



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 31 December 2015

HIGHLIGHTS

- Production of 3,997 tonnes of contained copper in concentrates from the Kanmantoo Copper Mine for the quarter
- 2015 total copper production was 17,306 tonnes, slightly below the revised CY15 guidance range of 17,500 tonnes to 18,500 tonnes
- The below guidance copper production in 2015 was offset by total gold production (6,790 ozs) which was above CY15 revised guidance range of 5,500ozs to 6,500 ozs
- Revenue of \$31.4 million for the quarter at an average realised price of \$3.40/lb (USD2.43/lb)
- C1 cost for the quarter of USD2.01/lb (\$2.79/lb) despite treating significant volumes of oxide stockpiles with high attributed costs (non-cash) and higher processing costs. 2015 C1 cost of USD2.11 was within CY15 guidance range of USD2.00 to USD2.25 per lb
- A total of 428kt transitional and oxide material was processed during the quarter, with a feed grade of 0.64% and a recovery of 54.8%, to produce 1,504 tonnes of copper in concentrate. Targeted tails grade was repeatedly achieved but grade of historic oxide stockpiles was 32% lower than plan
- Plant continues to operate at high throughput levels despite CPS processing, at annualised rate of 3.9mtpa
- Backfilling has continued in Nugent and Valentine, providing an additional short haul option
- Work on the water pipeline project nears completion with first water to be available on site in January 2016
- Formal partnership with the South Australian Government with the relocation of the Corporate Office from Sydney to Adelaide during the quarter, which will result in a ~40% reduction in corporate costs
- Hillgrove's copper hedging continues to support the revenue stream during periods of low copper prices, with significant hedge book cover (16.5kmt of copper hedged at an average price of \$7,758/t, 22% above the current spot price of \$6,355/t)
- As at 31 December 2015, cash on hand was \$6.1 million, total debt decreased from \$20.0 million to \$19.2 million (due to the appreciation of the USD AUD exchange rate) and net debt stands at \$13.1 million



EXECUTIVE SUMMARY

There has been a significant improvement in safety, with the Total Recordable Injury Frequency Rate at 12.6 the lowest since operations began in 2011. Production was 3,997t of copper and 2,558oz of gold in concentrate for the quarter, at a C1 cash cost of USD2.01/lb (\$2.79/lb). The Giant pit cut back continues to track to the updated plan post implementation of the modified geological model.

The deferral of copper metal production to later in the project resulting from the modified geological model, and the underperformance of historic stockpiles has made it a challenging quarter, but we continue to fund the Kanmantoo mine including the Giant Pit cutback through cashflow from operations. Revenue for the quarter was \$31.4 million at an average realised price for copper of \$3.40/lb (USD2.43/lb), with cash on hand at quarter end of \$6.1 million. These revenues were supported by Hillgrove's strong hedge book. This hedge book will continue to provide Hillgrove with strong revenue protection, with 16.5kt of hedging at an average price of \$7,758/t (\$3.52/lb), amounting to approximately 70% of payable copper until March 2016 and 42% of payable copper from April 2016 until December 2017 still available.



In December I was pleased to announce a formal partnership with the State Government of South Australia to advance the aims of South Australia's long term, comprehensive Copper Strategy, which aims to triple copper production by 2030. As part of the partnership, and in recognition of South Australia's low mining tax and cost environment, we relocated our Corporate Office to Adelaide. The Corporate Office activities, including the vast majority of externally sourced expertise, will now be sourced from South Australia. High quality services are available at very competitive rates from local Adelaide firms including IT, auditors, accounting and legal services, and when coupled with the significant reduction in rent, travel and accommodation we expect this will lead to an approximate 40% reduction in corporate costs. Importantly it has allowed significant resource sharing and the cost focused Kanmantoo culture which has been developed over the last few years to be spread company wide.

