



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 30 September 2016

HIGHLIGHTS

- Despite the mining and processing operations being impacted by record rainfalls and the power outages experienced throughout South Australia in late September, the Company produced 3,103t of copper and 2,187oz of gold (in concentrate).
- 2016 copper production is forecast to be just below the lower end of guidance (14,500t to 16,500t) and 2016 gold production is expected to be above the top end of guidance (8,000oz to 10,000oz). On a copper equivalent basis, production is expected to be within guidance.
- The higher gold production is partly due to higher gold recoveries, which increased to 60% for the month of September by targeting a lower copper concentrate grade.
- A successful infill drilling campaign was completed, increasing near term forecast copper production in a tight liquidity period.
- C1 cost for the quarter increased from US\$1.37/lb last quarter to USD1.90/lb, for a year to date of US\$1.58/lb, below 2016 guidance (US\$1.85/lb to US\$2.25/lb).
- Revenue was \$26.0 million at an average realised price of \$2.87/lb (USD2.15/lb).
- The restructure to address the previously announced cash shortfall continued and included:
 - Sale and leaseback of containers, releasing working capital;
 - Deferral of price participation and reduction in precious metals royalty;
 - Liquidation of copper hedging to fund the debt repayment totalling US\$13.65 million; and
 - Conversion of environmental bond obligations to security over the Company assets.
- Cash on hand was \$0.6 million, with total debt decreasing from \$22.4 million to \$6.6 million (made up of the SA Government loan and a promissory note to a mining contractor).
- Announcement of a fully underwritten \$5.0 million Pro-Rata Issue of Convertible Notes, subject to due diligence and signing of the underwriting agreement.
- Since 30 September 2016 an updated Ore Reserve Estimate was released which increased ore reserves by 14% (7.4kt of copper metal), and as a result
 - The cashflow shortfall reported in the 30 June 2016 Half Year report has been reduced from \$15.0 million to \$5.0 – \$10.0 million, subject to copper price; and
 - The peak shortfall period has been deferred from March 2017 to June 2017, allowing the Company more time to seek any additional funding that may be required.
- 2017 Outlook - with the Giant Pit cutback expected to be completed in June 2017, the strip ratio will continue to decrease from the current ratio of 4.5 to 3.1 in the 1st half of 2017 and 2.3 in the 2nd half and 2017 forecast copper production is expected to be between 18,000t and 20,000t.



EXECUTIVE SUMMARY

During the September 2016 quarter, the Total Recordable Injury Frequency Rate was 18.9, a slight increase from the previous quarter. Production was 3,103t of copper and 2,187oz of gold in concentrate for the quarter, at a C1 cash cost of USD1.90/lb. Revenue for the quarter was \$26.0 million at an average realised price for copper of \$2.87/lb (USD2.15/lb), with cash on hand at quarter end of \$0.6 million.

The Giant pit cut back and mining performance in general has continued to be lower as activity has been constrained by the cash generated from the lower spot price of copper sales, which has led to working in confined mining areas and the prioritisation of ore bearing zones. In addition to this, the quarter was impacted by the continuation of one of the wettest winters recorded in Adelaide. As a result of this and along with the power outage experienced throughout South Australia in late September, ore processed through the plant decreased from the last quarter. All of these factors contributed to the subsequent increases in the unit costs of both mining and processing.



The cashflow constraints and the wet weather impacts experienced in recent quarters are expected to moderate, with the completion of the previously announced underwritten rights issue and the onset of summer.

Despite the challenges that have been faced, it was pleasing to have completed a number of initiatives during the quarter, which are described in more detail in the Corporate section and include the completion of the debt restructure, the refinancing of the performance bonds, the improvement in liquidity, the successful infill drilling results, the improved Mineral Resource and Ore Reserve Estimate and the announcement of the fully underwritten \$5.0 million Pro-Rata Issue.

