



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 31 March 2016

HIGHLIGHTS

While conditions remain challenging, the mine has performed in line with the revised plan:

- Production of 3,397 tonnes of contained copper in concentrates from the Kanmantoo Copper Mine for the quarter (3,997 tonnes the previous quarter)
- The lower copper production was offset by the higher gold production of 4,587 ounces (2,558 ounces the previous quarter), capitalising on the current gold prices, relative to the copper price
- Revenue of \$29.7 million for the quarter at an average realised price of \$3.64/lb (USD2.60/lb)
- C1 cost for the quarter of USD1.41/lb, driven mainly by low cost ore after low grade stockpiles were written down in December 2015
- The processing plant continues to operate at an annualised rate of 3.5mtpa, despite Controlled Potential Sulphidisation (CPS) processing
- A total of 317kt transitional and oxide material was processed during the quarter, with a feed grade of 0.60% and a recovery of 48.4%, to produce 921 tonnes of copper in concentrate. Targeted tails grade was repeatedly achieved but grade of historic oxide stockpiles was 36% lower than plan
- Work on the water pipeline project was completed in the quarter, with the first water available on site in January 2016
- Hillgrove's copper hedging continues to support the revenue stream during periods of low copper prices, with significant hedge book cover (12.7kt of copper hedged at an average price of \$7,797/t, 17% above the current spot price of \$6,645/t)
- As at 31 March 2016 cash on hand was \$5.6 million, total debt decreased from \$19.2 million to \$17.8 million (due to a principal repayment, and the appreciation of the Australian Dollar)
- On 31 March 2016 Hillgrove announced the revised LOM plan, when combined with the Giant pit pre-strip, will result in a cash shortfall in 2016 and 2017. Since the end of March 2016, senior management has held discussions with its key stakeholders to seek their assistance to bridge the cashflow gap. These discussions are continuing and progress is being made on a number of fronts toward closing the cashflow gap.



EXECUTIVE SUMMARY

The Total Recordable Injury Frequency Rate continued to reduce to 12.4, the lowest since operations began in 2011. Production was 3,397t of copper and 4,587oz of gold in concentrate for the quarter, at a C1 cash cost of USD1.41/lb. The Giant pit cut back continues to track to the updated plan post implementation of the modified geological model. This new model has less copper in the upper regions but more at depth.

The deferral of copper metal production until deeper areas in the heart of the orebody is reached has continued to place a challenge on cashflow generation, but we continue to fund the Kanmantoo mine including the Giant Pit cutback through cashflow from operations. Revenue for the quarter was \$29.7 million at an average realised price for copper of \$3.64/lb (USD2.60/lb), with cash on hand at quarter end of \$5.6 million.



These revenues were supported by Hillgrove's strong hedge book. This hedge book will continue to provide Hillgrove with strong revenue protection, with 12.7kt of copper hedging at an average price of \$7,797/t (\$3.54/lb), amounting to approximately 86% of payable copper until March 2017 or alternatively 42% of payable copper from April 2016 until December 2017 still available.

The recent ASX releases regarding cash shortfalls in 2016 and 2017 are of the utmost importance to every employee and stakeholder in Hillgrove. All employees, suppliers, contractors, lenders and the SA Government are working positively and in unison to overcome this challenging period. A number of initiatives are being pursued to rectify the short to medium term cashflow shortfall which will allow us to deliver the value from the heart of the main orebody.

The new water pipeline to the site was commissioned during the quarter and this provides significant value to the operation and surrounding community. The achieved gravitational flow rates have exceeded design criteria for the pipeline allowing flexibility and redundancy in the sources of water for the operation.

The challenges moving forward are to bridge the cash shortfall gap, increase mining rates to complete the Giant cutback and deliver the higher grade and significantly higher ratio ore benches to the mill in a timely manner. Further information will be released as milestones and initiatives are achieved.

KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

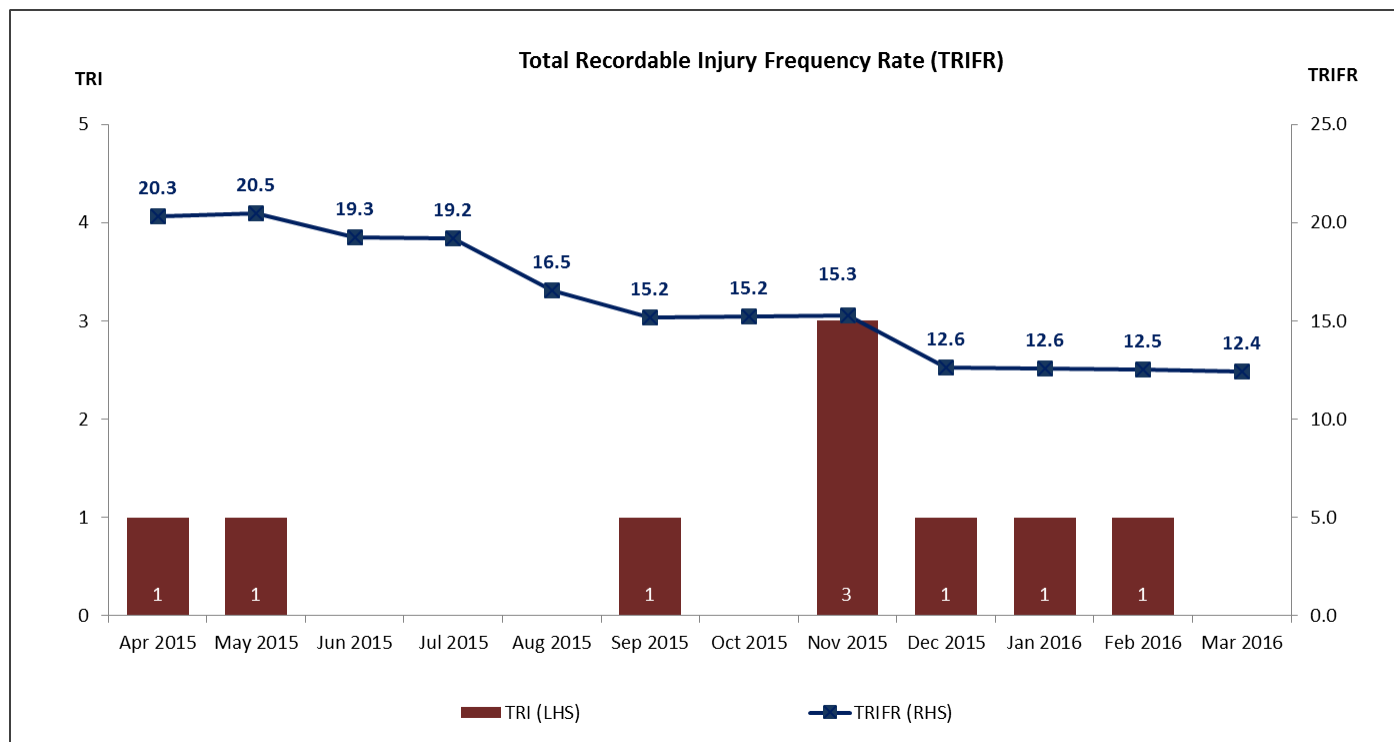
Overview

The Giant cutback progressed through a series of upper level satellite orebodies to reach the high grade primary sulphide ore in the southern end of the pit which also returned higher than anticipated gold grades. Backfilling the Nugent Pit continued, providing a short haul option for the waste. The processing plant again performed well, however recovery and unit costs were affected this quarter due to 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 12.4, a 39% reduction over the last 12 months and the lowest since operations began in 2011.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



