



Hillgrove Resources Limited (ASX: HGO) report for the quarter ended 31 March 2019

HIGHLIGHTS

Pumped Hydro – sale of the rights to develop the Kanmantoo pumped hydro energy storage (PHES) project to AGL for \$31m (with payments made on a staged basis – refer to the Pumped Hydro section below for further details).

Operations – a strong quarter with:

- Sustained improvement in safety – February’s TRIFR rate of 7.0 was the lowest level on record;
- Quarterly production of 4,963 tonnes of copper and 961 ounces of gold despite the adverse effects of the December rockfall in the early part of the quarter; and
- The low strip ratio¹ of 0.7:1 facilitated the continued build-up of ore stockpiles to 3.1M tonnes.

Cash Flow – the trend of higher production levels has allowed the Company to continue to improve its balance sheet during the quarter, with current assets increasing by \$11.3M and current liabilities decreasing by \$8.8M (unaudited).

Fixed Pricing – continued prudent management of fixed pricing contracts, with pricing fixed for 9,225 tonnes of copper at an average of \$8,825 per tonne at quarter end.

Exploration – completion of a magneto-telluric (MT) infill survey for the nearby Stella target and soil sampling, mapping and rock chip program undertaken at the North West Kanmantoo target.

LOOKING FORWARD

Pumped Hydro – undertake work with AGL to achieve the milestones and consequent payments.

Open cut mine – the extraction of ore from the open cut is scheduled to be completed during May, but treatment of ore stockpiles will continue until mid-2020.

Growth Opportunities – ongoing work underway, including:

- Underground – a preliminary plan to evaluate an alternate design below the Giant Pit that would work in conjunction with PHES is being developed; and
- Exploration – further exploration at the near-mine Stella and North-West Kanmantoo projects was undertaken and will continue in the June 2019 quarter.

Cashflow – the cessation of mining (thereby reducing cash costs), combined with the forecast strong copper production which will be sold into the fixed pricing contracts should allow the Company to continue to build a healthy cash balance during the next quarter.

Dividend – the Company intends to pay a fully franked dividend prior to 30 June 2019.

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



MANAGING DIRECTOR'S STATEMENT

We have a continued emphasis on reducing safety incidents. It was pleasing that the strong safety performance has been maintained during the quarter, with the total recordable injury frequency rate during the March 2019 quarter achieving the lowest level since operations commenced in 2011.

This coincides with the completion of open pit mining, which is scheduled to be completed during May as previously advised in the Company's annual report. Beyond this, stockpiles which have predominantly been accumulated over the past 15 months will be processed during the ensuing 12 months. Once mining ceases, cash costs will significantly decrease.

In addition to reducing costs, cash flows will be underpinned by prudent fixed pricing, with 9,225 tonnes of future sales priced at an average copper price of \$8,825 per tonne as at 31 March 2019.

The combination of the reduced cash cost structure together with the fixed pricing will allow ongoing accumulation of cash and further strengthening of the balance sheet.

This should allow the Company to return surplus cash to shareholders in the form of dividends. The first, fully franked, is planned to occur prior to 30 June 2019. The Company will confirm the dividend amount and record date based on the surplus cash around the end of May 2019.

Maximising surplus cashflow and returning this value back to shareholders will be a continued focus for the Company. The recently announced PHES agreement with AGL, has the potential to significantly enhance cash accumulation as the milestones are achieved.

Hillgrove Resources has an exciting, albeit different future:

- Mining of the current approved Kanmantoo mining phase is winding down,
- Value to owners is the core purpose and driver,
- Successful rehabilitation via consultation is key to gaining future land access and approvals,
- Significant cashflows can be generated as pumped hydro milestones are reached,
- Exciting exploration phase to unlock further value, and
- Fully owned assets allow timely and cost-effective ramp up for any future discovery.



