

Wednesday, 31 August 2016

RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2016

HIGHLIGHTS

- Proud winner of South Australian Premier's Award for Excellence in Supporting Communities.
- Release of new Mineral Resource Estimate (MRE) for Kanmantoo Copper Mine, which contains an additional 11,080t of copper compared to the 2013 Resource Model.
- Production against MRE reconciles positively by 17% for the six months.
- Significant progress to address previously announced cash shortfall:
 - A 10% reduction and deferral in wage rates accepted by employees,
 - South Australian Government concessions, and
 - Secured \$4.0 million working capital loan provided by South Australian Government.
- No change to full year guidance for production and costs.

Half year financial performance

- A net loss after tax of \$102.7 million which includes impairment charges of \$67.1 million after tax for Kanmantoo and a \$19.2 million write down of deferred tax asset, with an underlying loss after tax of \$16.4 million.
- Underlying EBITDA of \$19.5m was up \$7.0 million from the corresponding half year
- C1 cost for the half of USD1.39/lb, driven by the high proportion of capitalised pre-strip.
- The carrying value of the Kanmantoo operations has been reduced to \$61.4 million.
- 6,756t of copper and 7,015oz of gold (in concentrate) produced.
- Revenue of \$58.8 million at an average price of A\$6,731/tonne.
- The operating loss is predominantly associated with an impairment reflective of the low copper price environment and lower production in the first half.

Events Post Balance Date

- Bonding obligations under the Mining Act 1971 have been secured directly to the South Australian Government on a first ranking basis;
- Hedging positions (Australian Dollar copper swaps) have been closed out;
- The senior debt of US\$13.65 million owed to Ventures Australia LLC has been fully repaid; and
- The sale and leaseback of 450 sea containers improving liquidity and reducing logistic costs.

HILLGROVE RESOURCES LIMITED

Hillgrove Resources Limited (ASX:HGO) announces revenue generated in the six months to 30 June 2016 from the sale of copper concentrate of \$58.8 million, a decrease of \$13.2 million from the comparative period revenue of \$72.0 million. The revenue was generated at an average realised price of \$6,731 per tonne (30 June 2015: \$7,380 per tonne).

A net loss after tax of \$102.7 million for the six months ended 30 June 2016 is reported (30 June 2015: loss \$44.9 million). The underlying loss after tax was \$16.4 million with non-underlying items comprising a Kanmantoo asset impairment write down of \$67.1 million and derecognition of deferred tax asset of \$19.2 million.

Underlying EBITDA for the six months ended 30 June 2016 was \$19.5 million, a \$7.0 million increase from the comparative period (30 June 2015: \$12.5 million).

| Results for the period (\$ million) | 6 months to 30 June 2016 | 6 months to 30 June 2015 | Change |
|--|-----------------------------|-----------------------------|--------|
| Revenue | 58.8 | 72.0 | (13.2) |
| Statutory (loss)/profit | (102.7) | (44.9) | (57.8) |
| Underlying (loss)/profit | (16.4) | (4.6) | (11.8) |
| Underlying EBITDA | 19.5 | 12.5 | 7.0 |

During the period, 30,369t of dry copper concentrate containing 6,756t copper was produced (30 June 2015: 39,896t of dry copper concentrate containing 9,151t copper). The continuing weaker copper price has resulted in an impairment of Kanmantoo operations by \$67.1 million, which has reduced its carrying value to \$61.4 million.

Outlook

The most critical issue confronting the company this year has been to ensure there is adequate liquidity in place for the Kanmantoo mine site to sustain operations and unlock shareholder value through to 2020. As can be clearly seen in the Events Subsequent to the Balance Date, there has been significant progress on a broad range of fronts. These are the preliminary outcomes from strategies to simplify funding arrangements, better define the quantum and timing of any shortfall, defer expenditure, reduce costs, achieve production targets and maintain support of business partners which will allow Hillgrove to achieve its objectives.

With the balance sheet now lightly geared, restrictions on access to cash now removed, and significant progress having been made in reducing the creditor position since the start of 2016, the Board is confident that the company is now in a sound position to raise any capital required to fund operations for the remaining mine life.

Having reviewed the performance to date and taking into account all material to hand, the Directors have left the annual guidance range unchanged for both production and costs.

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Appendix 4D
Interim Report
Half year ended 30 June 2016

| | |
|--|-----------------------------|
| Name of entity | Hillgrove Resources Limited |
| ABN | 73 004 297 116 |
| Half year ended | 30 June 2016 |
| Previous corresponding reporting period | 30 June 2015 |

Results for announcement to the market

| | | | |
|---|------------|----|---------------|
| Revenue from ordinary activities | down 18.3% | to | \$58,814,000 |
| Loss from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited | down 129% | to | \$102,694,000 |
| Loss for the period attributable to the owners of Hillgrove Resources Limited | down 129% | to | \$102,694,000 |

Dividends

No dividends were paid or proposed to members during the half year ended 30 June 2016 or in the previous period.

Brief explanation of results

A net loss after tax of \$102,694,000 is reported by the Group for the half year (30 June 2015: loss of \$44,858,000).

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 30 June 2016 for additional detail.

Statements

The following statements are included in the attached Interim Report for the half year ended 30 June 2016:

- income statement
- statement of comprehensive income
- statement of financial position
- statement of changes in equity
- statement of cash flows.

Dividend reinvestment plans

There are no dividend reinvestment plans in operation.

Net tangible assets per security

| NTA backing | Current period | Previous period |
|--|----------------|-----------------|
| Net tangible asset backing per ordinary security (undiluted) | 15.2 cents | 109.7 cents |

Control gained or lost during the period

Control gained

There were no transactions entered into by the Group during the half year ended 30 June 2016 that resulted in control being gained over any entities.

Control lost

There were no transactions entered into by the Group during the half year ended 30 June 2015 that resulted in control being lost over any entities.

Subsidiaries

The consolidated results incorporate the assets, liabilities and results of the following subsidiaries.

| Name of entity | Country of incorporation | Class of Share | Equity Holding 2015 | Equity Holding 2014 |
|-----------------------------------|--------------------------|----------------|---------------------|---------------------|
| Controlled entity | | | % | % |
| Hillgrove Copper Pty Ltd | Australia | Ordinary | 100 | 100 |
| Hillgrove Copper Holdings Pty Ltd | Australia | Ordinary | 100 | 100 |
| Hillgrove Exploration Pty Ltd | Australia | Ordinary | 100 | 100 |
| Hillgrove Mining Pty Ltd | Australia | Ordinary | 100 | 100 |
| Hillgrove Operations Pty Ltd | Australia | Ordinary | 100 | 100 |
| Hillgrove Wheal Ellen Pty Ltd | Australia | Ordinary | 100 | 100 |
| Kanmantoo Properties Pty Ltd | Australia | Ordinary | 100 | 100 |
| Mt Torrens Properties Pty Ltd | Australia | Ordinary | 100 | 100 |
| SA Mining Resources Pty Ltd | Australia | Ordinary | 100 | 100 |
| Hillgrove Indonesia Pty Ltd | Australia | Ordinary | 100 | 100 |
| Hillgrove Singapore Pte Ltd | Singapore | Ordinary | 80 | 80 |
| Hillgrove Singapore No 2 Pte Ltd | Singapore | Ordinary | 80 | 80 |
| Hillgrove Singapore No 3 Pte Ltd | Singapore | Ordinary | 100 | 100 |
| Hillgrove Singapore No 4 Pte Ltd | Singapore | Ordinary | 100 | 100 |
| PT Akram Resources Pte Ltd | Indonesia | Ordinary | 80 | 80 |
| PT Fathi Resources Pte Ltd | Indonesia | Ordinary | 80 | 80 |
| PT Hillgrove Indonesia Pte Ltd | Indonesia | Ordinary | 100 | 100 |

The proportion of ownership interest is equal to the proportion of voting power held.

Associates and joint venture entities

PT Akram Resources and PT Fathi Resources are Joint Ventures with Indonesian partners in accordance with the terms of the Joint Venture agreement.

Commentary on results for the period**Review of operations**

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 30 June 2016.

Foreign entities

International Accounting standards have been used in compiling the report.

Report based on audited accounts

This report has been based on the attached accounts which have been reviewed by the Group's auditors.



**Interim Report
for the Half Year Ended
30 June 2016**

**Hillgrove Resources Limited
and its Controlled Entities**

ACN 004 297 116

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Note: All dollars in this report are Australian unless otherwise noted.

Directors' Report

The Directors present their report on the consolidated entity consisting of Hillgrove Resources Limited ("Hillgrove" or the "Company") and its controlled entities (the "Group" or the "Consolidated Entity") for the six month period to 30 June 2016.

Directors

The directors of the Company during this period were:

- The Hon. Dean Brown, AO
- John Gooding
- Maurice Loomes
- Philip Baker
- Steven McClare

Principal Activities

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on copper production from its Kanmantoo Copper Mine in South Australia and developing value from its exploration tenements in Australia.