As a result, the Company is on a stronger financial footing for the future and 2017 will see:

- The completion of the Giant Pit cutback in June 2017;
- Lower costs as the current strip ratio of 4.5 will decrease to 3.1 in the 1st half of 2017, 2.3 in the 2nd half of 2017, and to 1.2 from 2018 onwards; and
- Higher production with forecast 2017 copper production expected to be in the range of 18,000t to 20,000t, with 7,000t to 8,000t in the first six months and to 11,000t to 12,000t in the second six months.

KANMANTOO COPPER MINE, SOUTH AUSTRALIA Mining Lease 6345 (Hillgrove 100%)

Overview

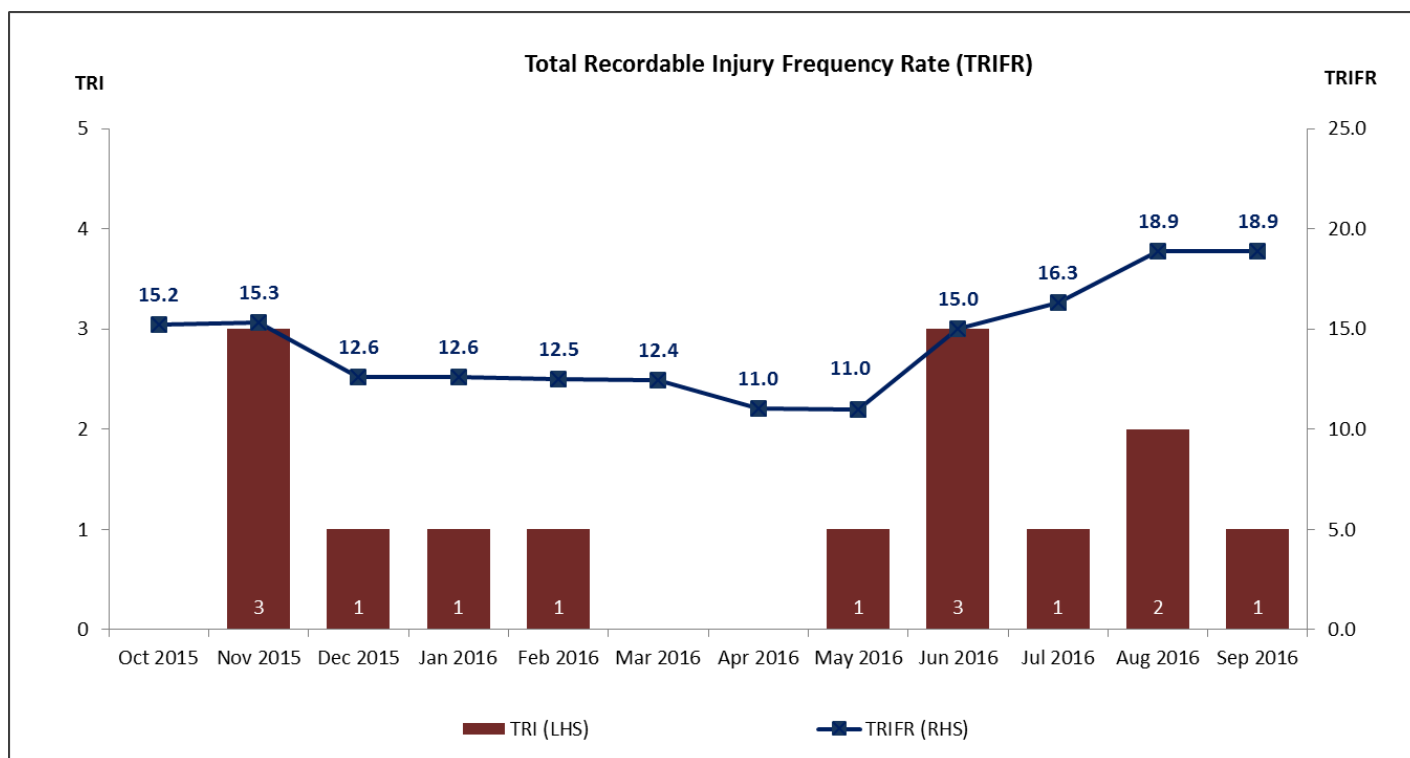
Mining was adversely affected by weather events during the quarter. The months of July and September were the wettest on record for Callington. However, mining continued in the Giant pit cutback, focussing on the development of the ore bearing benches in the southern end of the pit and waste stripping on the western wall. Towards the end of the quarter, the areas mined in the western wall also began to produce some ore. Backfilling of Nugent pit is largely completed with rehabilitation ongoing, and backfilling of the Emily pit is scheduled to commence this quarter.

