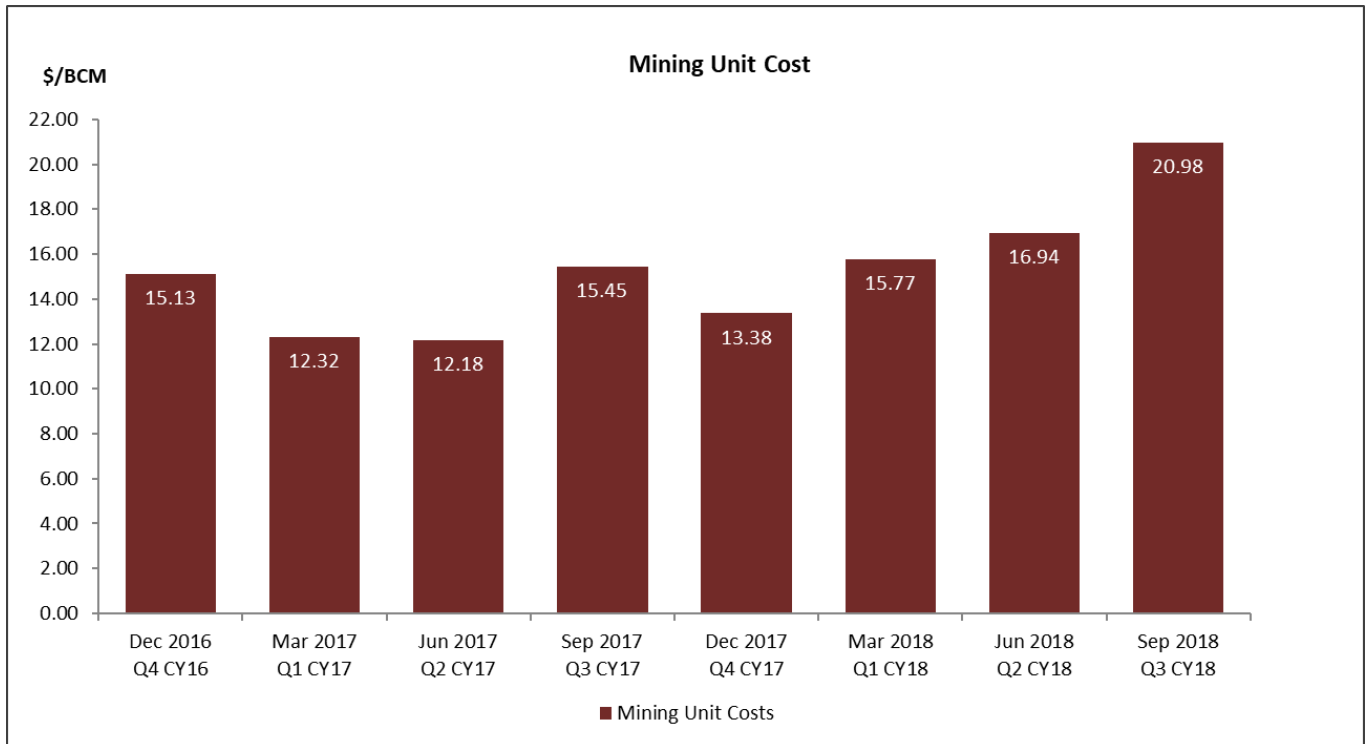
FIGURE 4. KANMANTOO MONTHLY COPPER PRODUCTION



Costs

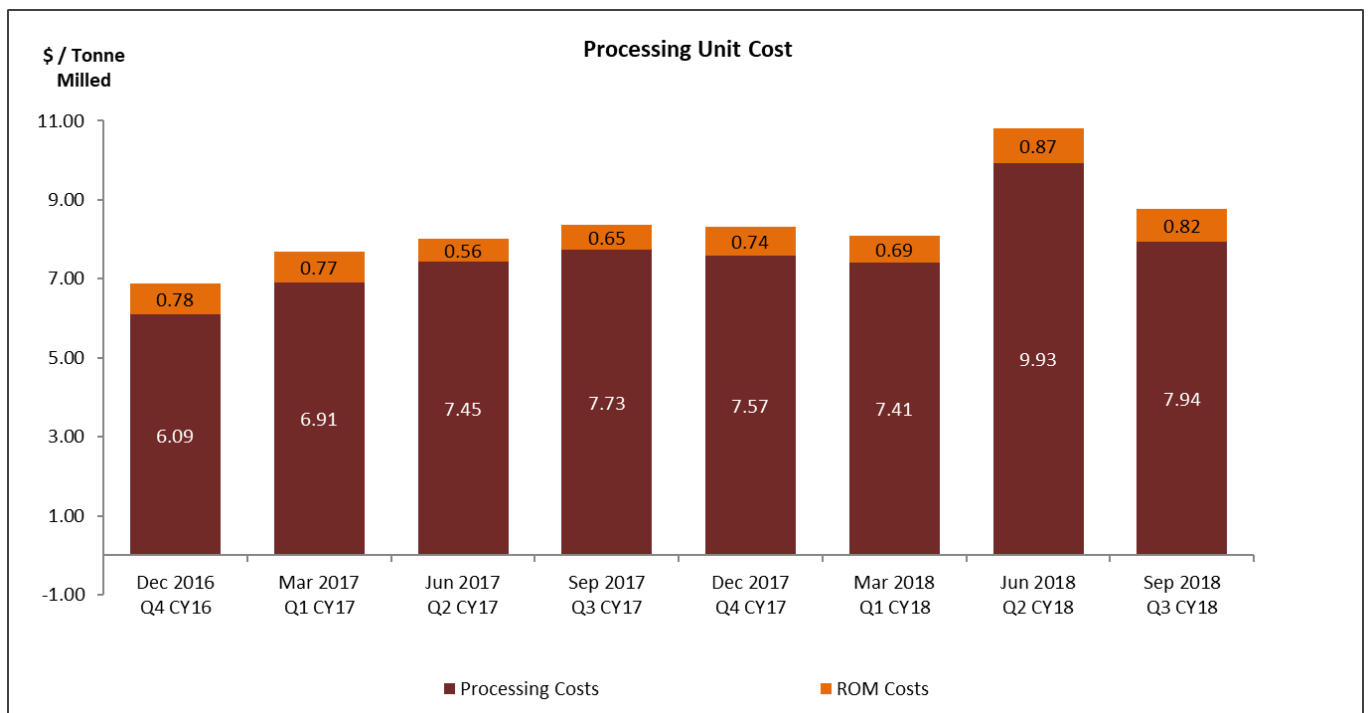
Mining unit costs increased from \$16.94 per BCM in the June 2018 quarter to \$20.98 per BCM in the September 2018 quarter (refer Figure 5). This was driven by the lower mining movements as a result of the tighter working conditions and significant weather-related delays in winter (equivalent to 16 days lost production).

FIGURE 5. KANMANTOO QUARTERLY MINING UNIT COSTS



As expected, quarterly processing unit costs of \$7.94 per tonne (refer Figure 6) returned to levels previously experienced prior to the June 2018 quarter of \$9.93 per tonne (which was higher as a result of additional costs and lower throughput associated with the 10 day crusher shut as announced to the market in May 2018).

FIGURE 6. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



C1 unit cost for the September 2018 quarter was US\$2.03/lb (refer Table 2), with the reduction from the prior quarter predominantly due to the record copper metal production levels, which led to:

- Lower total mining costs of US\$1.09, despite the higher mining unit costs; and