The partnership also involved a grant of \$850,000 towards the construction of a 5.6km pipeline to deliver untreated water to the Kanmantoo Copper Mine, displacing more expensive drinking water. This pipeline will supplement the existing supply of treated effluent water from the District Council of Mount Barker, which has been extended for the life of mine. Construction of this pipeline has commenced and will be commissioned in January 2016, providing an additional 900ML per annum of water capacity. This will allow a 75% increase in supply, to assist in dust management, ensuring that we can deliver on our commitment to minimise the impact of dust on the Kanmantoo and Callington communities even during abnormally dry weather periods such as has been experienced this year.

Looking ahead, Hillgrove is encouraged by the proactive PACE exploration programme, included in the SA Copper Strategy and will be looking towards it to assist in testing near mine exploration targets as part of our organic growth strategy. Whilst the area to the north of Giant Pit is enticing, we plan to continue to exhibit tight cash expenditure discipline during this challenging price and cutback period.

KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

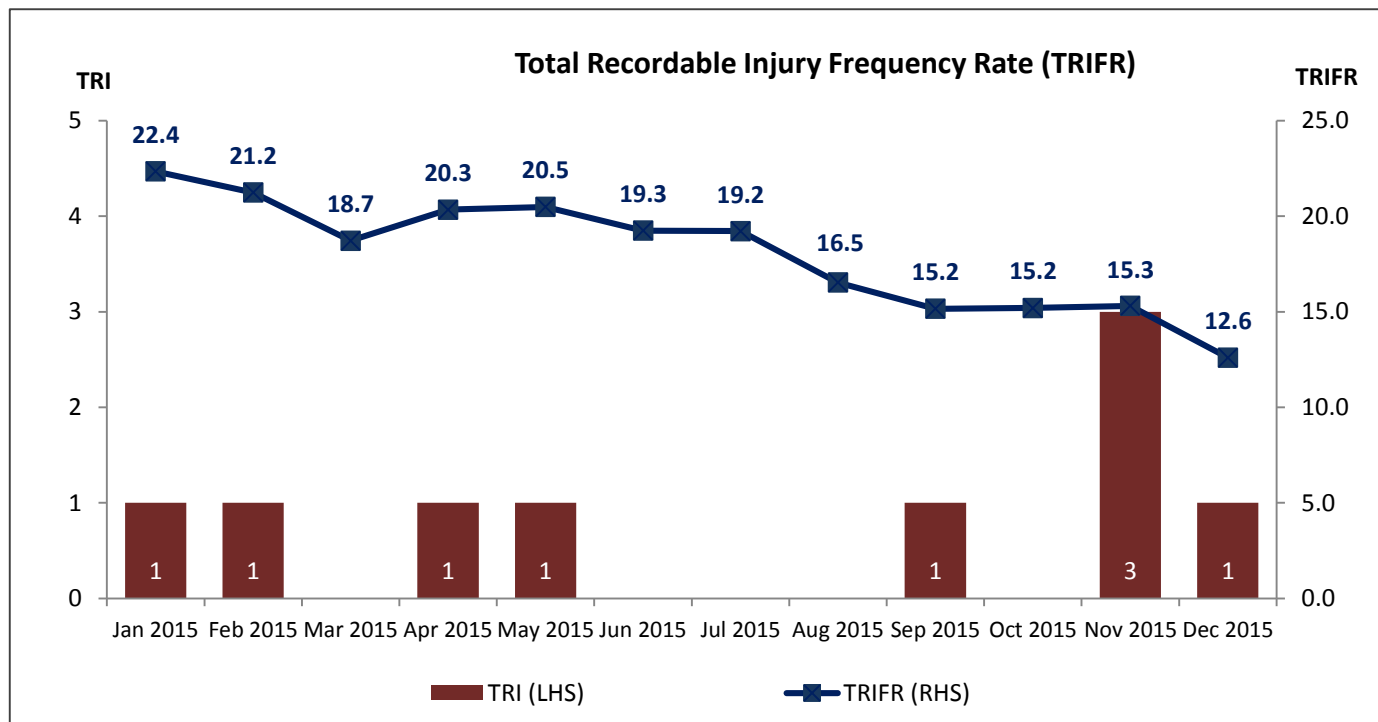
Overview

The Giant Pit cutback continued to produce ore from a series of upper level satellite orebodies within the cutback. This ore is now all primary sulphide and is being fed directly to the ROM. Backfilling in Nugent enabled an alternate access to be established and ore outside of the reserve was extracted during the quarter utilising backfilled surfaces. Mining of Nugent Pit is now complete