The processing plant performed well, with copper recovery of 91% for the quarter. This was slightly better than predicted for the feed grade of material processed (0.51% copper). Periods where the processing plant was shut down through ore availability were used to conduct maintenance works using internal labour to keep costs down. Gold recovery improved to 60% in the month of September by targeting a lower copper concentrate grade and recovering more gold associated with iron sulphides. This brought the quarterly gold recovery up to 52.1% (49.7% previous quarter).

Safety and Community

The Total Recordable Injury Frequency Rate (TRIFR) for the quarter was 18.9, with the increase from the previous quarter a result of injuries related to rough road conditions during wet weather and management of coarse oversize from rill in the previously mined Kavanagh Pit.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



Operations

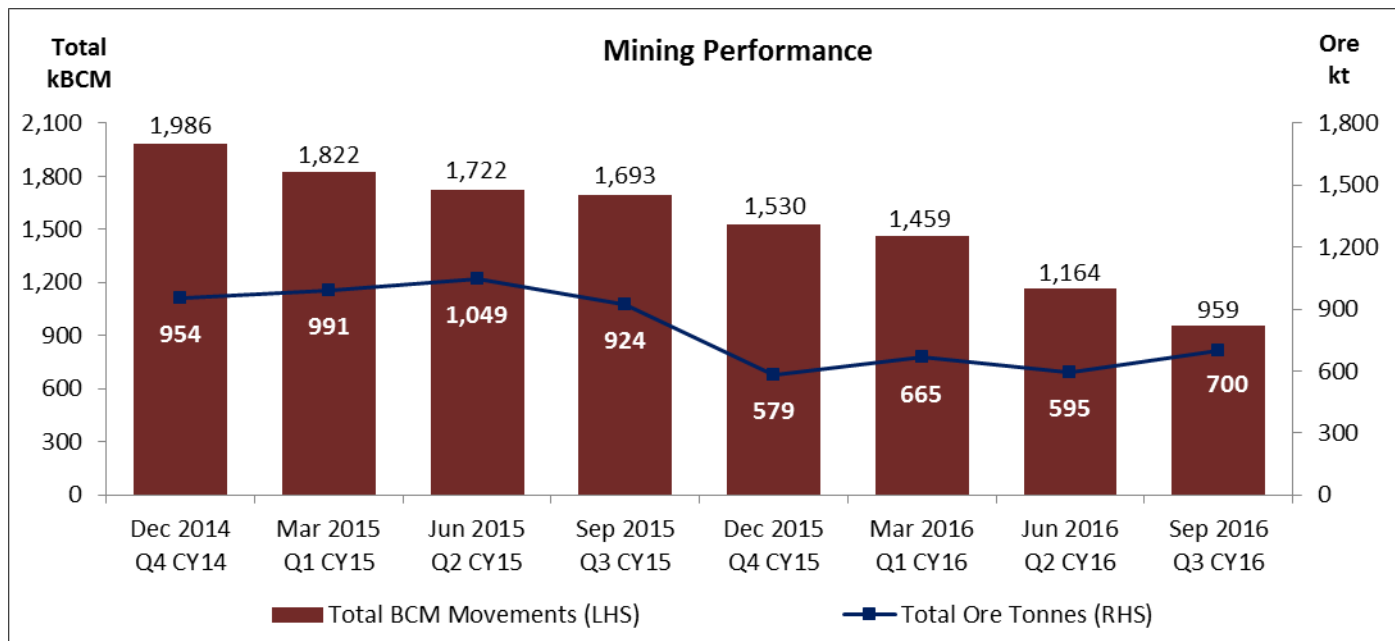
TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		FY15	MAR-16 QTR	JUN-16 QTR	SEP-16 QTR
		12 MTHS	3 MTHS	3 MTHS	3 MTHS
Ore to ROM from Pit	kt	3,290	665	595	700
Ore to long term stockpiles	kt	252	1	0	0
Mined Waste	kt	17,350	3,843	3,000	2,265
Total Tonnes Mined	kt	20,892	4,509	3,595	2,965
To ROM from LT Stockpiles	kt	784	427	0	0
Mining Grade to ROM	%	0.59	0.58	0.52	0.47
Ore Milled	kt	4,104	865	759	675
Milled Grade - Cu	%	0.52	0.54	0.56	0.51
- Au	g/t	0.11	0.32	0.20	0.19
Recovery - Cu	%	80.3	72.6	78.8	91.0
- Au	%	47.1	51.2	49.7	52.1
Cu Concentrate Produced	Dry mt	74,971	16,148	14,221	13,134
Concentrate Grade - Cu	%	23.1	21.0	23.6	23.6
- Au	g/t	2.8	8.8	5.3	5.2
Contained Metal in Con. - Cu	t	17,306	3,397	3,359	3,103
- Au	oz	6,790	4,587	2,428	2,187
- Ag	oz	114,399	29,828	23,569	22,598
Total Concentrate Sold	Dry mt	75,028	15,382	15,765	12,829