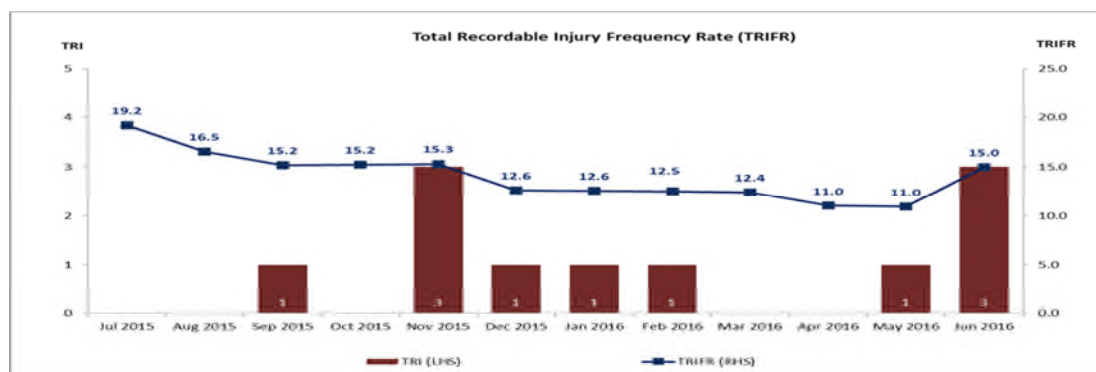
Kanmantoo Copper Mine

The Kanmantoo Copper Mine in South Australia is located 55 kilometres from Adelaide. A main highway passes close to the project and being approximately 90 kilometres by road to Port Adelaide enables the trucking of copper concentrate to the port. The mine site is connected to the electricity grid and has process water supplied by the District Council of Mount Barker's treated waste water program with additional water capacity from the Murray River which provides 100% redundancy if required. Hillgrove's direct workforce is approximately 190 employees, along with some 55 specialised mining contractors for equipment supply and maintenance, blast hole drilling and explosives supply.

The Kanmantoo Copper Mine is an open-cut operation with a Mineral Resource of 35.2 million tonnes (10.6Mt Measured, 10.9Mt Indicated, 13.7Mt Inferred) grading 0.6% copper and 0.1g/t gold (*based on the most recent Mineral Resource Estimate refer About Hillgrove at end of report*). Following construction of the plant in late 2011, capital enhancements and continuous improvements have increased plant throughput capacity from a nominal 2.4Mtpa to between 3.0Mtpa and 3.5Mtpa capable of producing up to 90,000 dry metric tonnes of copper concentrate per annum, containing approximately 20,000tpa copper and associated gold and silver over the current life of mine. Sales of copper concentrate are made to Freepoint Metals and Concentrates LLC under a 100% copper concentrate offtake agreement.

Operating and Financial Review

By the end of the half year to 30 June 2016, the 12 month Total Recordable Injury Frequency Rate (TRIFR) was 15.0 (30 June 2015: 19.2) after reaching a lowest point of 11.0 during May 2016. The company has made considerable progress towards the implementation of its integrated risk management system.



Directors' Report (continued) Operating and Financial Review (continued)

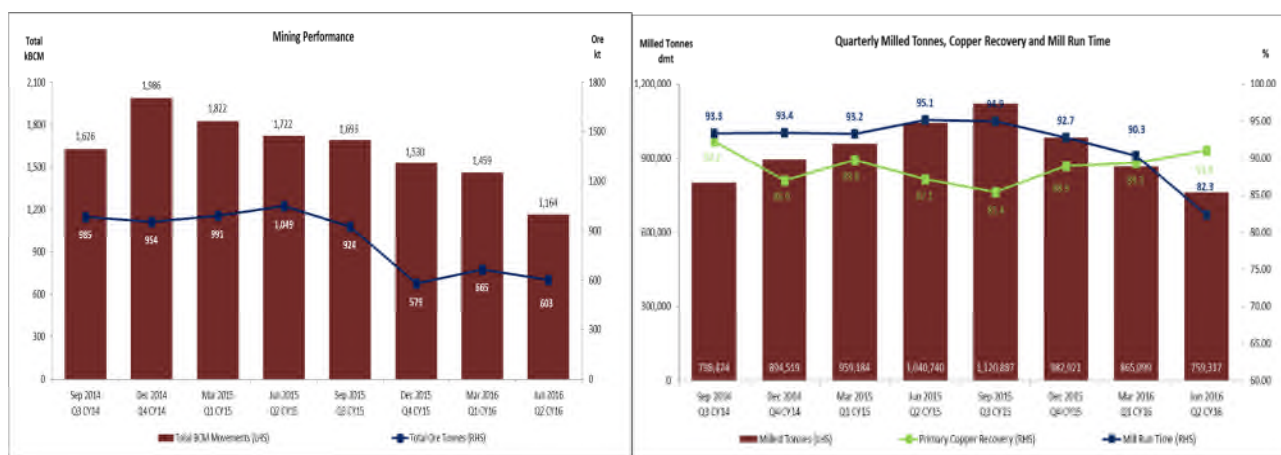
Operations – Mining

Mining continued in the Giant cutback, focussing on the development of the ore bearing benches in the southern end of the pit and waste stripping on the Western wall. All mining activity is now in primary sulphide material, and no further oxide/transitional material is scheduled to be mined or processed. For the twelve months to 30 June 2016 the stripping ratio was 5.4 tonnes of waste for every tonne of ore, with the remaining three stages of the Giant Pit being;

- Remainder 2016 – relatively high strip ratio of 4.3:1
- FY2017 – reduced strip ratio of 2.6:1 improves cash generation
- FY2018 and beyond – very low strip ratio 1.2:1 and reduced mining costs can drive strong cash flow

Since the February update of the Mineral Resource Estimate, the areas mined during 2016 returned more ore tonnes at higher grade than predicted in this estimate. The first quarter of 2016 reconciled positively by 13%, and the second quarter has lifted the outperformance to 16% for the half year. Backfilling of the Nugent pit has provided a short haul option for the waste, and this cost efficiency has assisted in managing cash flow constraints during the half year.

Total material moved for the half year to 30 June 2016 was 8,104kt (30 June 2015: 10,935kt), and total ore mined was 1,260kt (30 June 2015: 2,039kt). The decrease in mining movements over the last half year has been a result of a number of factors, including confined mining areas, prioritizing ore bearing zones, one of the wettest winters recorded in Adelaide and managing cash constraints following a lender impasse restricting access to hedge proceeds during a period of lower spot copper prices.



Operations – Processing

Mill throughput for the half year to 30 June 2016 was 1,624kt at 0.55% copper head grade (30 June 2015: 2,000kt at 0.53% Cu). This included processing 142kt of oxide and transitional material through the CPS circuit. This was the final parcel of this stockpiled ore and as anticipated, it was the most difficult to treat yielding 282 tonnes of copper in concentrate at a recovery of 32.2%. The copper recovery from primary sulphide ore processed during the half remained in line with expectations at 91% with the tailings grade also in line with plan.

Total production for the half to 30 June 2016 was 30,369dmt of concentrate containing 6,756 tonnes of copper metal (30 June 2015: 9,151 tonnes copper metal).

Of particular note during the first half of 2016 was the elevated level of gold produced as a by-product from the ore mined from areas near the old Spitfire pit. Total gold produced was 7,015 ounces (30 June 2015: 2,756 ounces) which was the equivalent of over 1,600 copper metal tonnes in value.

Directors' Report (continued)

Operating and Financial Review (continued)

Despite the lower copper production in 2016, the C1 unit cost for the half year to 30 June 2016 decreased to US\$1.39 per lb copper produced (A\$1.89 per lb) which compares to the half year to 30 June 2015 C1 unit cost of US\$2.12 per lb (\$2.71 per lb). Mining costs have decreased with shorter hauls and the credit for costs temporarily deferred to the balance sheet has increased reflecting the stripping activity in the upper levels of the Giant cutback. The value of by-product credits increased from US\$0.20 per lb in 2015 to US\$0.54 per lb due to the extra gold produced in 2016.

Hillgrove has a 100% life of mine offtake agreement with Freepoint Metals and Concentrates LLC ("Freepoint"). Copper concentrate is trucked from the mine site to Port Adelaide, and is then sold on a CIF basis (cost, insurance, freight) to Freepoint. In the half year to 30 June 2016, three shipments totalling 31,493wmt of copper concentrate were loaded, all of which went to smelters in China.

Commodity Price Hedging

At the commencement of 2016 Hillgrove had 16,476 tonnes of copper hedging at an average price of A\$7,758 per tonne (\$3.52/lb). Hedge contracts closed out in the half year to 30 June 2016 totalled 4,477 tonnes and hedge gains added over \$6.7 million to sales revenue making up considerably for the lower prevailing copper prices during 2016.

Post balance date the hedge contracts remaining as at 30 June 2016 have been closed out – refer Events Subsequent to Balance Date.

Environment and Community

Hillgrove continues to actively engage with local communities and landowners around the Kanmantoo mine, along with key groups in the immediate regional centres. The Kanmantoo Callington Community Consultative Committee (KCCCC), being the local communities' primary interaction with the mine, held two formal meetings during the half year. In recognition of the approach taken with community and social responsibilities, Hillgrove and the KCCCC were winners of the South Australian Premier's Award for excellence in supporting communities.