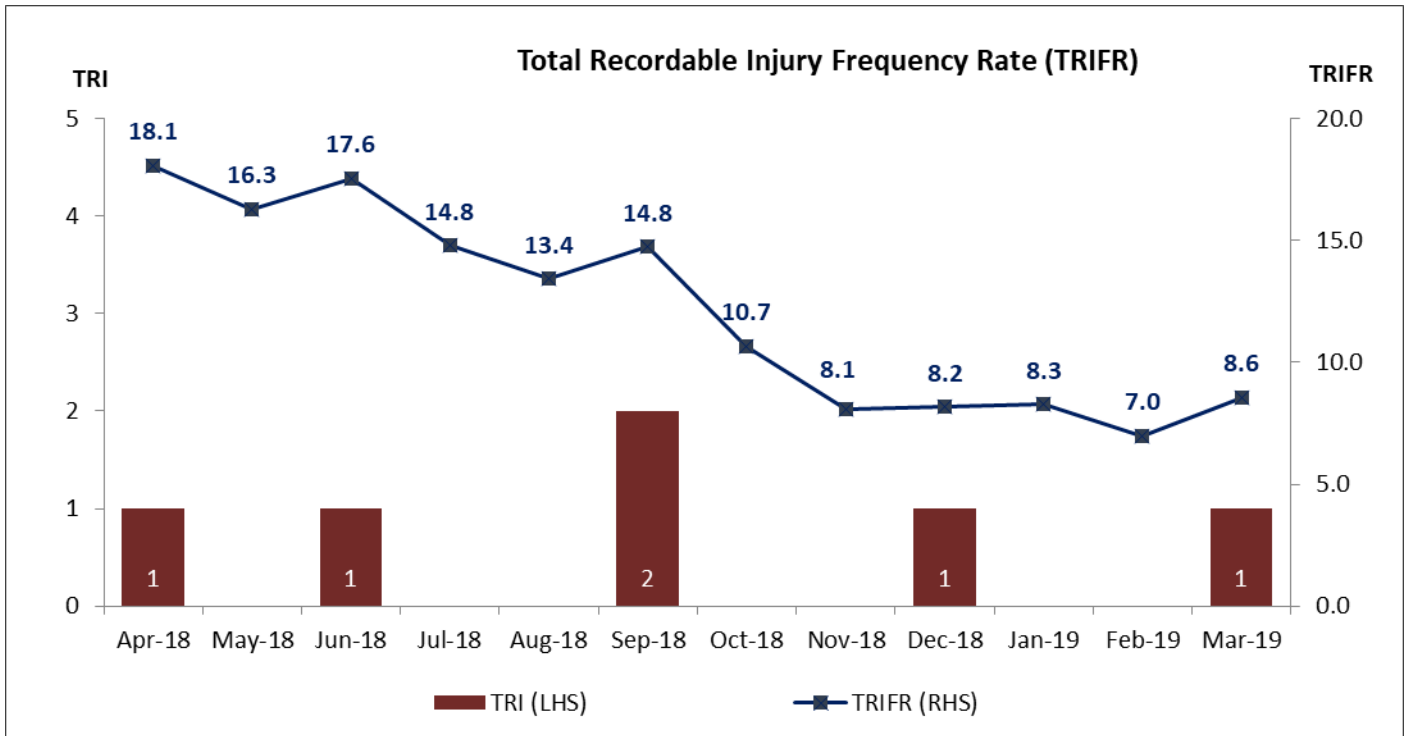
KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

Safety

The Company has maintained its strong safety performance, with the 12-month moving average TRIFR decreasing from 18.1 to 8.6 over the 12 months to 31 March 2019. This included February’s 7.0, which was the lowest since operations commenced in 2011. 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 582k BCM in the quarter, down from 852k BCM last quarter (refer Figure 4). As the pit continues to get deeper in the final months of mining, the proximity to walls has increased which has necessitated a slower approach to maintain a safe work area for all employees. Delays inherent with steep wall mining, including single lane access, rock falls and geotechnical remediation also limit mining productivity, add to costs, and require regular minor design revisions which adversely impact recoverable ore inventory. In February a rock fall necessitated the installation of a rock catch fence which incorporated sea containers (Figure 2). This has been an effective and relatively low cost safety measure which limits the impact on pit design but did delay ex-pit production for approximately one week. This period was used to accelerate rehabilitation of the waste landform in preparation for planting vegetation this Autumn. In addition, a shelter (Figure 3) was constructed and implemented following the December 2018 rock fall to protect employees that conduct work in close proximity to the high wall. While this has been successful it slows the mining process. At the time of release, the pit is 350m deep with only one 15m bench to go which is scheduled to be completed in May 2019.