Mining production was 2,965kt (959k BCM) for the September 2016 quarter, of which 700kt was ore. The decrease in mining movements over recent quarters has been a result of a number of factors, including confined mining areas (narrow work areas and single lane ramps), prioritising ore bearing zones, one of the wettest winters recorded in Adelaide, but mostly managing cash constraints. This continued in the September 2016 quarter and is likely to further impact the mining operations in the December 2016 quarter as a result of the flow on effects from the recent quarters as well as the continuing heavy rainfalls in October 2016.

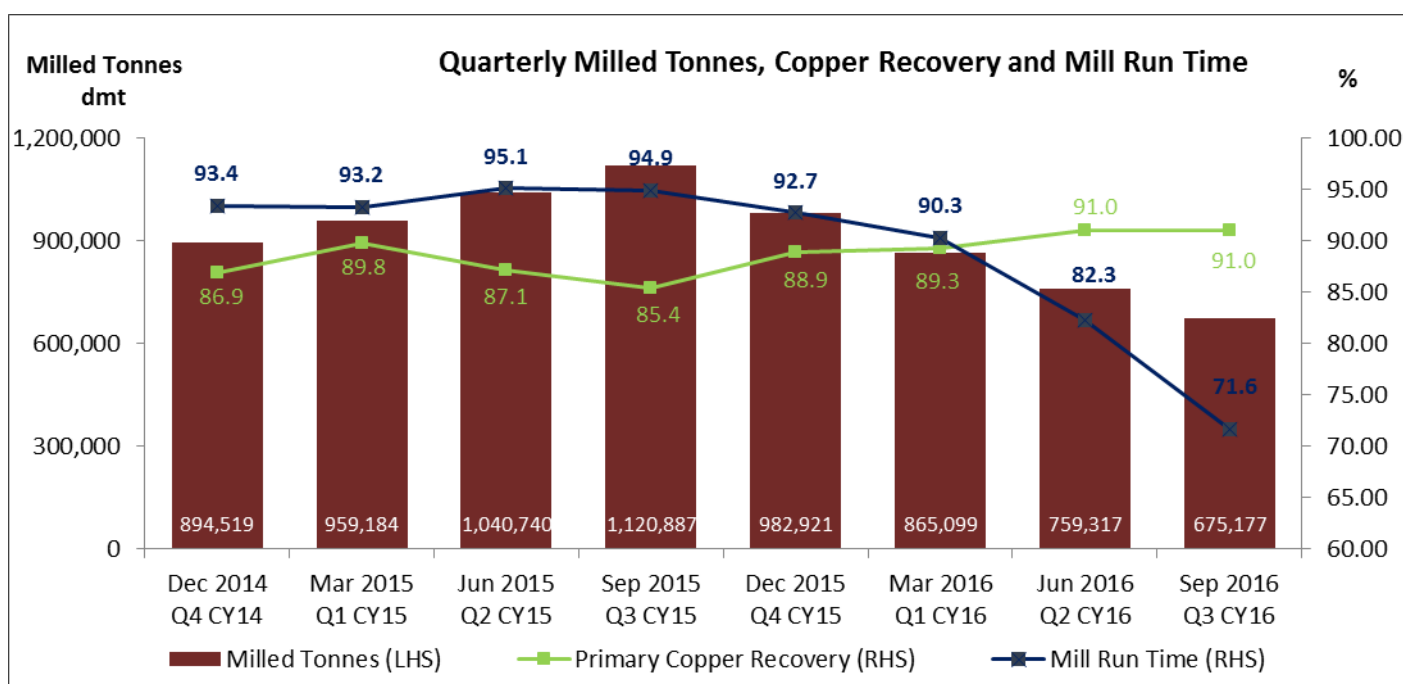
These factors however, are expected to be mitigated in the near future, with the onset of summer (which is traditionally drier in the region) and the subsequent opening up of the pit to increase the mining area available.