Hillgrove continues to progressively rehabilitate the Mining Lease and improve its areas containing off-set rehabilitation. The encapsulation of mine waste and the store and release cover have been placed on southern slopes of the Tailings Storage facility (TSF) awaiting revegetation in the second half of 2016. The backfilling of the Nugent pit to ground level is complete and re-construction of McFarlane Hill on its surface is continuing, this landform will also be available for revegetation in the second half of 2016.

Funding

During March 2016 and based on the then current production, Hillgrove determined that the life of mine plan ("LOM plan"), which required intensified mining on a smaller footprint, was too aggressive and that as a consequence of these operational issues, the Group revised its LOM plan.

The revised LOM plan indicated that there were cash flow funding gaps over the ensuing 15 month period.

As a consequence, Hillgrove, with the approval of its financiers, undertook a number of initiatives aimed at reducing costs and improving future cash flows. By June 2016 significant progress had been made towards addressing the predicted cash shortfall including;

- A 10% reduction and deferral in wages to December 2017 was accepted by employees
- Agreements reached with key suppliers to reduce rates and extend payment terms
- A secured working capital loan of \$4 million was provided by the South Australian Government

Post balance date further funding initiatives resulting from a debt restructure and the sale of containers were announced - refer Events Subsequent to Balance Date.

Directors' Report (continued)

Operating and Financial Review (continued)

Exploration

Hillgrove has exploration tenements adjacent to the Kanmantoo Copper Mine which are the subject of an exploration program to extend the mine life.

In February 2016, following a thorough management review of the resource model, a new Mineral Resource Estimate for Kanmantoo copper mine was released which contained an additional 11,080 tonnes of copper compared to the 2013 resource model. The next stage of mine life extension involves an exploration programme which is planned to commence in earnest during 2017 when cash flows improve with the lower strip ratio and higher production from the Giant Pit. The detailed ground gravity survey undertaken as part of the initial phase of this programme identified a target several hundred metres to the east of the historic aeromagnetic information. This target was modelled to remove the impact of the open pit void and the near surface interference. During 2015 a 433m long reverse circulation hole (KTRC995) was successfully drilled to intercept the target. The results identified 28m @ 0.61% Cu, 0.14g/t Au and 2.6g/t Ag. The second phase will test both the up and down dip extent of mineralisation and also determine the lateral extent from the Giant Pit through the areas to the North.

Post balance date a confirmatory drilling programme was carried out in the South West corner of the pit - refer Events Subsequent to Balance Date.

In addition, Hillgrove has two exploration projects in the Indonesian archipelago, Sumba Island, where low-sulphidation epithermal gold mineralisation within a series of large hydrothermal alteration systems has been identified, and Bird's Head in West Papua where copper-gold mineralisation associated with an interpreted porphyry complex and associated extensive hydrothermal alteration system has been identified. Hillgrove continues to maintain its ownership interests in the Indonesian assets at Bird's Head in West Papua and Sumba Island and has retained minimal exploration care and maintenance teams at the project offices. The Company will continue to pursue options with third parties to realise future value from these exploration interests.

Review of consolidated financial results

For the six months ended 30 June 2016, the net loss after tax was \$102.7 million compared to a net loss of \$44.9 million in the comparative period. The loss includes an impairment charge of \$67.1 million for Kanmantoo assets and a \$19.2 million write down of the deferred tax asset from carried forward tax losses. Before these items, the underlying EBIT result was a net loss of \$20.8 million compared to an underlying net loss of \$5.4 million for the corresponding period last year.

Underlying EBITDA for the first half of 2016 was \$19.5 million compared with \$12.5 million last year but pre-stripping and other deferred costs were \$21.9 million this year (30 June 2015: \$12.9 million).

Directors' Report (continued) Operating and Financial Review (continued)

Income Statement *

| \$ million | Half Year | Half Year | Change |
|--|----------------|---------------|---------------|
| | June 2016 | June 2015 | |
| Revenue from sale of concentrates | 52.1 | 68.8 | (16.7) |
| Hedge gains | 6.7 | 3.2 | 3.5 |
| TOTAL REVENUE | 58.8 | 72.0 | (13.2) |
| Mining costs | (33.8) | (40.7) | 6.9 |
| Pre-strip and deferral | 21.9 | 12.9 | 9.0 |
| Processing costs | (11.7) | (11.4) | (0.3) |
| Transport and shipping costs | (2.2) | (3.2) | 1.0 |
| Treatment and refining costs | (6.2) | (9.4) | 3.2 |
| Other direct costs | (3.0) | (4.8) | 1.8 |
| Inventory movements | (2.2) | 0.6 | (2.8) |
| Royalties | (0.6) | (0.9) | 0.3 |
| Corporate costs | (2.0) | (2.0) | - |
| Other income | 0.1 | 0.1 | - |
| Net realised foreign exchange gains/(losses) | 0.4 | (0.7) | 1.1 |
| TOTAL CASH COSTS OF PRODUCTION | 39.3 | 59.5 | 20.2 |
| UNDERLYING EBITDA | 19.5 | 12.5 | 7.0 |
| Depreciation and amortisation | (40.6) | (17.4) | (23.2) |
| Net unrealised foreign exchange gains/(losses) | 0.3 | (0.4) | 0.7 |
| UNDERLYING EBIT | (20.8) | (5.4) | (15.4) |
| Net interest and financing charges | (2.0) | (1.7) | (0.3) |
| Income tax benefit/(expense) | 6.4 | 2.5 | 3.9 |
| UNDERLYING NET PROFIT/(LOSS) AFTER TAX | (16.4) | (4.6) | (11.8) |
| Non-underlying items (net of tax) | (86.3) | (40.3) | (46.0) |
| REPORTED NET PROFIT/(LOSS) AFTER TAX | (102.7) | (44.9) | (57.8) |

| Non-Underlying Items * | 6 months to 30 June 2016 | | | 6 months to 30 June 2015 | | |
|--|--------------------------|---------------|---------------|--------------------------|------------|---------------|
| | \$ million | Gross | Tax | Net | Gross | Tax |
| Impairment – Kanmantoo assets write down | (67.1) | - | (67.1) | (14.8) | 4.4 | (10.4) |
| Derecognition of deferred tax asset for tax losses | - | (19.2) | (19.2) | - | - | - |
| Impairment – Indonesian exploration write down | - | - | - | (29.9) | - | (29.9) |
| Total non-underlying | (67.1) | (19.2) | (86.3) | (44.7) | 4.4 | (40.3) |

* Where applicable due to changes in presentation, prior period comparatives have been adjusted. Reported net profit/(loss) after tax remains unchanged.

Directors' Report (continued) Operating and Financial Review (continued)

Income Statement (continued)

The increase in net loss after tax by \$57.8 million on the previous period, resulting in a loss of \$102.7 million in the current period was primarily due to:

- **Impairment of non-current assets**
In accordance with accounting standards and internal accounting policies, regular impairment testing is carried out to ensure assets are not carried at more than their recoverable amount. As the recoverable amount can vary with market conditions particularly the future estimated price of copper, impairment testing is done at a point in time to reflect those market conditions. At 30 June 2016 the consensus range of future copper prices had decreased significantly from the last time the recoverable amount was estimated at 31 December 2015. After applying these lower copper prices to the recoverable amount, a further impairment charge of \$67.1 million was taken against the Company's Kanmantoo assets, which has reduced Kanmantoo's carrying value to \$61.4 million. Hillgrove has elected to use a value in use methodology to estimate the recoverable amount at 30 June 2016, rather than the fair value less cost of disposal method as the value in use methodology better aligns with Kanmantoo's current life of mine plan.
- **Income tax**
During the period, the Company derecognised a portion of the deferred tax asset, totalling \$19.2m. In assessing the probable criteria for recognising deferred tax assets, the Company has used a taxable profit forecast consistent with the cash flows used to assess the recoverable value of the Company's non-current assets. As a result, the current half year has a net income tax expense of \$12.8 million in spite of the underlying loss for the period and no income tax benefit was booked for impairments of assets.
- **Lower production**
Revenue generated in the six months to 30 June 2016 from the sale of copper concentrate of \$58.8 million was a decrease of \$13.2 million on the comparative period (30 June 2015: \$72.0 million). This mainly reflects the lower volume of concentrate sold (31,148 dmt sold for half year June 2016 vs 39,818 dmt sold to 30 June 2015) as the current half year was almost entirely dependent on ore sourced from restricted areas in the upper benches of the Giant Pit, supplemented by only one relatively small and final CPS campaign. As a result payable copper metal sold was about 22% down in volume to 7,121t from 9,151t and the average realised price achieved (including gains from forward sale contracts) was \$6,731 per tonne (30 June 2015: \$7,380/t). Lower copper production was partly mitigated by higher gold and silver by-product revenue reflecting the higher grades of precious metals contained within ore from the Southern end of the pit. Gold produced for the six months to 30 June 2016 was 7,015 ounces (30 June 2015: 2,756 ounces) with gold revenue of \$9.9 million, up from \$3.6 million in 2015.