With the strip ratio further decreasing to 0.7:1.0, stockpiled ore increased from 2.9M tonnes to 3.1M tonnes during the quarter. These stockpiles, along with the additions as mining is wound down, will be processed over the coming 12 months.

In addition to the mining production, there has been 242k BCM of material movement associated with rehabilitation works as the final land form is shaped and covered with topsoil as a growth medium. This year’s seed planting program commenced in March with 10 ha completed, increasing the total revegetated area to over 75Ha.



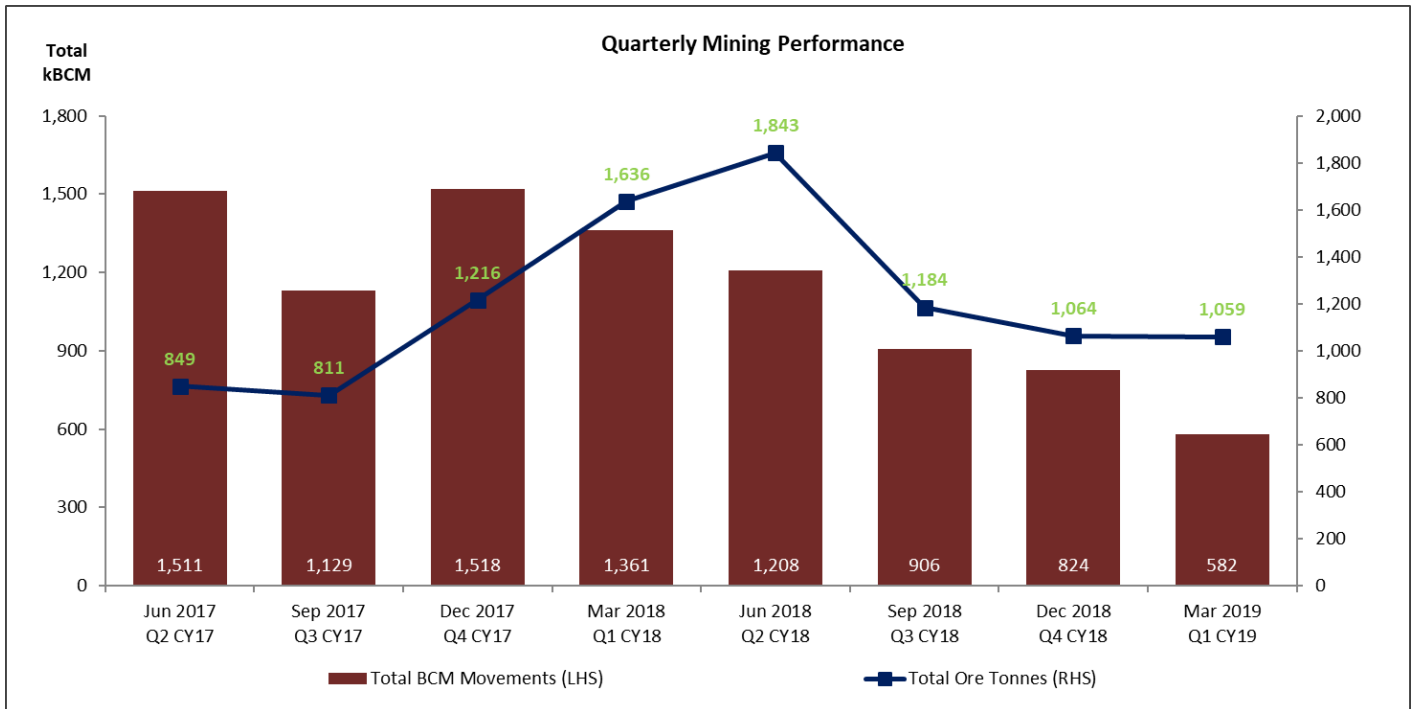
FIGURE 2. ROCK CATCH FENCE CONSTRUCTED USING SEA CONTAINERS



FIGURE 3. ROCK FALL SHELTER

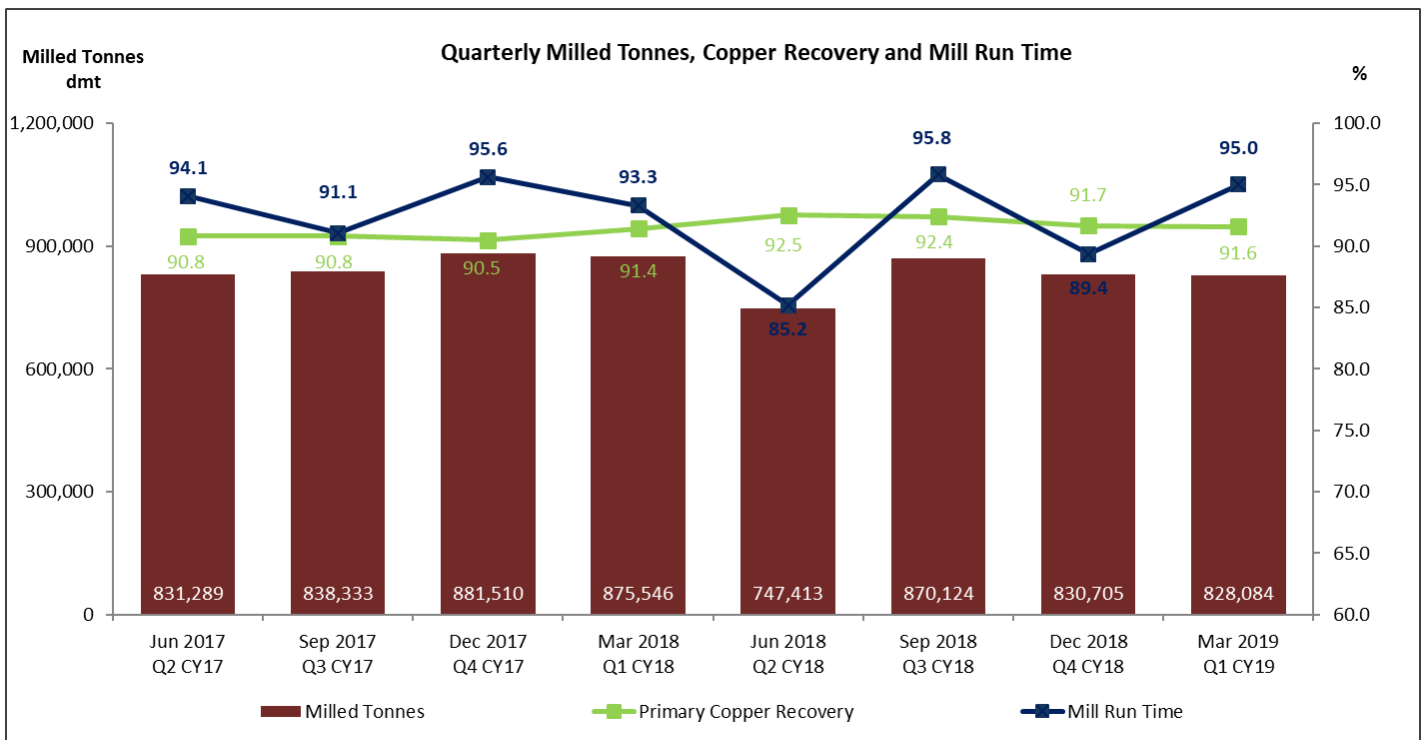


FIGURE 4. KANMANTOO QUARTERLY MINING PERFORMANCE



Mill throughput for the quarter was 828k tonnes at a run time of 95.0% (refer Figure 5), with the copper recovery rate for the quarter of 91.6%. This is in line with the performance experienced in recent quarters.

FIGURE 5. KANMANTOO QUARTERLY PROCESSING PERFORMANCE



Total production for the quarter was 20,821 DMT of concentrate, containing 4,963 tonnes of copper metal and 961 ounces of gold (refer Table 1). This was lower than prior quarters as a result of the lower processed grades (partly due to the December rockfall, whereby stockpile ore was processed in January), but was broadly in line with the plan.

Strip ratios significantly decreased during the quarter to 0.7:1.0 (with more ore than waste mined), and this facilitated the continued build-up of stockpiles, despite the lower tonnes mined.