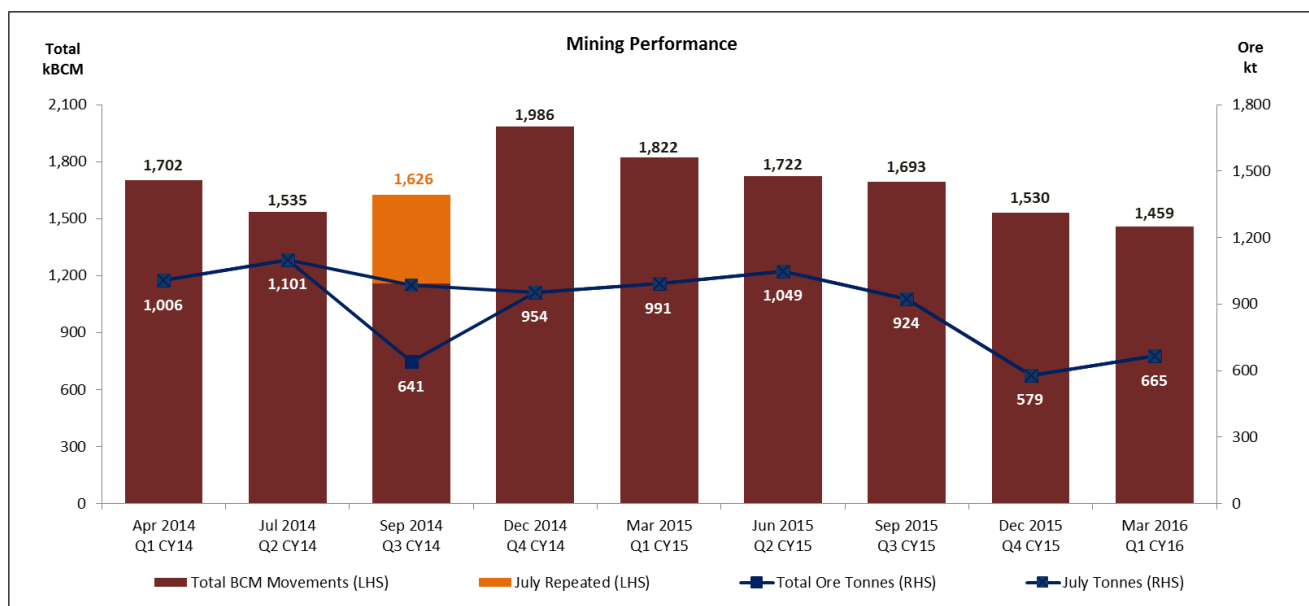
Operations

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		MAR-15 QTR	JUN-15 QTR	SEP-15 QTR	DEC-15 QTR	CY15	MAR-16 QTR
		3 MTHS	3 MTHS	3 MTHS	3 MTHS	12 MTHS	3 MTHS
Ore to ROM from Pit	kt	888	899	924	579	3,290	665
Ore to long term stockpiles	kt	103	149	-	-	252	1
Mined Waste	kt	4,631	4,265	4,306	4,148	17,350	3,843
Total Tonnes Mined	kt	5,622	5,313	5,230	4,727	20,892	4,509
To ROM from LT Stockpiles	kt	-	193	179	413	784	427
Mining Grade to ROM	%	0.64	0.57	0.51	0.66	0.59	0.58
Ore Milled	kt	959	1,041	1,121	983	4,104	865
Milled Grade - Cu	%	0.58	0.49	0.48	0.56	0.52	0.54
- Au	g/t	0.12	0.07	0.09	0.17	0.11	0.32
Recovery - Cu	%	89.8	82.0	77.6	72.0	80.3	72.6
- Au	%	42.6	49.3	46.3	49.0	47.1	51.2
Cu Concentrate Produced	Dry mt	21,949	17,947	17,282	17,793	74,971	16,148
Concentrate Grade - Cu	%	22.8	23.1	24.1	22.5	23.1	21.0
- Au	g/t	2.2	2.1	2.7	4.5	2.8	8.8
Contained Metal in Con. - Cu	t	5,013	4,138	4,157	3,997	17,306	3,397
- Au	oz	1,532	1,214	1,486	2,558	6,790	4,587
- Ag	oz	24,920	21,554	31,334	36,592	114,399	29,828
Total Concentrate Sold	Dry mt	22,714	17,104	17,468	17,742	75,028	15,382