and backfilling has resumed, providing a short haul option for the waste. The processing plant again performed well. However, recovery and unit costs were affected this quarter as a result of a larger proportion of the processing of oxide ore in the CPS campaigns.

Safety and Community

The quarter saw the twelve month Total Recordable Injury Frequency Rate (TRIFR) reduce to 12.6, a 43% reduction since the same period last year and the lowest since operations began in 2011.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



Operations

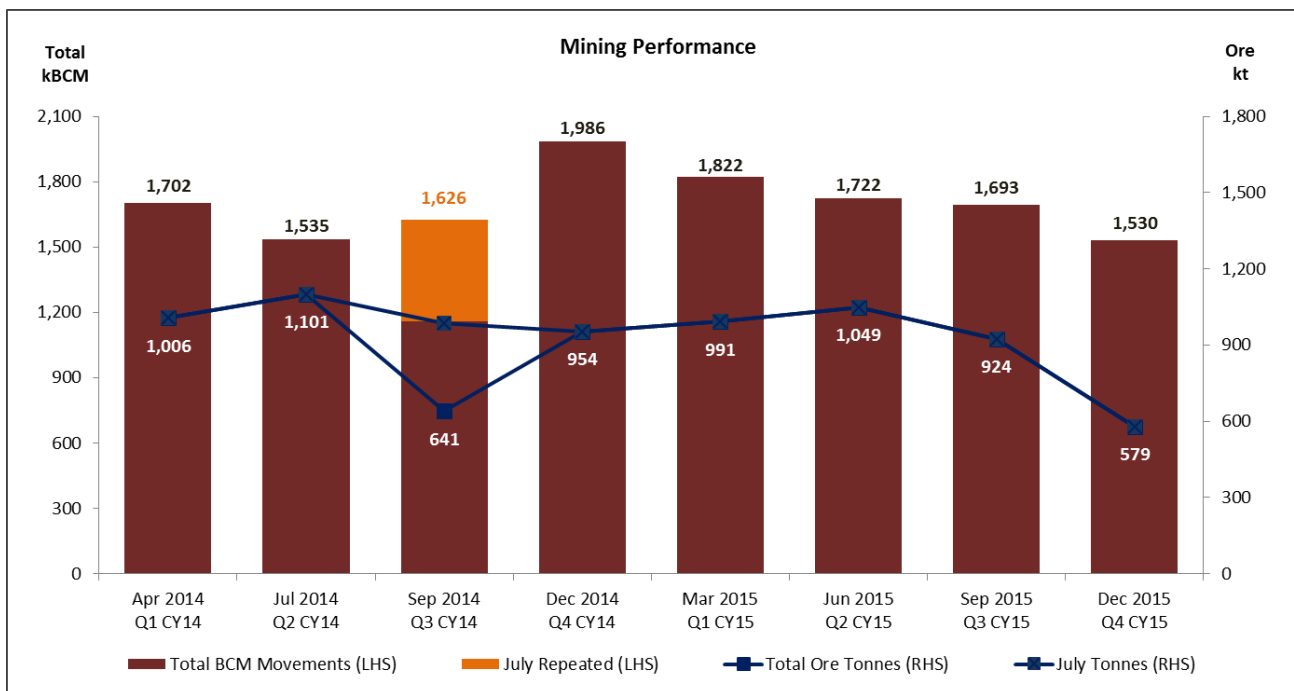
TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		CY14* to DEC 14	MAR-15 QTR	JUN-15 QTR	SEP-15 QTR	DEC-15 QTR	CY15
		11 MTHS	3 MTHS	3 MTHS	3 MTHS	3 MTHS	12 MTHS
Ore to ROM from Pit	kt	2,620	888	899	924	579	3,290
Ore to long term stockpiles	kt	1,172	103	149	-	-	252
Mined Waste	kt	15,899	4,631	4,265	4,306	4,148	17,350
Total Tonnes Mined	kt	19,691	5,622	5,313	5,230	4,727	20,892
To ROM from LT Stockpiles	kt	509	-	193	179	413	784
Mining Grade to ROM	%	0.88	0.64	0.57	0.51	0.66	0.59
Ore Milled	kt	3,023	959	1,041	1,121	983	4,104
Milled Grade - Cu	%	0.75	0.58	0.49	0.48	0.56	0.52
- Au	g/t	0.14	0.12	0.07	0.09	0.17	0.11
Recovery - Cu	%	90.8	89.8	82.0	77.6	72.0	80.3
- Au	%	51.7	42.6	49.3	46.3	49.0	47.1
Cu Concentrate Produced	Dry mt	90,163	21,949	17,947	17,282	17,793	74,971
Concentrate Grade - Cu	%	23.0	22.8	23.1	24.1	22.5	23.1
- Au	g/t	2.3	2.2	2.1	2.7	4.5	2.8
Contained Metal in Con. - Cu	t	20,693	5,013	4,138	4,157	3,997	17,306
- Au	oz	6,798	1,532	1,214	1,486	2,558	6,790
- Ag	oz	131,901	24,920	21,554	31,334	36,592	114,399
Total Concentrate Sold	Dry mt	90,583	22,714	17,104	17,468	17,742	75,028