- Lower processing costs of US\$0.37.

This was partly offset by the lower ore inventory adjustment, commensurate with the high grade tonnes being processed during the quarter.

TABLE 2. KANMANTOO COPPER MINE COSTS (USC/lb)

US cents per lb	CY17	MAR-18 QTR	JUN-18 QTR	SEP-18 QTR	CY18 YTD
	12 MTHS	3 MTHS	3 MTHS	3 MTHS	9 MTHS
Total Mining Cost	195	165	138	109	135
Deferred Mining	-36	6	42	31	27
Pre-strip	-3	-	-	-	-
Ore Inventory Adjustment	-13	-66	-35	-13	-36
Mining Costs	143	105	145	127	126
Processing Costs	62	47	47	37	43
Other Direct Cash Costs	12	9	9	6	8
Total Onsite Costs	217	161	201	170	177
Transport & Shipping	13	13	15	13	14
Treatment, Refining & Smelter Charges	34	37	39	35	37
Total Offsite Costs	47	50	54	48	51
Precious Metals Credits	-31	-25	-25	-15	-21
Total Direct Operating Costs (C1 Costs)	233	186	230	203	207
Royalties	11	15	13	13	14
D&A	32	26	25	26	26
TOTAL COSTS	276	227	268	242	247

NOTES TO TABLE 2:

Deferred Mining: Within each pit, the cost of higher waste benches, proportional to the copper contained in the ore, is normalised for the impact of strip ratios and copper grades over the life of specific pits.