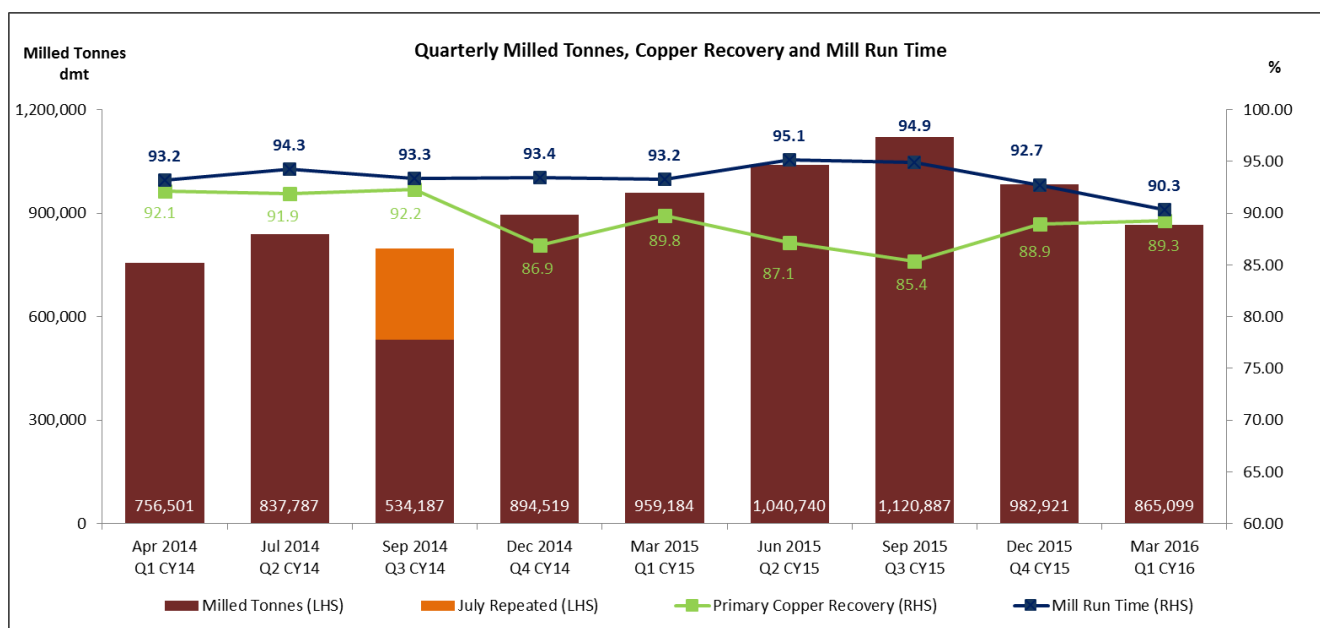
Mining production was 4,509kt (1,459k BCM) for the March 2016 quarter, of which 665kt was ore. The decrease in mining movements over recent quarters have been a result of a number of factors, including confined mining and working areas, a focus on copper production, and mining of harder waste and ore zones. Many of these constraints are expected to be alleviated in the coming quarters with the opening up of the pit.

FIGURE 2. KANMANTOO COPPER MINE TOTAL BCM



The treatment of oxide ore requires greater mill time and leads to lower recoveries. Notwithstanding this, mill throughput and reliability continued to be high, despite a significant portion of oxide ore processed.

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



Mill throughput for the quarter decreased from 983kt to 865kt, with this reduction largely as a result of the targeting of gold production (which increased by 79% from the prior quarter), in order to enhance cash flows and capitalise on the current high gold prices, relative to the copper price.

The combined CPS and Primary copper recovery of 72.6% was similar to the previous quarter (72.0%). The copper recovery in areas of primary sulphide remained in line with expectations for those primary ores at 89.3%, with the tailings grade in line with plan at 0.055%.

CPS

A total of 317kt transitional and oxide material was processed during the quarter, with a feed grade of 0.60% and a recovery of 48.4%, to produce 921 tonnes of copper in concentrate.



Costs

Quarterly mining unit costs decreased to \$11.42/bcm, despite the lower mining movements from the prior quarter, which impacts the economies of scale. Quarterly processing unit costs increased to \$7.31/t milled due to lower throughput rates while the gold rich ore was targeted.