* Calendar year

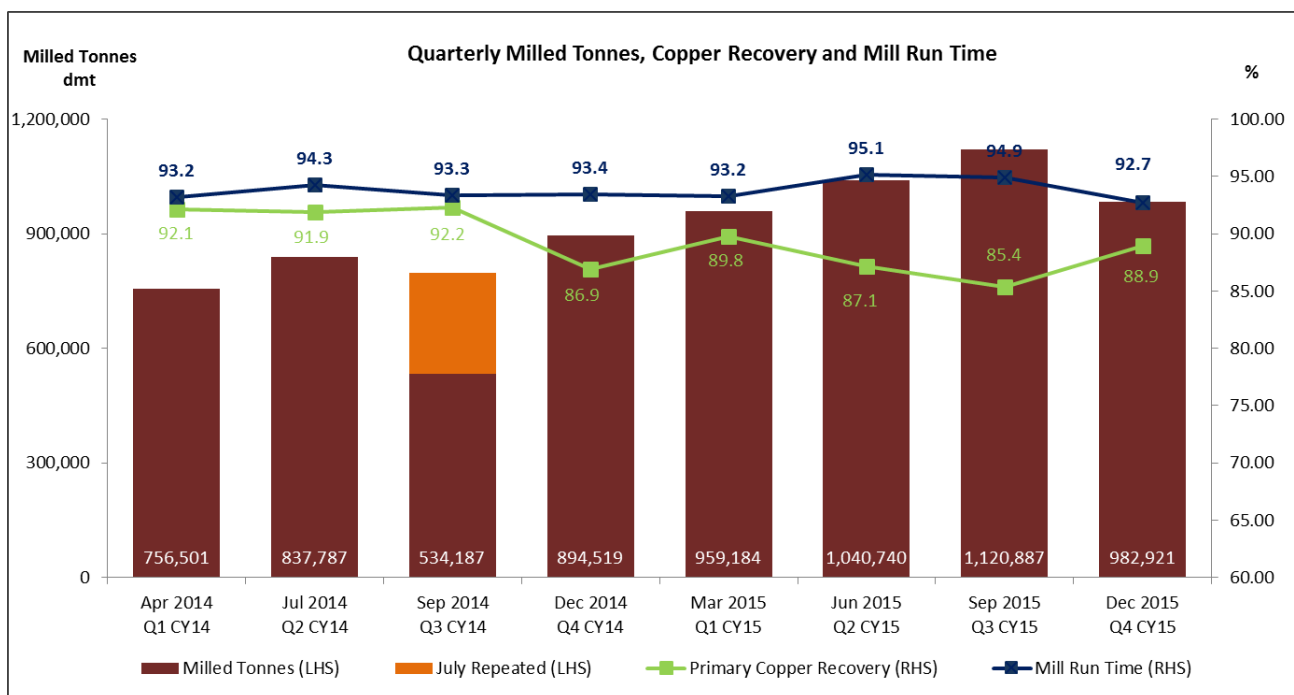
Mining production was 4,727kt (1,530k BCM moved) for the December 2015 quarter, of which 579kt was ore, with no oxide and transitional ore placed onto long term stockpiles. The decrease in mining movements over recent quarters have been a result of a number of factors, including confined mining and working areas, a focus on copper production, mining of harder waste and ore zones, and the effects of El Nino which has led to mining stops as a result of dust. Many of these challenges are expected to be addressed in the coming quarters with the opening up of the pit and the completion of a new water pipeline. Mined ore was reduced as a result of the high stripping ratio of the cut-back in the Giant Pit.