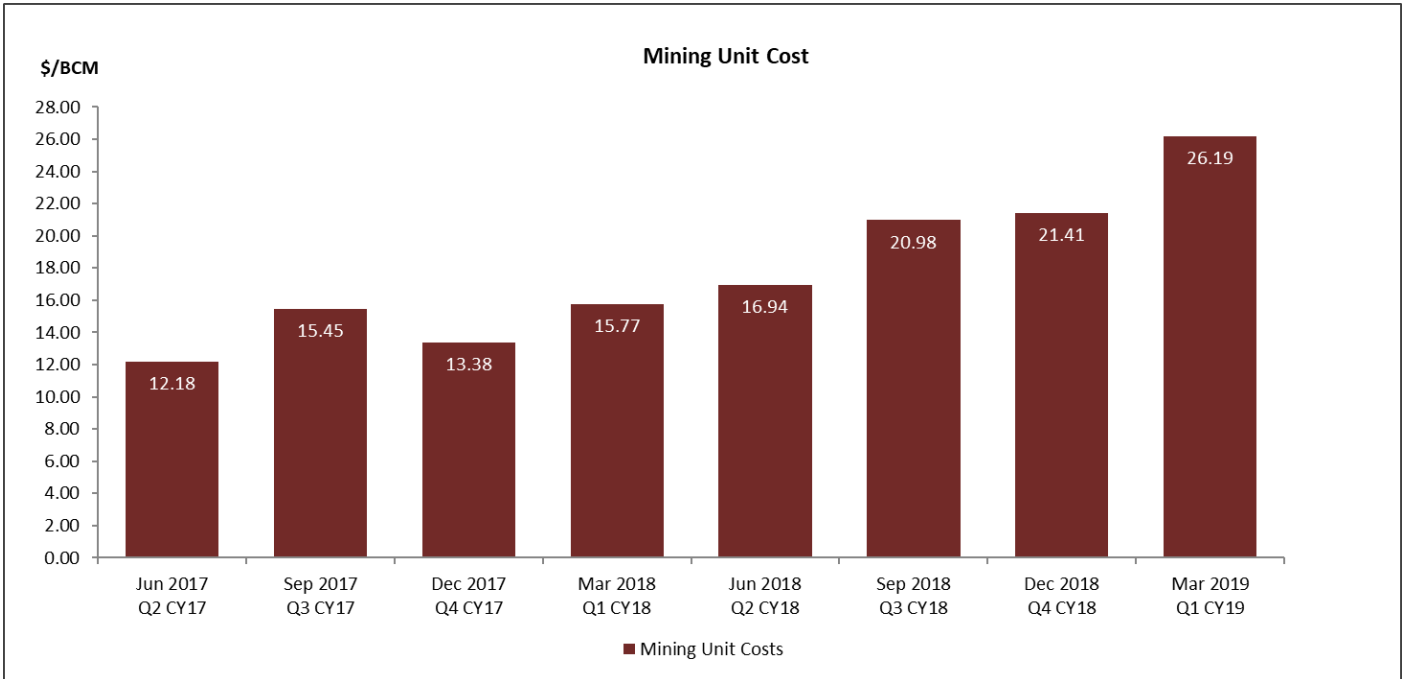
TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		MAR-18 QTR 3 MTHS	JUN-18 QTR 3 MTHS	SEP-18 QTR 3 MTHS	DEC-18 QTR 3 MTHS	MAR-19 QTR 3 MTHS	CY19 YTD 3 MTHS
Ore to ROM from Pit	kt	1,636	1,843	1,184	1,064	1,059	1,059
Mined Waste	kt	2,571	1,889	1,614	1,483	739	739
Total Tonnes Mined	kt	4,207	3,733	2,799	2,547	1,797	1,797
Strip Ratio	W:O	1.6:1	1.0:1	1.4:1	1.4:1	0.7:1	0.7:1
Closing Ore Stocks	kt	1,257	2,331	2,643	2,893	3,128	3,128
Mining Grade	%	0.47	0.54	0.62	0.52	0.58	0.58
Ore Milled	kt	876	747	870	831	828	828
Milled Grade - Cu	%	0.64	0.82	0.80	0.70	0.65	0.65
	- Au	g/t	0.12	0.15	0.08	0.06	0.06
Recovery - Cu	%	91.4	92.5	92.4	91.7	91.6	91.6
	- Au	%	54.3	55.5	58.5	54.4	56.3
Cu Concentrate Produced	Dry mt	21,653	24,023	26,794	22,106	20,821	20,821
Concentrate Grade - Cu	%	23.7	23.5	24.1	24.3	23.8	23.8
	- Au	g/t	2.5	2.6	1.5	1.2	1.4
Contained Metal in Con. - Cu	t	5,122	5,642	6,454	5,366	4,963	4,963
	- Au	oz	1,770	2,042	1,306	885	961
	- Ag	oz	36,996	40,139	45,247	39,211	37,034
Total Concentrate Sold	Dry mt	23,395	23,335	26,391	22,981	20,189	20,189