Total cash costs of production decreased by \$20.2 million on the previous corresponding half year due to a combination of factors:

- Mining costs were \$33.8 million in the six months to 30 June 2016 compared to \$40.7 million for the same period last year. The decrease in costs of 17% mainly reflects less mining activity due to constraints from abnormally wet weather in 2016, digging rates slowed to stay within the confines of available cash funds and reduced charges negotiated with key mining suppliers and contractors.
- A higher proportion of mining costs were deferred to the balance sheet in 2016 under the Company's policy of pre-strip capitalisation for areas in excess of a 10:1 waste strip ratio. This was because mining in the current half year was concentrated in the Giant Pit cutback whereas in 2015 mining was spread over three different areas including Nugent and Emily Star pits which had lower waste strip ratios.

Directors' Report (continued) Operating and Financial Review (continued)

Income Statement (continued)

- Transport and shipping costs were \$1.0 million lower as there were three ships loaded in the first half of 2016 compared to four in the previous corresponding period. Treatment and refining charges were \$3.2 million lower reflecting the lower volume of concentrate sold, negotiated reduced offtake charges and lower penalties incurred for bismuth which was at significantly lower levels in the concentrate produced in 2016.
- Other direct costs were \$3.0 million for the current half year (30 June 2015: \$4.8 million). This decrease reflects lower site administration costs from deferred environmental works and lower salary charges following absorption of corporate positions transitioned to Adelaide as part of the closure of the Sydney head office. Site administration costs in 2015 also included once-off legal costs relating to settlement of the dispute with the Kanmantoo plant construction contractor.

Depreciation and amortisation increased significantly in the first half of 2016 to be \$40.6 million compared to \$17.4 million for the previous corresponding period. This was caused by a change in the useful life estimation of the Tailings Storage Facility ("TSF"). Prior to January 2016, successive TSF lifts were amortised on a life of mine basis. As from January 2016, each individual TSF lift will be amortised as it becomes full. Owing to the fact that progressively higher TSF lifts cost less to construct due to decreasing height increments, as well as having incurred write downs for impairment, depreciation and amortisation charges are not expected to continue at this level in future periods.

Cash flow overview

| | \$ million | June 2016 | June 2015 | Change |
|--|------------|------------|------------|--------------|
| Net cash inflows from operating activities | | 9.5 | 7.3 | 2.2 |
| Net cash used in investing activities | | (11.8) | (15.1) | 3.3 |
| Net cash inflows/ (outflows) from financing activities | | 2.8 | 7.6 | (4.8) |
| Net increase/(decrease) in cash held | | 0.5 | (0.2) | (0.7) |
| Cash and cash equivalents at the end of half year | | 6.6 | 8.6 | (2.0) |

Operating activities cash flow

Net cash inflows from operating activities for the six months ended 30 June 2016 were \$9.5 million, which is \$2.2 million higher than the prior period cash flow of \$7.3 million. Receipts from the sale of copper concentrate reduced by \$10.6 million due to lower production and spot prices. This was slightly more than offset by a \$12.8 million reduction in payments to suppliers, employees and contractors compared to the same period last year.

Investing activities cash flow

Cash flows used in investing activities amounted to \$11.8 million in the current six months compared to an outflow of \$15.1 million in the previous corresponding period. The majority of expenditure in 2016 relates to pre-strip mining costs which will decrease going forward as the Giant cut-back approaches completion by the end of 2016. TSF capital expenditure has naturally decreased with progressively higher lifts and there have been few sustaining capital projects in 2016 compared to 2015.

Directors' Report (continued) Operating and Financial Review (continued)

Financing activities cash flow

In the six months to 30 June 2016 there were net cash inflows of \$2.9 million from financing activities. This included \$4.0 million in a new secured loan received from the South Australian Government Financing Authority. There was \$1.2 million in principal and interest repayments on pre-existing loans. In the previous corresponding period in 2015 there were net cash inflows of \$7.5 million due to capital raising via a rights issue of net \$9.3 million, proceeds from borrowings of \$17.2 million reduced by repayment of \$18.9 million of debt and interest.

Statement of financial position

Total equity has decreased by \$107.4 million from 31 December 2015 reflecting the net underlying loss of \$16.4 million, the impairment loss of \$67.1 million, the derecognition of deferred tax asset of \$19.2 million and the decrease in reserves of \$4.7 million after the revaluation of the unexpired hedging position as at 30 June 2016.

Property, plant and equipment

During the six month period the carrying value of property, plant and equipment decreased by \$84.2 million to \$61.4 million, which was the estimated recoverable amount. The decrease is therefore inclusive of the impairment of the carrying value of the Kanmantoo mine by \$67.1 million, a depreciation charge for the period of \$40.6 million offset by additions of \$23.4 million which included the cost of capitalising material to the TSF (\$16.8 million) and expenditure on deferred waste stripping of the Giant Pit (\$5.1 million).

Borrowings

As at 30 June 2016 the Company was in breach of certain undertakings made under the debt finance facility agreements. On 3 August 2016 a notice was received from the Intercreditor Agent indicating a review event had occurred and it was reserving its rights. As a consequence, the Pre-Export Facility borrowing of US\$13.65 million was re-classified as a current borrowing on the statement of financial position in accordance with AASB 101 *Presentation of Financial Statements* which requires the non-current portion of a debt to be re-classified as a current liability until the breach can be remedied. New items in borrowings are the \$4.0 million loan from the South Australian Government Financing Authority and a \$2.5 million promissory note formed out of a pre-existing creditor's balance.

Post balance date the US\$13.65 million Pre-Export Facility has been paid out in full – refer Events Subsequent to Balance Date.

Events subsequent to balance date

The Company announced on 28 June 2016 it had reached agreement in principle with its financiers and the South Australian Government to restructure its debt, subject to documentation, as follows:

- The bank guarantee issued by Macquarie Bank Limited (MBL) which provides coverage of the Company's obligations under the Mining Act 1971 was to be released and the Company's obligations secured directly to the South Australian Government on a first ranking basis;
- Hedging positions (Australian Dollar copper swaps) were to be closed out;
- The Company would use the hedge close out proceeds and part of the restricted cash (A\$6.1 million) to repay the senior debt of US\$13.65 million owed to Ventures Australia LLC; and
- The South Australian Government Finance Authority would provide the Company with a \$4.0 million medium term secured loan facility [the \$4.0 million loan was received on 28 June 2016].

Directors' Report (continued) Operating and Financial Review (continued)

Events subsequent to balance date (continued)

On 10 August 2016 the Company announced the hedge book had been closed out raising proceeds of \$16.5 million and formal documentation had been executed with the Company's financiers under which the debt restructure could be implemented and the \$1.6 million performance bond issued by MBL to South Australian electricity infrastructure supplier Electranet would remain in place. The Company would be required to cash back 50% of the Electranet bond in December 2016 and the remaining 50% in March 2017, or earlier in the event the Company raises new debt.

On 22 August the Company announced the sale and leaseback of its 450 containers to Flinders Logistics allowing the Company to unlock the \$2.5 million value in the containers and receive the benefit through increased liquidity and future cost reductions.

On 25 August 2016, the Company confirmed the debt restructure with its financiers and the South Australian Government, had been completed with the effect that;

- the Company has repaid in full its US\$13.65 million senior debt with Ventures Australia LLC, reducing current liabilities by \$18.8 million;
- the requirement to cash back the \$9.18 million environmental bond is deferred until January 2018;
- there is no longer any requirement for "restricted" cash;
- the Company is now unhedged.

A Reverse Circulation infill drilling program aimed at improving the confidence level of the Mineral Resource Estimate was completed in August 2016. In the December quarter, a revised Mineral Resource Estimate and Ore Reserve Estimate will be prepared to incorporate the drilling results and address the positively reconciling grade estimation.

Outlook

The most critical issue confronting the company this year has been to ensure there is adequate liquidity in place for the Kanmantoo mine site to sustain operations and unlock shareholder value through to 2020. As can be clearly seen in the note above on events subsequent to the balance date, there has been significant progress on a broad range of fronts. These are the preliminary outcomes from strategies to simplify funding arrangements, better define the quantum and timing of any shortfall, defer expenditure, reduce costs, achieve production targets and maintain support of business partners which will allow Hillgrove to achieve its objectives.

With the balance sheet now lightly geared, restrictions on access to cash now removed, and significant progress having been made in reducing the creditor position since the start of 2016, the Board is confident that the company is now in a sound position to raise any capital required to fund operations for the remaining mine life.

The recent closure of the hedge book increases the company's exposure to movements in the copper price and the Australian dollar exchange rate. However, the cash costs of copper production at Kanmantoo are projected to fall significantly by [the second half of next year] with completion of the cut-back and access to deeper, higher grade primary ore. Cash outlays remain relatively high whilst the cut-back continues and access to ore is restricted. There are three key areas of focus at the mine which collectively affect cash generation:

1. Stripping ratio (ore:waste tonnage ratio),
2. Grade per tonne, and
3. Mining rate.

Directors' Report (continued) Operating and Financial Review (continued)

Outlook (continued)

For the twelve months to 30 June 2016 the stripping ratio was 5.4:1 but the remaining three stages of the Giant Pit are progressively lower as follows;

| Period | Strip Ratio |
|-------------------|-------------|
| Remainder of 2016 | 4.3 |
| FY2017 | 2.6 |
| FY2018 and beyond | 1.2 |

Grade per tonne increases considerably at depth, as the orebody is opened up. In addition, the recent drilling programme targeted a near-immediately accessible area of the pit to determine whether this area can be upgraded from the existing inferred resource category to become a viable ore source. The initial visual and early assay results, in combination with the last six months production outperforming the MRE, are encouraging but these results are yet to be assessed, validated and factored into the life of mine plan and near term outlook.