FIGURE 2. KANMANTOO COPPER MINE TOTAL BCM



The treatment of oxide ores requires greater mill time and leads to lower recoveries. Notwithstanding this, mill throughput and reliability continued to be high, with mill throughput this quarter being the third highest achieved despite a significant portion of oxide ore processed.

FIGURE 3. KANMANTOO QUARTERLY MILL TONNES, COPPER RECOVER AND MILL RUN TIME



* With change to 31 December year end, July was included again in milled tonnes for September 2014 quarter for comparison purposes.

Mill throughput for the quarter decreased from 1,121kt to 983kt, with this reduction largely offset by the higher copper grades being fed through the plant. In addition to this, gold production was targeted this quarter in order to enhance cash flows.

The copper recovery of 72.0% was lower than the previous quarter (77.6%) due to the processing of a larger proportion of oxide material. The copper recovery in areas of primary sulphide remained in line with expectations for those primary ores at 88.9%.

CPS

A total of 428kt transitional and oxide material was processed, with a feed grade of 0.64% and a recovery of 54.8%, to produce 1,504t of copper in concentrate.

Costs

Quarterly mining unit costs increased to \$12.06/bcm from a record low quarter, which was a result of the lower mining movements, a high percentage of movements associated with final wall control and restricting mining areas to essential near term cash generation which impacted continuity and economies of scale. Quarterly processing unit costs increased to \$6.76/t milled due to a higher proportion of CPS processing, which requires additional reagents (\$1.70/t) and 8% lower throughput rates. CPS processing is scheduled to continue until mid-2016.