Costs

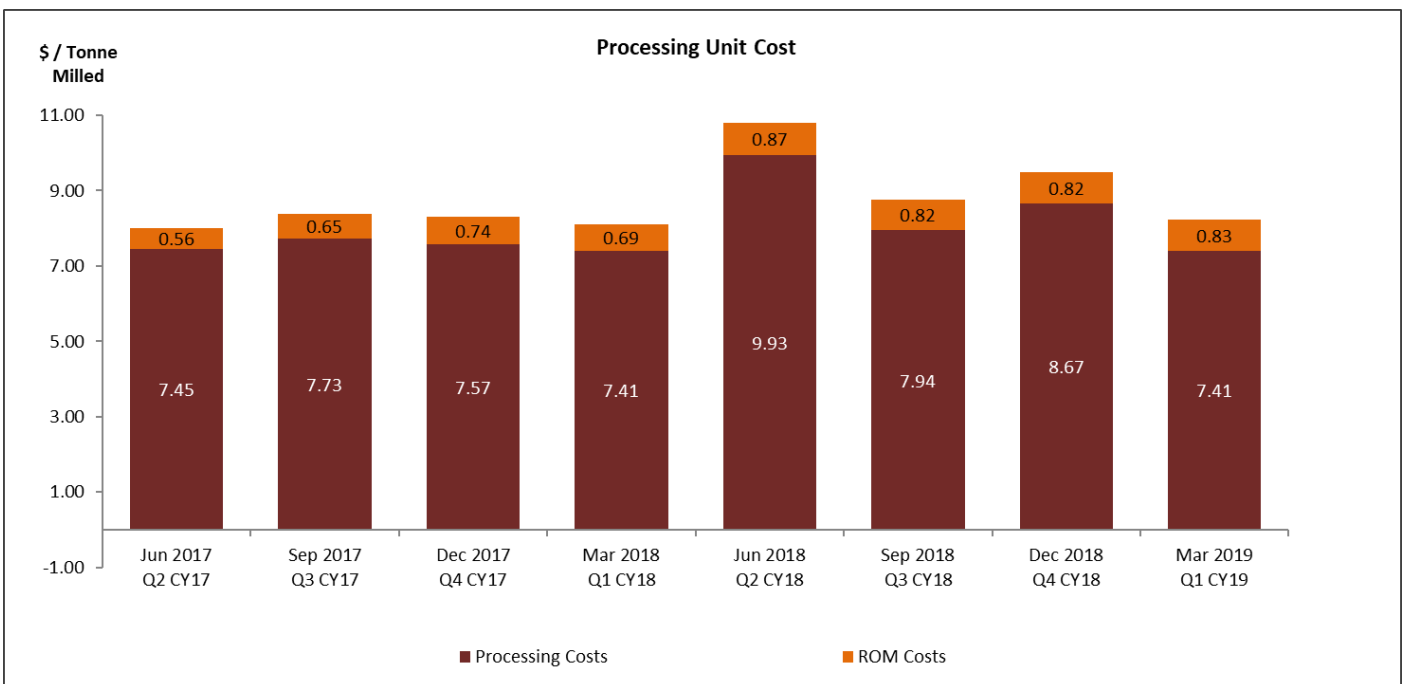
Mining unit cost increased from \$21.41 to \$26.19 per BCM (refer Figure 6), which reflected the reduced mining rates due to more difficult mining conditions at the bottom of the pit, and remedial costs associated with the December rockfall.

FIGURE 6. KANMANTOO QUARTERLY MINING UNIT COSTS



Processing unit cost of \$7.41 per tonne (refer Figure 7) has decreased from the previous quarter as expected (last quarter was higher as a result of additional costs and lower throughput following damage to the mill motor). The unit costs in the March 2019 quarter are in line with those experienced in the prior quarters.