The mining rate this calendar year has been constrained by both footprint and restrictions on cash expenditure. The significant restrictions within the Giant Pit associated with extracting ore around existing pits, which required numerous inefficient single lane ramps, are now being removed and multiple working areas will be added over the next six months. The initiatives both implemented and underway are aimed at removing any financial impediments to achieving the mine plan and once again increasing efficiency.

Having reviewed the performance to date and taking into account all material to hand, the Directors have left the annual guidance range unchanged for both production and costs.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded in accordance with that Class Order to the nearest thousand dollars.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

This report is made in accordance with a resolution of the directors:

Dated at Adelaide this 31st day of August 2016



The Hon. Dean Brown, AO
Chairman



Mr Steven McClare
Managing Director



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The Board of Directors
Hillgrove Resources Limited
5-7 King William Road
UNLEY SA 5061

31 August 2016

Dear Board Members

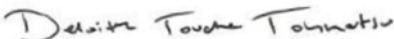
Hillgrove Resources Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Hillgrove Resources Limited.

As lead audit partner for the review of the financial statements of Hillgrove Resources Limited for the half-year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully


DELOITTE TOUCHE TOHMATSU



Darren Hall
Partner
Chartered Accountants

**Condensed Consolidated Statement of Profit or Loss and Other
Comprehensive Income
For the half year ended 30 June 2016**

| | Note | Half Year | |
|--|------|------------------|-----------------|
| | | June 2016 | June 2015 |
| | | \$'000 | \$'000 |
| Revenue | 2 | 58,814 | 72,003 |
| Other income | 3 | 137 | 78 |
| Expenses | 4 | (79,713) | (77,457) |
| Impairment charges | 5 | (67,083) | (44,718) |
| Interest and finance charges | | (2,010) | (1,756) |
| Profit / (loss) before income tax | | (89,855) | (51,850) |
| Income tax benefit/(expense) | 6 | (12,839) | 6,992 |
| Profit / (loss) for the half year attributable to owners | | (102,694) | (44,858) |
| Other comprehensive income | | | |
| <i>Items that may not be reclassified to profit or loss:</i> | | | |
| Other financial assets | | - | 8 |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Exchange differences on translation of foreign operations | | - | (28) |
| Unrealised gain/(loss) on cash flow hedges taken to equity | | (6,901) | 2,457 |
| Income tax relating to components of other comprehensive income | | 2,118 | (737) |
| | | (4,783) | 1,700 |
| Total comprehensive income / (loss) for the half year attributable to equity holders of Hillgrove Resources Limited | | (107,477) | (43,158) |
| Earnings per share for loss attributable to the ordinary equity holders of the Company: | | | |
| | | Cents | Cents |
| Basic earnings per share | | (57.14) | (29.99) |
| Diluted earnings per share | | (57.14) | (29.99) |

The above condensed consolidated profit or loss and other comprehensive income statement should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position As at 30 June 2016

| | Note | 30 June 2016 \$'000 | 31 Dec 2015 \$'000 |
|--|------|------------------------|-----------------------|
| Current assets | | | |
| Cash and cash equivalents | | 6,645 | 6,100 |
| Trade and other receivables | | 2,651 | 3,434 |
| Inventories | 7 | 3,944 | 6,904 |
| Derivative financial instruments | 8 | 14,356 | 10,212 |
| Total current assets | | 27,596 | 26,650 |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 61,385 | 145,630 |
| Intangible assets | | - | 2 |
| Exploration and evaluation expenditure | 10 | 815 | 792 |
| Derivative financial instruments | 8 | - | 9,382 |
| Deferred tax asset | | 4,856 | 15,577 |
| Total non-current assets | | 67,056 | 171,383 |
| Total assets | | 94,652 | 198,033 |
| Current liabilities | | | |
| Trade creditors and accruals | | 28,352 | 31,477 |
| Provisions | | 2,321 | 2,504 |
| Borrowings | 11 | 18,300 | 3,826 |
| Employee benefits payable | | 2,137 | 2,360 |
| Deferred income | | 197 | - |
| Total current liabilities | | 51,307 | 40,167 |
| Non-current liabilities | | | |
| Provisions | | 7,161 | 6,660 |
| Borrowings | 12 | 6,707 | 15,116 |
| Employee benefits payable | | 339 | 126 |
| Deferred income | | 583 | - |
| Total non-current liabilities | | 14,790 | 21,902 |
| Total liabilities | | 66,097 | 62,069 |
| Net assets | | 28,555 | 135,964 |
| Equity | | | |
| Contributed equity | 13 | 216,272 | 216,272 |
| Reserves | | 11,407 | 16,122 |
| Retained earnings / (accumulated losses) | | (199,124) | (96,430) |
| Total equity | | 28,555 | 135,964 |

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity For the half year ended 30 June 2016

| Consolidated | Contributed equity \$'000 | Reserves \$'000 | (Accumulated losses) / retained earnings \$'000 | Total equity \$'000 |
|--|---------------------------------|--------------------|---|---------------------------|
| Balance 1 January 2015 | 206,860 | 2,464 | 30,926 | 240,250 |
| Total comprehensive income for the half-year | - | 1,700 | (44,858) | (43,158) |
| Transactions with owners: | | | | |
| Issue of ordinary shares pursuant to rights issue | 9,194 | - | - | 9,194 |
| Share based compensation | - | 69 | - | 69 |
| Balance 30 June 2015 | 216,054 | 4,233 | (13,932) | 206,355 |
| | | | | |
| Balance 1 January 2016 | 216,272 | 16,122 | (96,430) | 135,964 |
| Total comprehensive income for the half year | - | (4,783) | (102,694) | (107,477) |
| Transactions with owners: | | | | |
| Share based compensation | - | 68 | - | 68 |
| Balance 30 June 2016 | 216,272 | 11,407 | (199,124) | 28,555 |

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows For the half year ended 30 June 2016

| | Half-year | |
|---|---------------------|---------------------|
| | June 2016 \$'000 | June 2015 \$'000 |
| Cash flows from operating activities | | |
| Cash receipts in the course of operations | 51,408 | 62,064 |
| Cash payments in the course of operations | (41,917) | (54,784) |
| Net cash generated from operating activities | 9,491 | 7,280 |
| Cash flows from investing activities | | |
| Payments for exploration, evaluation and development | (154) | (402) |
| Payments for property, plant and equipment | (11,709) | (14,915) |
| Proceeds from sale of other financial assets | - | 235 |
| Proceeds on disposal of property, plant and equipment | 57 | 11 |
| Net cash used in investing activities | (11,806) | (15,071) |
| Cash flows from financing activities | | |
| Proceeds from the issue of shares | - | 10,078 |
| Transaction costs from the issue of shares | - | (830) |
| Proceeds from borrowings | 4,000 | 18,051 |
| Transaction costs of borrowings | - | (896) |
| Repayment of borrowings | (486) | (18,000) |
| Interest paid | (706) | (938) |
| Interest received | 52 | 70 |
| Net cash provided by financing activities | 2,860 | 7,535 |
| Net increase / (decrease) in cash held | 545 | (256) |
| Cash at beginning of the half year | 6,100 | 8,854 |
| Cash at end of the half year | 6,645 | 8,598 |

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements For the half year ended 30 June 2016

1. Basis of preparation

This condensed consolidated interim financial report for the half year reporting period ended 30 June 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2015 and any public announcements made by Hillgrove Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

a. Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business. At 30 June 2016, the Group's current liabilities exceeded its current assets by \$23.7 million (31 December 2015: \$13.5 million).

In March 2016, Hillgrove determined that the life of mine plan ("LOM plan"), which required intensified mining on a smaller footprint, was too aggressive and that as a consequence of these operational issues, the Group revised its LOM plan. The revised LOM plan indicated that there were cash flow shortfalls forecast over the 15 month period to June 2017, particularly in the last quarter of the 2016 financial year, which could not be bridged without additional debt and/or equity funding, higher revenue and additional cost savings initiatives.

During the second quarter of 2016 Hillgrove made significant progress to address these cash flow shortfalls, including:

- Employees accepting a 10% reduction and deferral in wage rates until December 2017,
- Obtaining South Australian Government concessions, and
- Securing \$4.0 million working capital loan provided by the South Australian Government.

On 22 August 2016 the Company announced a sale and leaseback of \$2.5 million of sea containers to Flinders Logistics and will realise the benefit through increased liquidity and future cost reductions.