FIGURE 4. KANMANTOO QUARTERLY MINING UNIT COSTS

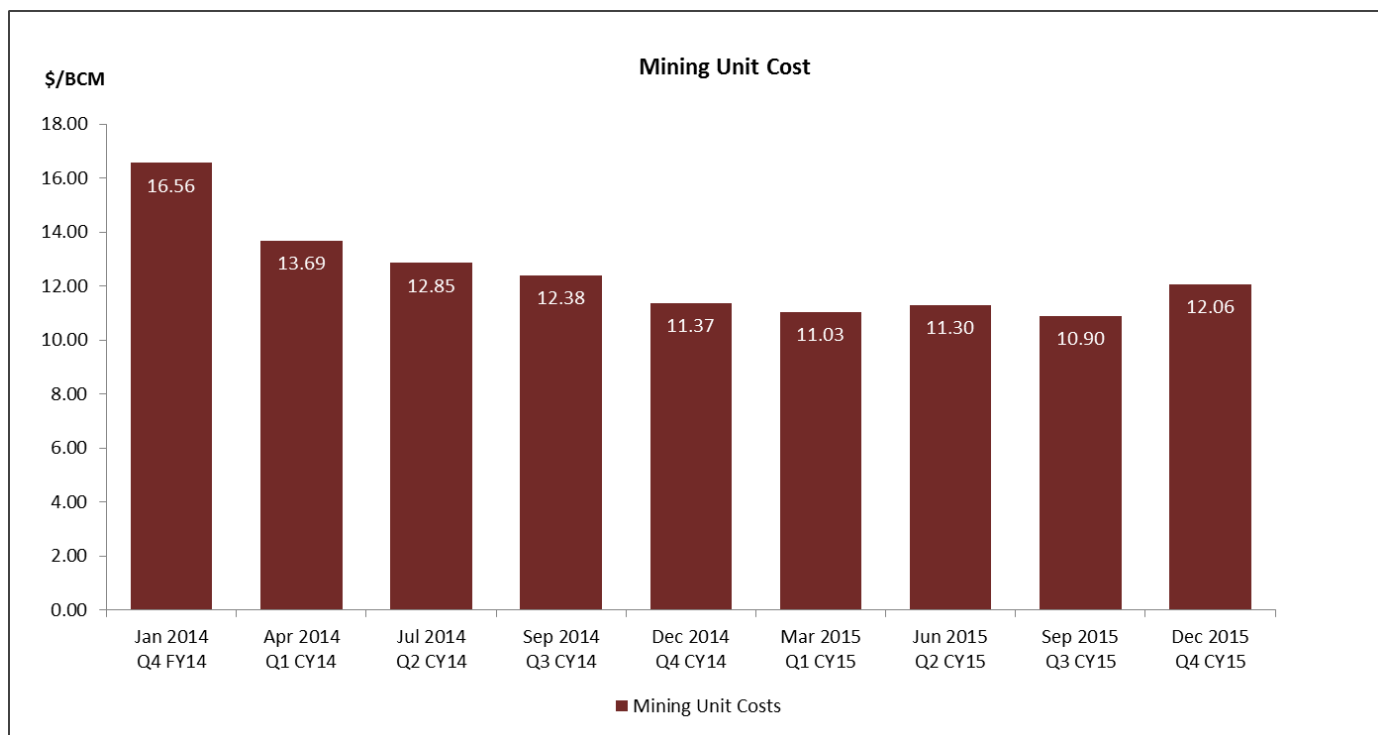
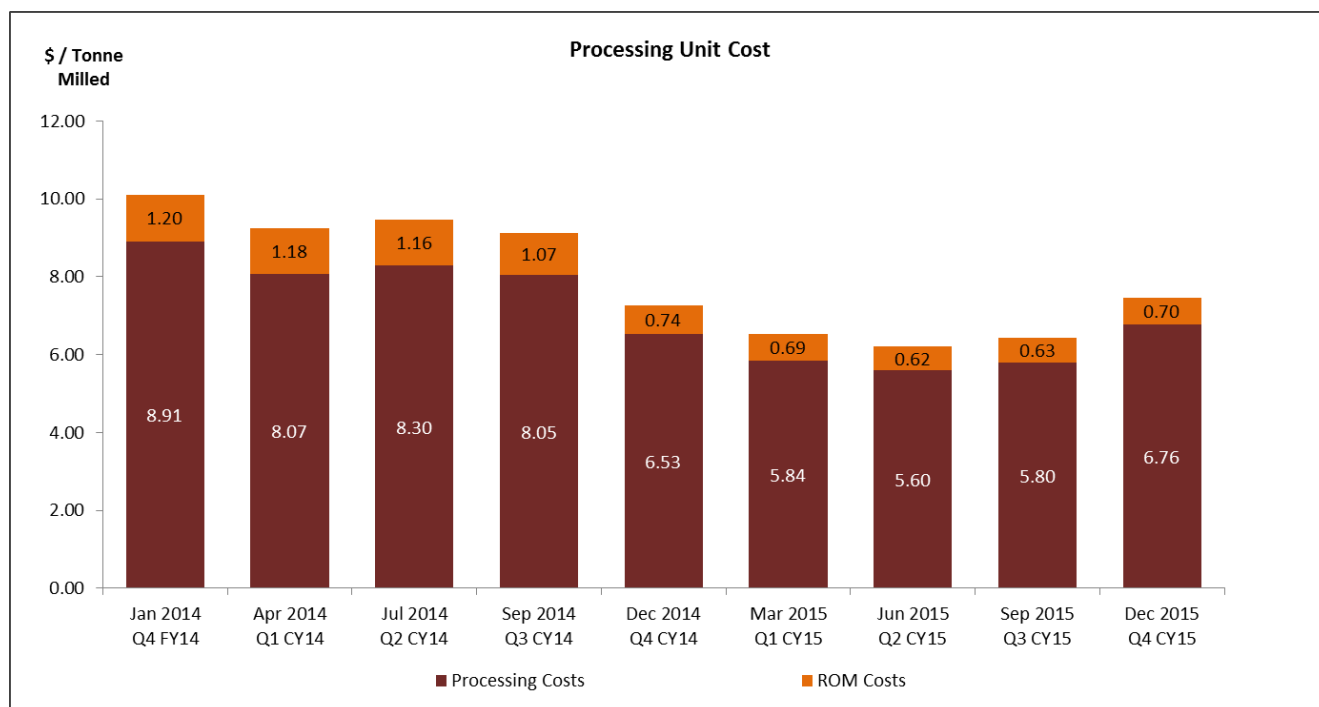