FIGURE 4. KANMANTOO QUARTERLY MINING UNIT COSTS

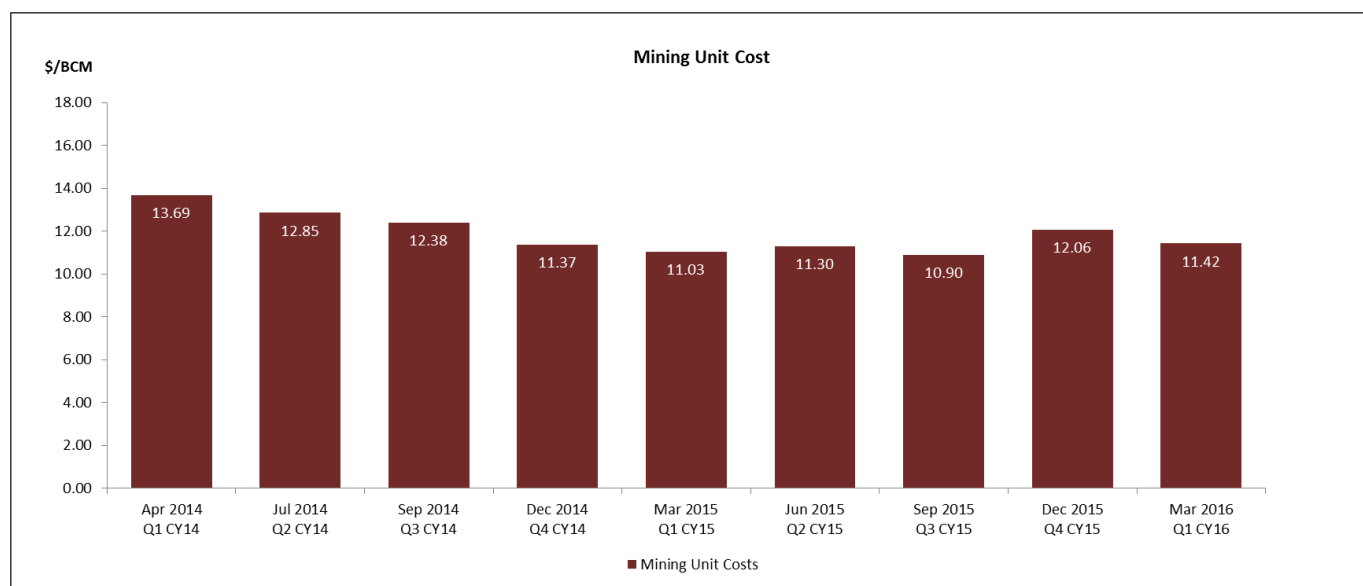
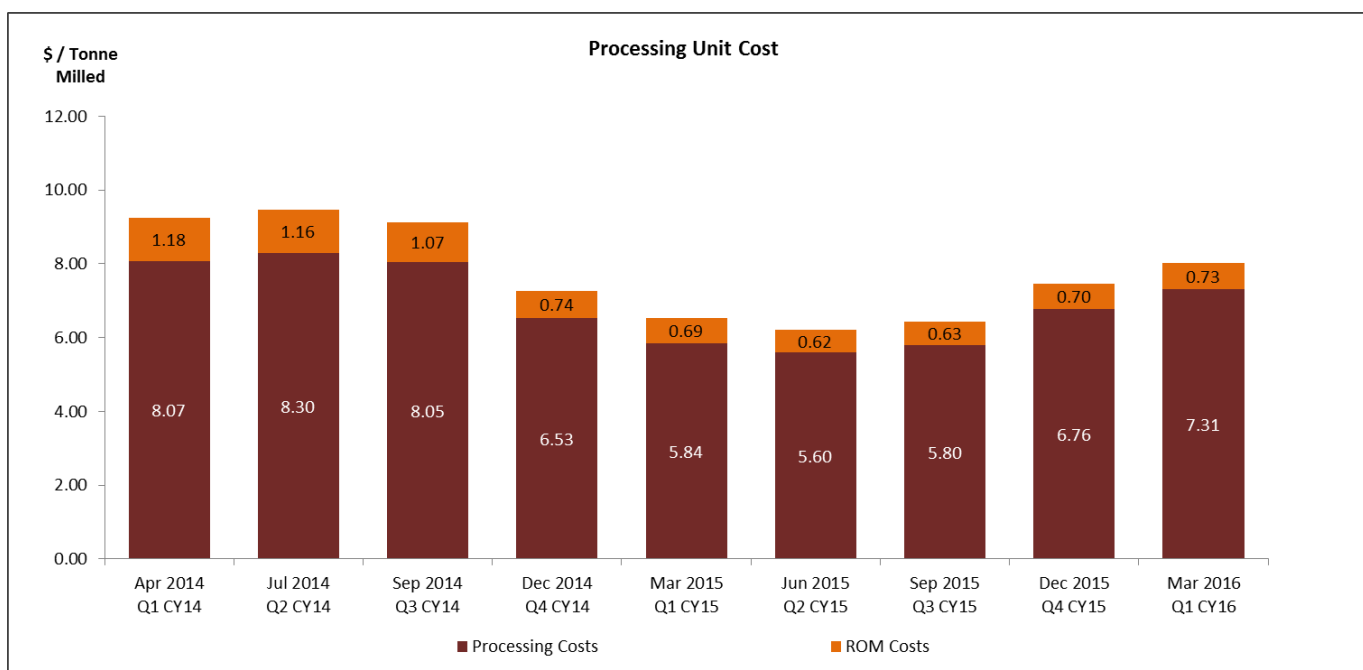