On 25 August 2016 the Company confirmed the debt restructure it had reached with its financiers and the South Australian Government had been completed which includes:

- The Macquarie bank guarantee has been released and the Company's obligations are now secured directly by the South Australian Government on a first ranking basis;
- Hedge contracts (Australian Dollar copper swaps) have been closed out,
- The senior debt of US\$13.65 million owed to Ventures Australia LLC Company has been repaid,
- The \$1.6 million performance bond issued by MBL to Electranet will remain in place and the Company will need to cash back 50% of the bond in December 2016 and the remaining 50% in March 2017 or earlier in the event the Company raises new debt, and
- Favourable offtake terms have been successfully negotiated, namely anticipated price participation charges to be paid by the Company were deferred until 2018, and the precious metals royalty reduced by 65%.

As a result of these initiatives Hillgrove has:

- Repaid all senior debt on its balance sheet and this has been replaced with the South Australian Government loan of \$4 million,
- Removed all of the loan covenants including access to restricted cash,
- Removed the obligation to maintain a cash backed security for the \$9.18 million bond in 2017/2018,
- Increased its liquidity through access to the restricted cash and container sale proceeds,
- Deferred expected price participation payments of approximately \$5.8 million under the offtake agreement until 2018, and
- Reduced its operating cost structure into the future.

The Directors believe the impact of these initiatives has improved Hillgrove's financial position.

In addition, there has been a 17% positive reconciliation of the ore produced from the South West corner of the pit for the first six months of 2016 and this area will provide the primary feed for the next nine months. The recent Reverse Circulation drilling programme results need to be assessed to determine the planning model impact in the near term, and the cash flow benefit of any future positive reconciliation has not been included in current cash flow forecasts.

The Directors remain confident that significant value remains in the project. Based on Hillgrove's improved financial position, it is now in a better position to raise the funding that is required in order to finance the Company for the remainder of the mine life and be able to continue as a going concern and, in doing so be able to realise its assets and extinguish its liabilities in the normal course of business.

Notwithstanding the initiatives referred to above, in order for the consolidated entity to continue as a going concern, the consolidated entity must achieve the following:

- Achieve the continuing financial support of the Company's largest mining contractors (representing approximately 70% of the total trade creditors balance), and in respect of which outstanding balances are outside normal payment terms, through reaching agreement which will have a positive effect on the Group's cash flow
- Negotiating additional debt and equity funding of \$15 million with a view to realising at least \$5 million by mid-October 2016, \$5 million by the end of November 2016 and the balance of \$5 million by the end of February 2017.
- At the date of signing this report, the Group has a large number of trade creditors (excluding the largest mining contractors) with balances outstanding which are outside normal payment terms. The continued support of these trade creditors in managing the Group's cash balance throughout 2016 is required.

If the consolidated entity is unable to achieve the outcomes noted above then there is material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

Notes to the Financial Statements

For the half year ended 30 June 2016 (continued)

1. Basis of preparation (continued)

b. Critical accounting judgements and key sources of estimation uncertainty

Recoverability of property, plant and equipment

The carrying value of property, plant and equipment is assessed for impairment whenever there is an indicator that the asset may be impaired. As the carrying amount of the net assets of the Company is greater than its market capitalisation and the copper price continued to fall during the period, management has determined that these are indicators of impairment. Determining whether property, plant and equipment is impaired requires an estimation of the recoverable value of the cash generating unit ("CGU") to which property, plant and equipment has been allocated. Impairment is recognised when the carrying amount exceeds the recoverable amount.

In its impairment assessment, the Company determined the recoverable amount based on a Value in Use ("VIU") calculation. The VIU assessment was undertaken using a discounted cash flow approach. Cash flow projections are based on the CGU's life of mine plan. In assessing the VIU, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessment of the time value of money and business risk. Certain key assumptions are used for CGU impairment testing and these are disclosed in Note 5.

Recoverability of deferred tax assets

At 30 June 2016, the Group has recognised a net deferred tax benefit of \$4.9 million in respect of unused tax losses and research and development tax credits. Based on the most recent life of mine plan, an impairment write down was necessary to reduce the value of the recognised tax assets to the amount considered probable to be utilised through generation of future taxable income.

Tailings Storage Facility amortisation

Depreciation and amortisation requires estimates to be made of the useful lives of various assets including costs capitalised in respect of the multi-stage construction of the mine site Tailings Storage Facility ("TSF"). Prior to January 2016, successive TSF lifts were amortised on a life of mine basis. Commencing 1 January 2016, each lift will be fully amortised as it becomes full of tailings. This means the unamortised value of the TSF in the future will only be in respect of the cost of the lift being used and the next lift under construction. This change in accounting estimate has resulted in a depreciation and amortisation charge during the current half year of about \$26 million higher than it would otherwise have been because of the wide footprint and high cost of early lifts. Assuming no change to the current TSF design for the current approved mine permit, the impact beyond this half year period will not be material.

Changes in accounting policy

The accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year and corresponding interim reporting periods.

Notes to the Financial Statements
For the half year ended 30 June 2016 (continued)

| | Half Year | |
|--|---------------|---------------|
| | June 2016 | June 2015 |
| | \$'000 | \$'000 |
| 2. Revenue | | |
| Copper concentrate at spot | 41,181 | 64,351 |
| Copper forward sales delivered gains realised | 6,749 | 3,184 |
| Gold in concentrate | 9,866 | 3,579 |
| Silver in concentrate | 1,018 | 889 |
| Total Revenue | 58,814 | 72,003 |
| 3. Other Income | | |
| Interest | 54 | 75 |
| Grant income | 70 | - |
| Other | 13 | 3 |
| Total other income | 137 | 78 |
| 4. Expenses | | |
| Cash costs of production | 34,956 | 56,451 |
| Depreciation and amortisation | 40,603 | 17,460 |
| Inventory movement | 2,245 | (594) |
| Cost of goods sold | 77,804 | 73,317 |
| Government royalties | 651 | 847 |
| Corporate and other costs | 1,982 | 2,020 |
| Net (gain)/loss on sale of assets | (38) | 39 |
| Net realised foreign exchange (gains)/losses | (385) | 723 |
| Net unrealised foreign exchange (gains)/losses | (301) | 99 |
| Net unrealised (gain)/loss on derivative financial instruments | - | 412 |
| Total expenses per Profit or Loss | 79,713 | 77,457 |

Notes to the Financial Statements

For the half year ended 30 June 2016 (continued)

5. Impairment Losses

| | Half Year | |
|---|---------------|---------------|
| | June 2016 | June 2015 |
| | \$'000 | \$'000 |
| Impairment of non-current assets related to Kanmantoo CGU | 67,083 | 14,768 |
| Impairment of exploration assets related to Indonesia | - | 29,950 |
| | 67,083 | 44,718 |

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit (CGU) or area of interest to which the asset belongs.

The Group's CGU and areas of interest at 30 June 2016 are as follows:

| CGU/area of Interest |
|---------------------------------------|
| Kanmantoo (CGU) |
| Wheal Ellen (area of interest) |
| Kitticoola (area of interest) |
| Kanmantoo regional (area of interest) |
| Birds Head (area of interest) |
| Sumba Island (area of interest) |

In accordance with the Consolidated Entity's accounting policies and processes, the Company evaluated its Kanmantoo CGU at 30 June 2016, to determine whether there were any indications of impairment.

As reported in the Company's 2015 Annual report, the carrying value is sensitive to the copper price and the continued decline in copper prices during the first six months of 2016 was determined to be an indicator of impairment, and accordingly an estimate of the recoverable amount was performed.

The projected cash flows used in recoverable amount valuations are subject to variability in key assumptions including, but not limited to, the forward profile and long-term view of copper and precious metal prices; currency exchange rates; discount rates; production profiles; and operating and capital costs. A change in one or more of the assumptions used in these estimates could result in a change in an asset's recoverable amount.

The last recoverable amount assessment for the Kanmantoo CGU was at 31 December 2015 based on Bloomberg consensus prices. For the 30 June 2016 assessment the Company has used the average market price of a deep set of analyst forecasts (refer Table below) and elected to change its recoverable amount methodology from a fair value less costs of disposal method to a value in use method which better aligns with its current life of mine plan.

Based on the assessment of the carrying value of the Kanmantoo CGU, the Board concluded an impairment charge of \$67.1 million should be recognised as at 30 June 2016. This impairment charge was predominantly driven by a 15% drop in the June 2015 consensus copper price for the period from 2016 – 2018, compared to the December 2015 consensus prices, which can be seen in the table below.

Notes to the Financial Statements

For the half year ended 30 June 2016 (continued)

5. Impairment Losses (continued)

| Assumptions for 30 June 2016 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-------|-------|-------|-------|-------|
| Average market price of analysts forecast copper price per tonne (AUD) | 6,423 | 6,719 | 7,263 | 7,811 | 8,253 |
| | | | | | |
| Assumptions for 31 December 2015 | | | | | |
| Real Bloomberg consensus copper price per tonne (AUD) ⁽¹⁾ | 7,538 | 7,890 | 8,265 | 7,185 | 7,185 |

(1) As at 7 December 2015

The AUD:USD forward curve in June 2016 (beginning at 0.744 in July 2016) as well as a real pre-tax discount rate of 8.96% were also used. A salvage value related to the CGU's processing plant and associated assets of \$14.9 million has been included in the recoverable value estimate and is based on independent third party valuation.