FIGURE 5. KANMANTOO QUARTERLY PROCESSING UNIT COSTS


The C1 cash cost of USD2.01/lb (\$2.79/lb) for the quarter was lower compared to the previous quarter (USD2.18/lb, \$3.00/lb). 2015 C1 cash cost (USD2.11/lb) was within the CY15 guidance range of USD2.00/lb to USD2.25/lb, but was higher than 2014 actual (USD1.97/lb) due to lower metal production resulting from lower head grade and the impact of treating oxide ore, partially offset by favourable movements in foreign exchange. The USD0.56/lb Ore Inventory Adjustment for the quarter represents normal ROM stock movements together with the cost of material transferred from the long-term stockpiles for CPS processing.

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

US cents per lb	CY14* to DEC 14	MAR-15 QTR	JUN-15 QTR	SEP-15 QTR	DEC-15 QTR	FY15
	11 MTHS	3 MTHS	3 MTHS	3 MTHS	3 MTHS	12 MTHS
Total Mining Cost	169	153	179	160	163	163
Deferred Mining	7	0	-24	-59	-37	-29
Pre-strip	-38	-29	-56	-3	-65	-37
Ore Inventory Adjustment	-39	-10	7	26	56	18
Mining Costs	99	114	106	124	117	115
Processing Costs	48	42	52	54	57	51
Other Direct Cash Costs	18	19	16	14	13	16
Total Onsite Costs	165	175	174	192	187	182
Transport & Shipping	16	13	12	11	11	12
Treatment, Refining & Smelter Charges	41	43	46	36	39	41
Total Offsite Costs	57	56	58	47	50	53
Precious Metals Credits	-25	-20	-19	-21	-36	-24
Total Direct Operating Costs (C1 Cash Costs)	197	211	213	218	201	211
Royalties	4	3	3	3	3	3
D&A	80	69	72	66	79	71
TOTAL COSTS	281	283	288	287	283	285

* Calendar year

**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. During the quarter a Net Realisable Value adjustment of stockpile valuation occurred, which is also reflected in the Ore Inventory Adjustment.