FIGURE 5. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



The C1 cash cost of USD1.41/lb was significantly lower than previous quarters as a result of the lower mining costs, driven by the cost of ore inventory adjustment this quarter (which represents ROM stock movements together with the cost of material transferred from the long-term stockpiles for CPS processing). This is a result of the cost of low grade stockpiles previously written off in CY15.

The higher D&A costs for the quarter reflect a change in the basis for amortising the cumulative cost of the Tailings Storage Facility (TSF). Prior to December 2015, successive TSF lifts have been amortised on a LOM basis. Commencing 1 January 2016, Hillgrove adopted the more conservative amortisation basis of fully amortising each lift as it becomes full. The post 1 January 2016 amortisation charge has also been increased so that the cost of lifts 1-3 will be fully depreciated by 30 June 2016.



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

US cents per lb	MAR-15 QTR	JUN-15 QTR	SEP-15 QTR	DEC-15 QTR	CY15	MAR-16 QTR
	3 MTHS	3 MTHS	3 MTHS	3 MTHS	12 MTHS	3 MTHS
Total Mining Cost	153	179	160	163	163	174
Deferred Mining	0	-24	-59	-37	-29	-36
Pre-strip	-29	-56	-3	-65	-37	-64
Ore Inventory Adjustment	-10	7	26	56	18	2
Mining Costs	114	106	124	117	115	76
Processing Costs	42	52	54	57	51	63
Other Direct Cash Costs	19	16	14	13	16	16
Total Onsite Costs	175	174	192	187	182	155
Transport & Shipping	13	12	11	11	12	11
Treatment, Refining & Smelter Charges	43	46	36	39	41	39
Total Offsite Costs	56	58	47	50	53	50
Precious Metals Credits	-20	-19	-21	-36	-24	-64
Total Direct Operating Costs (C1 Cash Costs)	211	213	218	201	211	141
Royalties	3	3	3	3	3	3
D&A	69	72	66	79	71	201
TOTAL COSTS	283	288	287	283	285	345

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 32nd shipment of copper concentrate of 10,560WMT (9,564DMT), with the 33rd shipment occurring in early April.

Revenue

Revenue for the quarter was \$29.7 million at an average realised price of \$3.64/lb (USD2.60/lb) after hedging.

Exploration Programme

Exploration of \$21k was expended during the quarter, with minimal amounts of work undertaken to conserve cash.

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

On 31 March 2016, Hillgrove announced that it had revised its LOM plan to lower targets for mining of material in line with recent performance. While this revised LOM plan still shows Kanmantoo will generate significant value, the anticipated near term production levels coupled with the need to continue the pre-strip and cut-back of the Giant pit are likely to result in a cash shortfall in 2016 and 2017 at current performance levels and commodity prices unless cost-reduction measures are implemented to improve cashflow from operations.

The Board has agreed a process to address this anticipated cashflow shortfall and senior management commenced discussions with its key stakeholders including employees, major contractors, suppliers and service providers, financiers and the South Australian Government to seek their assistance with this process to ensure the Company can bridge any cashflow gaps this year and into 2017.

Since the end of March 2016, these discussions have continued and progress is being made on a number of fronts toward closing the cashflow gap.

Cash and Investments

Cash as at 31 March 2016 was \$5.6 million, with debt at \$17.8 million. The reduction in debt from \$19.2 million at 31 December 2015 reflects a principal repayment during the quarter, as well as the increase in the Australian Dollar exchange rate.

CORPORATE INFORMATION**Issued Share Capital at 31 March 2016**

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

Share price activity for the Quarter

High	0.17
Low	0.05
Last 31 March 2016	0.05

SHARE REGISTRY

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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.