FIGURE 7. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



C1 unit cost for the March 2019 quarter was US\$2.06/lb (refer Table 2).

TABLE 2. KANMANTOO COPPER MINE COSTS (USC/lb at AUD/USD of 0.748)

US cents per lb	MAR-18 QTR	JUN-18 QTR	SEP-18 QTR	DEC-18 QTR	MAR-19 QTR	CY19 YTD
	3 MTHS	3 MTHS	3 MTHS	3 MTHS	3 MTHS	3 MTHS
Total Mining Cost	165	138	109	119	107	107
Deferred Mining	6	42	31	39	45	45
Ore Inventory Adjustment	-66	-45	-13	-30	-19	-19
Mining Costs	105	135	127	128	133	133
Processing Costs	47	47	37	46	42	42
Other Direct Cash Costs	9	9	6	9	8	8
Total Onsite Costs	161	191	170	183	183	183
Transport & Shipping	13	15	13	13	13	13
Treatment, Refining & Smelter Charges	37	39	35	30	26	26
Total Offsite Costs	50	54	48	43	39	39
Precious Metals Credits	-25	-25	-15	-13	-16	-16
Total Direct Operating Costs (C1 Costs)	186	220	203	213	206	206
Royalties	15	13	13	13	13	13
D&A	26	26	26	26	28	28
TOTAL COSTS	227	259	242	252	247	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 \$43.4 million, with the average realised price for copper metal sold being \$8,848 per tonne.

GROWTH OPPORTUNITIES

Hillgrove holds, or has under application some 6,100 sq. kms of exploration licences in South Australia. The focus is on defining copper-gold mineralisation around the Kanmantoo Process Plant, and to transfer the knowledge from the exploration of Kanmantoo to discover large magmatic Cu-Au deposits in the wider south-east South Australia region.

Kanmantoo Underground

The Company continues to investigate the merit of stand-alone underground (UG) mining at Nugent and Kavanagh as the first stage of a Kanmantoo UG mining hub to profitably and expediently access the copper mineralisation no longer accessible by open pit mining as a result of the PHES agreement. A surface-based drill program to convert a portion of the Exploration Target² (ASX release 25 May 2017) for Nugent to a Mineral Resource is being planned.

The Exploration Target for Nugent as previously announced was:

- 0.8 – 2.0 Mt @ 1.5 – 2.0% Cu, 1.5 – 2.5 g/t Au to 600m RL (approx. 460m below the Nugent Pit)

If successful this would offset ore lost in the December 2018 rockfall³ and realise additional shareholder return from existing assets.

Near Mine (Kanmantoo Surrounds)

Stella

The previously announced results of the magneto-telluric (MT) survey around the Kanmantoo mine extensions indicate a deep-seated conductivity zone 3kms south of the Giant Pit. This zone is coincident with a magnetic high, and with a significant induced polarity (IP) chargeability anomaly. An infill MT survey was completed during the quarter and results are being processed to better locate and characterise the target prior to considering drilling.

North West Kanmantoo

A soil sampling, mapping and rock chip program is being undertaken along the North West Kanmantoo magnetic anomaly located approximately 3 kms northwest of the Company's processing plant. Results will be available in the second quarter.

South East South Australia

This area is prospective for significant copper-gold mineralisation as evidenced by past iron, copper and molybdenum discoveries within the Hillgrove tenements. Data discovery and compilation is continuing.

A Passive Seismic survey is expected to be completed across all the South East tenements in the second quarter. This work will assist in modelling the depth to basement and thereby enhance the processing of the regional gravity surveys.

Kanappa

No further work was undertaken at Kanappa this quarter.

Mt Rhine

No further work was undertaken at Mt Rhine this quarter.

² The Exploration Target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource under the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, the JORC Code" (JORC 2012). The Exploration Target is not being reported as part of any Mineral Resource or Ore Reserve.