Shipping

During the quarter, Hillgrove shipped its 30th and 31st shipments of copper concentrate of 10,324WMT (9,152dmt) and 10,725WMT (9,661dmt) respectively.

Revenue

Revenue for the quarter was \$31.4 million at an average realised price of \$3.40/lb (USD2.43/lb) after hedging.

Exploration Programme

Exploration of \$42k was expended during the quarter, with the majority of the work being on the interpretation of the downhole geophysical and the Heli-borne TEM recently conducted to identify targets for the future drilling programme to the north of Giant Pit.

Outlook

Annual guidance to be released with Full Year results in February 2016

INDONESIAN GOLD AND GOLD/COPPER ASSETS

The focus on its Kanmantoo operations means the Indonesian assets are no longer considered core assets. Hillgrove believes there is inherent value in the exploration tenements and continues discussions with potential interested parties on these projects.

BIRD'S HEAD COPPER/GOLD PROJECT, WEST PAPUA, INDONESIA**IUP40/2010 (Hillgrove 80%)**

Hillgrove is an 80% shareholder in PT. Akram Resources which holds IUP40/2010 in the Bird's Head region of West Papua. Hillgrove is responsible for the management of exploration and development activities up to a decision to mine.

SUMBA GOLD PROJECT, INDONESIA**IUP 322/KEP/HK/2009 (Hillgrove 80%)**

Hillgrove is an 80% shareholder in PT Fathi Resources which holds IUP 322 on the island of Sumba. Hillgrove is responsible for the management of exploration and development activities, up to a decision to mine.

HILLGROVE CORPORATE

Work continued on the simplification and consolidation of Hillgrove's operations along with the implementation of cost reduction initiatives across the Company. This included the elimination and consolidation of a number of roles at both the Corporate Office and the Kanmantoo Mine site.

In addition to this, Hillgrove announced a formal partnership with the South Australian Government with the relocation of the Corporate Office from Sydney to Adelaide during the quarter. This will see benefits for the State, with a vast majority of externally sourced expertise sourced from South Australia and will allow Hillgrove to reduce costs by accessing high quality, moderate priced services available in the State as well as a significant reduction in rent, travel, and accommodation expenses. The partnership will also involve a grant of \$850,000 towards the construction of a water pipeline project to deliver untreated water to Kanmantoo Copper Mine, displacing more expensive drinking water.



Cash and Investments

During the quarter Hillgrove's financiers agreed to reduce the restricted cash from \$8.0 million to \$5.0 million.

Cash as at 31 December 2015 was \$6.1 million.

Debt as at 31 December 2015 was \$19.2 million with net debt at \$13.1 million.

CORPORATE INFORMATION

Issued Share Capital at 31 December 2015

Ordinary shares	188,109,342
Employee Performance Rights	1,813,750
Unlisted options	-

Share price activity for the Quarter

High	0.20
Low	0.15
Last (31 December 2015)	0.16
Average Daily Volume	137,386

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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 with exploration projects on its Indonesian tenements. The Kanmantoo Copper Mine is located less than 55 kilometres from Adelaide in South Australia. With construction completed in late 2011, Kanmantoo is an open-cut mine with a throughput of 3.0 - 3.5Mt p.a., to produce up to 100,000 dry metric tonnes of copper concentrate per annum, containing approximately 20,000t copper and associated gold and silver per annum over the current life of mine.

Kanmantoo Global Mineral Resource Estimate at End February 2013

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

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

Kanmantoo Global Ore Reserve Estimate at End February 2013

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

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

Competent Person's Statement

The information in this release that relates to Mineral Resources is based upon information compiled by Ms Michaela Wright, who is a Member of The Australasian Institute of Mining and Metallurgy. Ms Wright is a full-time employee of Hillgrove Resources Limited and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Ms Wright has consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.

The information in this release that relates to Ore Reserves is based upon information compiled by Mr Steven McClare, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr McClare is a full-time employee of Hillgrove Resources Limited and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Mr McClare has consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.