Pre-Strip: Upper levels of pits where the strip ratio is greater than 10:1 (waste:ore) are capitalised and amortised over the life of the mine based on metal.

Ore Inventory Adjustment: Mining costs per tonne of ore added to (-'ve) or processed from (+'ve) long term stockpiles.

Revenue

Revenue for the quarter (including precious metals credits) was \$57.4 million, with the average realised price for copper metal sold being \$9,030 per tonne, compared to the LME September 2018 quarter average of \$8,346 per tonne. This average realised price reflects the deliveries into the strong fixed price contract book.

GROWTH OPPORTUNITIES

Kanmantoo Underground Copper Mine

With the requisite regulatory approvals already in place, planning work continued on the underground mine proposal at Kanmantoo. This opportunity will be evaluated against the outcome of the PHES once the formal PHES tender process is completed.

Near Mine (Kanmantoo Surrounds)

The results of the magneto-telluric (MT) survey around the Kanmantoo mine extensions were available during the quarter and indicate a deep-seated conductivity zone south of the Giant Pit. This zone is coincident with a magnetic high, and with a significant induced polarity (IP) chargeability anomaly. The zone is open to the south and further work is planned to better locate and characterise the target prior to drilling. Refer to the Company's ASX release on 16 October 2018 for a summary of the target.

This new target is in addition to the drill intercepts in the Kanmantoo South region that were previously reported in the 30 June 2018 quarterly report. These targets are being characterised by mapping, geochemistry and IP surveys in preparation for drilling in early 2019.

Kanappa

As previously announced, diamond drilling at Kanappa commenced in September and this is continuing. The Company is targeting the large Cu-Au zones that are proximal to the Palmer Fault and the Padthaway Ridge as previously reported.

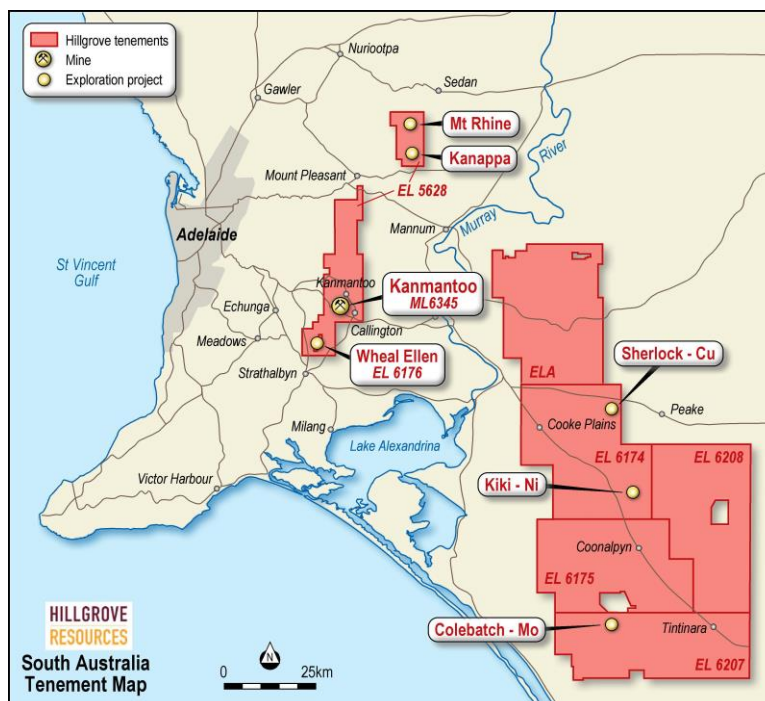
Mt Rhine

No further work at Mt Rhine this quarter.

South East South Australia

The Company has expanded its exploration footprint with the application for an additional exploration licence in the South East of South Australia along the Padthaway Ridge. This area is prospective for significant copper-gold mineralisation as evidenced by past copper and molybdenum discoveries within the Hillgrove tenements. Data discovery and compilation is in progress.

FIGURE 7. SOUTH EAST SA TENEMENT LOCATIONS



PUMPED HYDRO ENERGY STORAGE

The end of mine Kanmantoo Pit presents a potential Pumped Hydro Energy Storage (PHES) opportunity due to the difference in elevation between the base of the pit and the upper reservoir (>400m), proximity to the South Australian Electricity Grid, water availability, land holding on surrounding properties and the South Australian electricity market requirements. PHES helps address the SA challenges emanating from reliance on renewable energy by adding system stability and storage and also by providing opportunities for associated projects, such as solar.