The Company considers the above assumptions remain reasonable in a period of high volatility, but any sustained change in market prices and rates that are materially different from the above assumptions could result in a different set of assumptions applied to future valuations for impairment testing. By way of example, a +/- 5% movement in the AUD copper prices will increase or decrease the Kanmantoo carrying value by approximately \$17 million.

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on successful development and commercial exploitation, or sale of the respective areas.

The costs carried forward for exploration projects is shown in Note 10 and at 30 June 2016 relates entirely to Kanmantoo regional areas of interest. The exploration projects located in Indonesia at the Birds Head and Sumba Island areas of interest remain in care and maintenance. In the prior period to 30 June 2015 an impairment loss of \$29.9 million was recognised in respect of the recoverable value of both the Birds Head and Sumba Island areas of interest based on the Company's decision to focus on its Kanmantoo operations, given no future expenditure has been budgeted to be spent on these projects, and in the absence active third party interest.

6. Income Tax

During the period, the Company derecognised a portion of the deferred tax asset, totalling \$19.2m. In assessing the probable criteria for recognising deferred tax assets, the Company has used a taxable profit forecast consistent with the cash flows used to assess the recoverable value of the Company's non-current assets.

Notes to the Financial Statements
For the half year ended 30 June 2016 (continued)

7. Current assets – Inventories

| | 30 Jun 2016 | 31 Dec 2015 |
|--------------------------|--------------------|--------------------|
| | \$'000 | \$'000 |
| Concentrates | 319 | 1,043 |
| ROM stockpile | 344 | 1,486 |
| Oxide and transition ore | - | 492 |
| Stores and consumables | 3,281 | 3,883 |
| | 3,944 | 6,904 |

8. Derivative Financial Instruments

| | Half Year | |
|--|--------------------|--------------------|
| | 30 Jun 2016 | 31 Jun 2015 |
| | \$'000 | \$'000 |
| Unrealised (losses)/gains on financial derivatives | - | (412) |

| | 30 Jun 2016 | 31 Dec 2015 |
|---------------------------|--------------------|--------------------|
| | \$'000 | \$'000 |
| Current Assets | | |
| Copper forwards | 14,356 | 10,132 |
| Foreign currency forwards | - | 78 |
| Gold forwards | - | 2 |
| | 14,356 | 10,212 |

Non-Current Assets

| | | |
|-----------------|---|--------------|
| Copper forwards | - | 9,382 |
|-----------------|---|--------------|

During July and August 2016, all outstanding forward copper positions were closed out for cash proceeds of \$16.5 million. Refer to Note 17 “Events Subsequent to Balance Date” for more details.

Notes to the Financial Statements
For the half year ended 30 June 2016 (continued)

9. Non-current assets – Property, plant and equipment

| | 30 Jun 2016 | 31 Dec 2015 |
|--|----------------------|-----------------------|
| | \$'000 | \$'000 |
| Land and buildings | | |
| At cost | 5,524 | 9,362 |
| Accumulated depreciation | (379) | (267) |
| | <u>5,145</u> | <u>9,095</u> |
| Plant & equipment | | |
| At cost | 77,549 | 87,170 |
| Accumulated depreciation | (57,101) | (51,685) |
| | <u>20,448</u> | <u>35,485</u> |
| Motor vehicles | | |
| At cost | 1,389 | 1,323 |
| Accumulated depreciation | (701) | (761) |
| | <u>688</u> | <u>562</u> |
| Mine development | | |
| At cost | 143,427 | 164,600 |
| Accumulated depreciation | (117,032) | (81,126) |
| | <u>26,395</u> | <u>83,474</u> |
| Deferred mining costs – at cost | 8,709 | 17,014 |
| Total property, plant and equipment | <u>61,385</u> | <u>145,630</u> |

Deferred mining costs represent the mining costs which are normalised for the impact of strip ratios and copper grades over the life of specific pits. Deferred mining costs at 30 June 2016 relate to the Giant Pit and are classified as non-current because allocation to operating costs is not expected to occur within the next 12 months.

Notes to the Financial Statements
For the half year ended 30 June 2016 (continued)

9. Non-current assets – Property, plant and equipment (continued)

| | 30 Jun 2016 | 31 Dec 2015 |
|--|--------------------|--------------------|
| | \$'000 | \$'000 |
| Land and Buildings | | |
| Carrying amount at beginning of the period | 9,095 | 9,753 |
| Disposals | - | (579) |
| Depreciation | (104) | (79) |
| Impairment loss (refer Note 5) | (3,846) | - |
| Carrying amount at end of the period | 5,145 | 9,095 |
| Plant and equipment | | |
| Carrying amount at beginning of the period | 35,485 | 57,802 |
| Additions | 27 | 270 |
| Disposals | - | (19) |
| Depreciation | (4,399) | (6,181) |
| Impairment loss (refer Note 5) | (10,665) | (16,387) |
| Carrying amount at end of the period | 20,448 | 35,485 |
| Motor vehicles | | |
| Carrying amount at beginning of the period | 562 | 565 |
| Additions | 284 | 105 |
| Disposals | (218) | (46) |
| Depreciation | 60 | (62) |
| Carrying amount at end of the period | 688 | 562 |
| Mine development | | |
| Carrying amount at beginning of the period | 83,474 | 124,610 |
| Additions | 17,964 | 9,376 |
| Depreciation | (35,905) | (11,112) |
| Reduce provision for rehabilitation | - | (739) |
| Impairment loss (refer Note 5) | (39,138) | (38,661) |
| Carrying amount at end of the period | 26,395 | 83,474 |
| Deferred mining costs | | |
| Carrying amount at beginning of the period | 17,014 | 5,545 |
| Additions | 5,129 | 11,469 |
| Allocation to operating costs | - | - |
| Impairment loss (refer Note 5) | (13,434) | - |
| Carrying amount at end of the period | 8,709 | 17,014 |
| Total property, plant and equipment | 61,385 | 145,630 |

Notes to the Financial Statements
For the half year ended 30 June 2016 (continued)

10. Non-current assets – Exploration expenditure

| | 30 Jun 2016 | 31 Dec 2015 |
|--|--------------------|--------------------|
| | \$'000 | \$'000 |
| Balance at beginning of the period | 792 | 31,330 |
| Additions | 23 | 791 |
| Impairment losses | - | (31,302) |
| Movement due to foreign exchange revaluation | - | (27) |
| Carrying amount at end of the period | 815 | 792 |

11. Current liabilities – borrowings

| | 30 Jun 2016 | 31 Dec 2015 |
|---------------------------------|--------------------|--------------------|
| | \$'000 | \$'000 |
| Secured | | |
| Loan – Pre Export Facility (i) | 18,381 | 3,832 |
| Less transaction costs on loans | (958) | (479) |
| | 17,423 | 3,353 |
| Unsecured | | |
| Lease liabilities | 430 | 473 |
| Promissory note (ii) | 447 | - |
| | 877 | 473 |
| Total current borrowings | 18,300 | 3,826 |

(i) The secured Pre-export facility of US\$14.0 million from Ventures Australia LLC, a subsidiary of Freepoint Commodities LLC was drawn to US\$13.65 million at 30 June 2016 and was repaid in full on 24 August 2016.

(ii) A contractor creditor of the Company has agreed to convert a portion of the amount owed for past services into an unsecured interest-bearing liability.

Notes to the Financial Statements

For the half year ended 30 June 2016 (continued)

12. Non-current liabilities – borrowings

| | 30 Jun 2016 | 31 Dec 2015 |
|--|---------------------|----------------------|
| | \$'000 | \$'000 |
| Secured | | |
| Loan – South Australian Government (i) | 4,000 | - |
| Loan – Pre Export Facility | - | 15,330 |
| Less transaction costs on loans | - | (718) |
| | <u>4,000</u> | <u>14,612</u> |
| Unsecured | | |
| Lease liabilities | 624 | 504 |
| Promissory note (refer note 11) | 2,083 | - |
| | <u>2,707</u> | <u>504</u> |
| Total non-current borrowings | <u>6,707</u> | <u>15,116</u> |

- (i) In June 2016 the Company obtained a medium term secured loan facility of \$4.0 million provided by the South Australian Government Financing Authority. The loan has an interest rate of 4.2% and is repayable early 2018.

Contractual maturities of financial liabilities (non-derivatives)

| (\$'000) | Less than 1 year | 1 – 2 years | 2 – 3 years | 3 – 4 years | 4 – 5 years | Total contractual cash flows |
|----------------------------|------------------------|----------------|----------------|----------------|----------------|------------------------------------|
| At 30 June 2016 | | | | | | |
| Trade and other payables | 28,352 | - | - | - | - | 28,352 |
| Borrowings and interest * | 18,630 | 6,205 | 322 | - | - | 25,157 |
| | <u>46,982</u> | <u>6,205</u> | <u>322</u> | <u>-</u> | <u>-</u> | <u>53,509</u> |
| At 31 December 2015 | | | | | | |
| Trade and other payables | 31,477 | - | - | - | - | 31,477 |
| Borrowings and interest | 5,903 | 9,589 | 7,637 | - | - | 23,129 |
| | <u>37,380</u> | <u>9,589</u> | <u>7,637</u> | <u>-</u> | <u>-</u> | <u>54,606</u> |

* As at 30 June 2016 the Company was in breach of certain financial undertakings in respect of the Common Terms Deed which applied to the Pre-Export finance facility and the environmental bond guarantee. Therefore the debt is disclosed as due and payable in less than one year from 30 June 2016. These breaches were not waived by the financier as at the balance date, but in any case arrangements were made subsequent to 30 June 2016 for the facility to be repaid. Post balance date the US\$13.65 million Pre-Export Facility has been paid out in full – refer Events Subsequent to Balance Date.