³ ASX Announcement 17 January 2019 – Kanmantoo Mine Rockfall Update

PUMPED HYDRO ENERGY STORAGE

The sale of the rights to develop, own and operate the Kanmantoo PHES project was completed subsequent to quarter end. Binding agreements for the \$31 million sale to AGL Energy Limited have been executed, with the \$31 million payable over an estimated 18-36 month period:

- \$1 million on signing of the project agreements,
- \$4 million on the completion of a number of conditions precedent, including:
 - Confirmation by a limited drilling programme of the stability of the ground at the proposed location of the PHES vertical shaft,
 - Execution of an early works agreement between AGL and HGO under which HGO performs various scopes of early works and services for the PHES project on a fee for service basis,
 - The preparation of an initial baseline study to determine any contamination on the land to be used for the PHES project,
 - AGL being satisfied that there is no material contamination on the project site, and
 - AGL being satisfied with HGO's relinquishment plan dealing with mine closure and rehabilitation of the project site.

Satisfaction of the conditions precedent is expected within 6 months.

- \$5 million once AGL has acquired any and all necessary water supply and transportation arrangements, approvals and licences,
- \$10 million on the later of AGL obtaining development approval and an offer of a connection agreement to the grid for the project, and
- \$11 million on the Final Investment Decision (FID) by AGL.

The entire \$31 million is payable in the event AGL elects to buy-out the PHES project, including freehold title in the land required for the PHES project.

AGL can withdraw at any time prior to payment of the final payment milestone, in which case it will not be required to make payments in respect of unsatisfied milestones but will forfeit milestone payments already made to that point in time.

AGL is required to lodge a development approval application within 12 months of satisfaction of the conditions precedent and reach FID within 12 months after the later of AGL obtaining development approval and an offer of a connection agreement to the grid for the project. Hillgrove can take back the PHES project if these milestones are not achieved, subject to (1) extensions for events outside AGL's control and (2) AGL electing to pay a monthly extension fee of \$100,000 per month (up to a maximum of 6 months) for either milestone.

Hillgrove will be separately contracted by AGL under the early works agreement to provide services during the development of the PHES Project including assistance in negotiating water supply arrangements and managing the first fill of the ponds.

HILLGROVE CORPORATE

Fixed Pricing

The Company continues to actively manage its Australian Dollar copper price exposure through fixed pricing contracts. As at the end of the quarter, it had 9,225 tonnes of future sales priced at an average copper price of \$8,825 per tonne. This includes an additional 1,000mt of fixed pricing placed during the quarter at \$8,910 per tonne after margins.

Cash Flow

With the continued higher levels of production during the March 2019 quarter, working capital levels during the quarter have further improved with current assets increasing by \$11.3M to \$44.8M and current liabilities decreasing by \$8.8M to \$26.8M (unaudited). Cash is expected to continue to be accumulated, along with the reduction of trade and other payables – which will provide the funds for the payment of a fully franked dividend towards the end of the second quarter in 2019.

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 31 March 2019	
Ordinary shares	577,477,118
Employee Performance Rights	31,165,000
Share price activity for the Quarter	
High	0.088
Low	0.070
Last (31 March 2019)	0.080

SHARE REGISTRY

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**Mineral Resource Estimate for All Deposits at 31 December 2018**

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Measured	5.1	0.6	0.1	1.3	33
Copper Mine,	Indicated	9.0	0.6	0.1	1.5	57
All Deposits	Inferred	10	0.6	0.1	1.0	60
	Total	24	0.6	0.1	1.3	150

Note: Economic cut-off grade is 0.20% Cu.

Mineral Resource Estimate for Giant Pit Only at 31 December 2018

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Measured	3.8	0.6	0.1	1.1	21
Copper Mine,	Indicated	3.5	0.5	0.1	0.9	18
Giant Pit Only	Inferred	8	0.6	0.1	0.8	47
	Total	15.9	0.5	0.1	1.0	86

Note: Economic cut-off grade is 0.20% Cu.

Kanmantoo Open Pit Ore Reserve Estimate at 31 December 2018

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Proved	1.2	0.6	0.1	1.2	8
Copper Mine	Probable	0.3	0.5	0.1	0.8	1
	Total	1.5	0.6	0.1	1.2	9
Stockpiles		2.9	0.3			9

Note: Economic cut-off grade is 0.20% Cu. The stockpiles are not assayed for gold or silver so no estimate for gold or silver grades are provided, however gold and silver are expected to be recovered from the stockpiles.

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 28 February 2019, 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 (MAIG) and Mr Wallace (MAusIMM) are employees of Hillgrove Resources.

For more information contact:

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