Hillgrove does not consider the PHES a core project and, based on the strong interest from a number of parties in the project, commenced a formal process to realise the value inherent in the project. Non-binding indicative offers have been received, with the final binding offers to be received in the December 2018 quarter.

HILLGROVE CORPORATE

Guidance

2018 guidance remains unchanged for copper production, C1 costs, exploration capex, and capital projects. However, with the continued higher levels of gold production experienced, guidance for gold production has been revised upwards.

TABLE 3. 2018 GUIDANCE

CY18	Initial Guidance	Updated Guidance
Copper produced	22,000 to 24,000 tonnes	Unchanged
Gold produced	2,500 to 3,500 ounces	5,500 to 6,000 ounces
C1 costs	US\$2.00 to US\$2.25 (at 0.78 exchange rate)	Unchanged
Exploration capex	\$1.8 to \$2.5 million	Unchanged
Capital projects	\$2.6 to \$3.0 million	Unchanged

Fixed Pricing

The Company continues to place and consume the fixed pricing contracts available to it as part of the active management of the Australian Dollar copper price exposure. As at the end of the quarter, it had 13,650 tonnes of future sales priced at an average copper price of \$8,925 per tonne. In addition to this, the Company added 1,500 tonnes of fixed pricing at an average price of \$8,810 per tonne post quarter end.

Cash Flow

With the higher levels of production during the September 2018 quarter, working capital levels have further improved, leading to a stronger balance sheet at quarter end. The Company remains on track to return creditors back to normal terms, fully repay the \$4.0m Freepoint Copper Prepay Facility, and build a healthy cash balance during the next quarter.

INDONESIAN GOLD AND GOLD/COPPER ASSETS

The Company is continuing to progress its withdrawal from Indonesia.

The Indonesian projects have been on care and maintenance since 2013 and the carrying value of both projects were fully impaired in 2015.

**CORPORATE INFORMATION****Issued Share Capital at 30 September 2018**

Ordinary shares	577,477,218
Employee Performance Rights	32,215,000

Share price activity for the Quarter

High	0.099
Low	0.075
Last (28 September 2018)	0.091

SHARE REGISTRY

Boardroom Limited
GPO Box 3993
Sydney NSW 2001, Australia
F: +61 2 9290 9655
T: (within Australia) 1300 737 760
T: (outside Australia) +61 2 9290 9600

REGISTERED OFFICE

Hillgrove Resources Limited
Ground Floor
5-7 King William Road
Unley, South Australia, Australia
E: info@hillgroveresources.com.au
T: +61 8 7070 1698

**Mineral Resource Estimate for All Deposits at 31 December 2017**

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Measured	9.5	0.6	0.1	1.2	59
Copper Mine,	Indicated	10.1	0.6	0.1	1.5	62
All Deposits	Inferred	12.3	0.6	0.1	1.0	67
	Total	31.8	0.6	0.1	1.2	188

Mineral Resource Estimate for Giant Pit Only at 31 December 2017

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Measured	7.5	0.6	0.1	1.2	44
Copper Mine,	Indicated	4.5	0.5	0.1	1.0	23
Giant Pit Only	Inferred	9.6	0.6	0.1	0.9	53
	Total	21.6	0.6	0.1	1.0	120

Ore Reserve Estimate at 31 December 2017

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Proved	4.9	0.6	0.1	1.2	31
Copper Mine	Probable	1.1	0.5	0.1	0.9	6
	Total	6.1	0.6	0.1	1.1	37

Competent Person's Statement

The Ore Reserve and Mineral Resource estimates were prepared by Competent Persons in accordance with the JORC Code 2012. Further information on the Kanmantoo Mineral Resources and Ore Reserves is available in the Hillgrove Updated Mineral Resource and Ore Reserve Estimate released to the ASX on 18 October 2016, which is also available on the Hillgrove Resources website at www.hillgroveresources.com.au. Hillgrove Resources confirms that it is not aware of any new information or data that materially affects the information included in that market announcement and, in the case of estimates of Mineral Resources and Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Hillgrove Resources confirms that the form and context, in which the findings of the Competent Persons (Peter Rolley in relation to Exploration Results and the Mineral Resource Estimates and Lachlan Wallace in relation to the Ore Reserve Estimates) are presented, have not been materially modified from the original market announcement. Mr Rolley and Mr Wallace are employees of Hillgrove Resources.

For more information contact:

Steve McClare, Managing Director, Tel: +61 8 7070 1698