Financing arrangements

The Group had no undrawn borrowing facilities as at 30 June 2016.

Notes to the Financial Statements

For the half year ended 30 June 2016 (continued)

13. Contributed equity

| | 30 Jun 2016 | 31 Dec 2015 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Share capital | | |
| Issued and paid up capital 188,109,342 shares (2015: 188,109,342) fully paid | 216,272 | 216,272 |
| Ordinary Shares - movements during the year | | |
| Balance as at beginning of year | 216,272 | 206,860 |
| Shares Issued | | |
| Rights issue | - | 10,078 |
| Transaction costs arising from share issues | - | (951) |
| Deferred tax credit recognised directly in equity | - | 285 |
| Balance at end of year | 216,272 | 216,272 |

Changes to the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

14. Financial reporting by segment

Through its ownership of the Kanmantoo copper mine, the Group has one operating segment being in the resources industry, in Australia. The Group also has exploration tenement interests overseas, but these tenements are fully written down, under minimal care and maintenance and therefore are considered to be immaterial, not requiring separate segment disclosure.

Information about major customers

The Kanmantoo Copper Mine has an offtake agreement for the life of the mine with Freepoint Metals & Concentrates LLC (formerly known as JP Morgan Metals & Concentrates LLC) for 100% of the copper concentrate produced. This provides the Company with certainty with regard to the sale of its product, along with reduced counterparty risk as the offtake agreement is supported by a Freepoint guarantee for the performance of the agreement.

Notes to the Financial Statements
For the half year ended 30 June 2016 (continued)

15. Contingent liabilities

| | 30 Jun 2016 | 31 Dec 2015 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Guarantees | | |
| Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site | 1,641 | 2,087 |
| Environmental bond required under rehabilitation plan for Kanmantoo | 9,180 | 10,180 |
| Security bonds on rental properties and tenements | - | 198 |
| | 10,821 | 12,465 |

The Electranet and Environment bonds were provided by Macquarie Bank Limited under the Performance Bond facility agreement.

The security bonds on rental properties and tenements are provided by Westpac Banking Corporation.

The Consolidated Entity has obligations to restore land disturbed under exploration and mining licences. The Consolidated Entity has bank guarantees set aside for the maximum obligations to the state government departments. These bank guarantees may be forfeited if the Consolidated Entity does not meet its obligations under these licence agreements.

Post balance date the bank guarantees have been replaced by a first ranking security over Hillgrove's assets – refer Events Subsequent to Balance Date.

The Consolidated Entity had no other contingent liabilities at 30 June 2016.

Notes to the Financial Statements

For the half year ended 30 June 2016 (continued)

16. Events subsequent to balance date

Subject to documentation, the Company announced on 28 June 2016 it had reached agreement in principle with its financiers and the South Australian Government to restructure its debt as follows:

- The bank guarantee issued by Macquarie Bank Limited (MBL) which provides coverage of the Company's obligations under the Mining Act 1971 was to be released and the Company's obligations secured directly to the South Australian Government on a first ranking basis;
- Hedging (Australian Dollar copper swaps) were to be closed out;
- The Company would use the hedge close out proceeds and part of the restricted cash (A\$6.1 million) to repay the senior debt of US\$13.65 million owed to Ventures Australia LLC; and
- The South Australian Government Finance Authority would provide the Company with a \$4.0 million medium term secured loan facility [the \$4.0 million loan was received on 28 June 2016].

On 10 August 2016 the Company announced the hedge book had been closed out raising proceeds of \$16.5 million and formal documentation was executed with the Company's financiers under which the debt restructure could be implemented and the \$1.6 million performance bond issued by MBL to Electranet would remain in place. The Company would be required to cash back 50% of the Electranet bond in December 2016 and the remaining 50% in March 2017, or earlier in the event the Company raises new debt.

On 22 August the Company announced the sale and leaseback of its 450 containers to Flinders Logistics allowing the Company to unlock the \$2.5m value in the containers and receive the benefit through increased liquidity and future cost reductions.

On 24 August 2016, the Company confirmed the debt restructure, with its financiers and the South Australian Government, had been completed.

As a result of these transactions the Company has:

- Increased its liquidity by \$4.5 million through access to the remaining restricted cash and container proceeds
- Repaid in full its US\$13.65 million senior debt with Ventures Australia LLC,
- Eliminated the obligation to cash back the \$9.18 million environmental bond in 2017/18, and
- Closed out all of its copper hedging.

A Reverse Circulation infill drilling program aimed at improving the confidence level of the Mineral Resource Estimate was completed in August 2016. In the December quarter, a revised Mineral Resource Estimate and Ore Reserve Estimate will be prepared to incorporate the drilling results and address the positively reconciling grade estimation.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the half year ended on that date.
- (b) there are reasonable grounds to believe that Hillgrove Resources Limited will be able to pay its debts as and when they become due and payable.

This report is made in accordance with a resolution of the directors:

Dated at Adelaide this 31st day of August 2016



The Hon. Dean Brown, AO
Chairman



Mr Steven McClare
Managing Director



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Independent Auditor's Review Report to the Members of Hillgrove Resources Limited

We have been engaged to review the accompanying half-year financial report of Hillgrove Resources Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2016, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 15 to 33.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Because of the matters described in the Basis for Disclaimer of Review Conclusion paragraphs below, we have not been able to complete our review in accordance with Auditing Standard on Review Engagements ASRE 2410 "Review of a Financial Report Performed by the Independent Auditor of the Entity".

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Hillgrove Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Basis for Disclaimer of Review Conclusion

We draw attention to Note 1(a) 'Going Concern' in the financial report which indicates that as at June 2016 the consolidated entity's current liabilities exceeded its current assets by \$23.7 million. It further highlights revisions to the Life of Mine plan, which result in a forecast cash flow shortfall, particularly in the last quarter of the 2016 financial year. Both Notes 1(a) and 16 also outline a number of initiatives the directors have undertaken and intend to undertake to ensure the consolidated entity is able to continue as a going concern. These initiatives include the restructure of the balance sheet, sourcing additional equity and debt funding, restructuring repayment terms with the two most significant creditors and obtaining the continued forbearance of other creditors as well as reducing cash outflows through a significant cost reduction program. At the date of this report, we have not been able to obtain sufficient appropriate evidence to support the achievement of the initiatives described in Notes 1(a) and 16.

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Deloitte

Further, the statement of financial position as at 30 June 2016 includes the recognition of property, plant and equipment, deferred tax assets and capitalised exploration and evaluation expenditure which are expected to be realised in future years. The ability to recover the carrying values of these assets is dependent on successfully implementing the initiatives outlined in Note 1(a) 'Going Concern', and the consolidated entity continuing as a going concern.

These conditions, along with other matters as set forth in Note 1(a), indicate the existence of material uncertainties which cast significant doubt about the ability of the consolidated entity to continue as a going concern and whether it will realise its assets and discharge its liabilities in the normal course of business.

Given the above circumstances, in our opinion, the uncertainties are so material and pervasive that we are unable to express a conclusion on the half-year financial report taken as a whole.

Disclaimer of Auditor's Conclusion

Because of the significance of the material uncertainties described in the Basis for Disclaimer of Review Conclusion paragraphs above, based on our review, which is not an audit, we are unable to, and do not, express a conclusion as to whether the half-year financial report of Hillgrove Resources Limited is in accordance with the Corporations Act 2001, including:

- a. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Darren Hall
Partner
Chartered Accountants
Adelaide, 31 August 2016

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 2016

| | JORC 2012 Classification | Tonnage (Mt) | Cu (%) | Au (g/t) | Ag (g/t) |
|------------------|-----------------------------|-----------------|------------|-------------|-------------|
| In Situ Resource | Measured | 10.6 | 0.6 | 0.1 | 1.4 |
| | Indicated | 10.9 | 0.7 | 0.1 | 1.2 |
| | Inferred | 13.7 | 0.5 | 0.1 | 1.0 |
| | Total | 35.2 | 0.6 | 0.1 | 1.2 |

Note: In Situ Resource >0.20% 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 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 2016 Mineral Resource Statement released on 26 May 2016 and the Kanmantoo Copper Mine Ore Reserve 25% Increase in Contained Copper released to the ASX on 1 November 2013, both of which are 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 the market announcements 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 and Michaela Wright in relation to the Mineral Resource estimates and Steven McClare in relation to the Ore Reserve estimates) are presented, have not been materially modified from the original market announcement.