FIGURE 2. KANMANTOO COPPER MINE TOTAL BCM



Mill run time continued to decline this quarter resulting in reduced milled tonnes. This was driven by ore availability as a result of the constraints that have been placed on mining in recent quarters as well as the state wide power outage which occurred in September 2016. With the constraints in mining expected to be released, the recent trend over the last five quarters should reverse, leading to increased run time and milled tonnes.

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





Costs

Quarterly mining unit costs increased to \$16.88/bcm this quarter. The increases in the mining unit cost continue to be driven by the lower mining movements, which impacts the economies of scale. Quarterly processing unit costs increased this quarter to \$7.68/tonne as a result of the lower plant utilisation, resulting in less ore processed across the same fixed cost component.

FIGURE 4. KANMANTOO QUARTERLY MINING UNIT COSTS

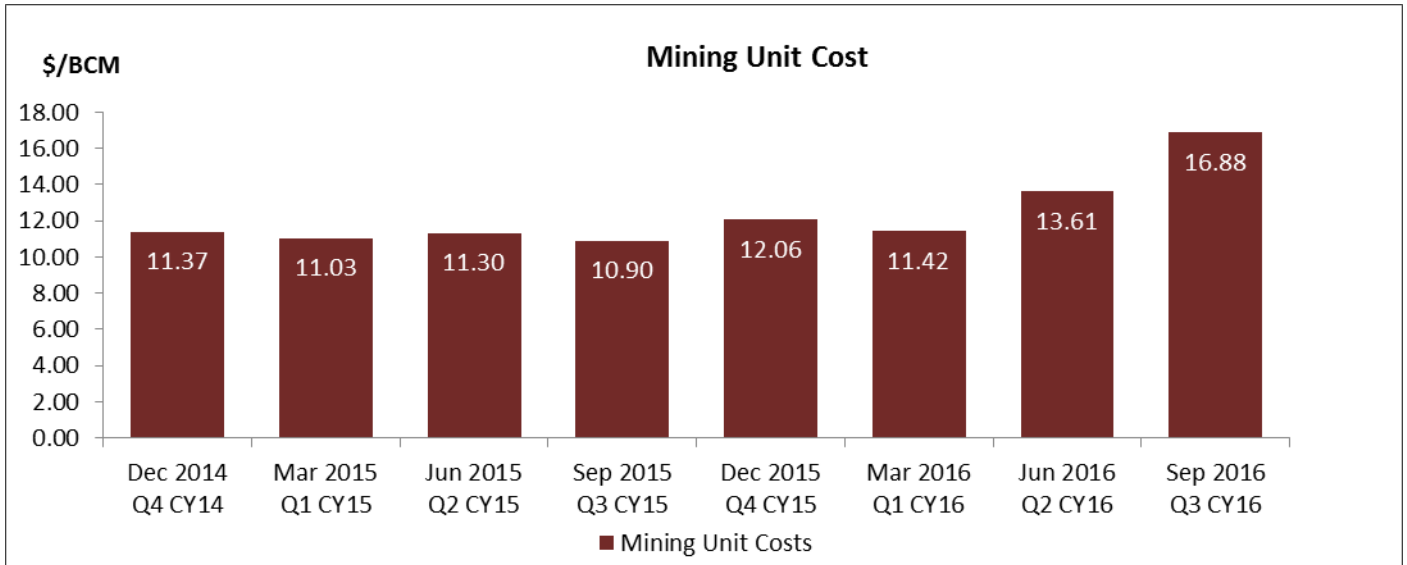
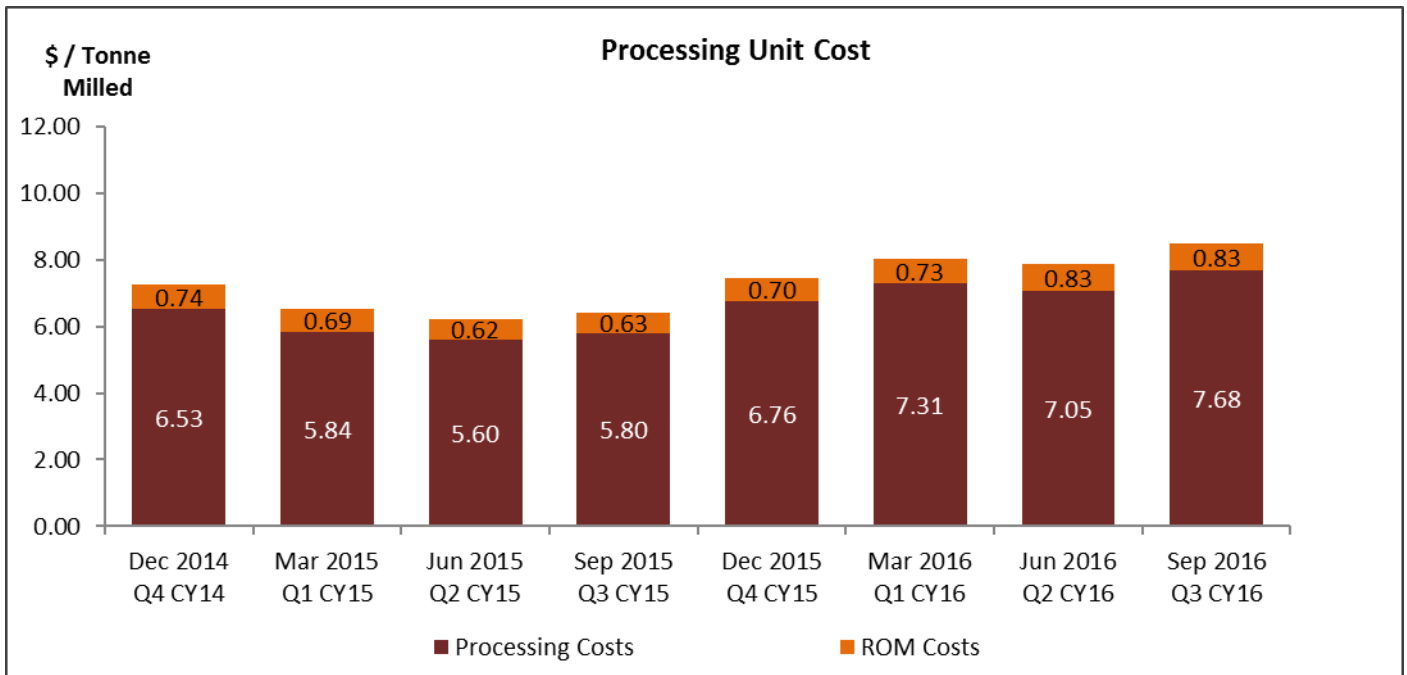


FIGURE 5. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



C1 cost for the quarter increased from US\$1.37/lb last quarter to USD1.90/lb as a result of a lower proportion of capitalized pre-strip work in the quarter. It is US\$1.58/lb for the year to date, still below the 2016 guidance (US\$1.85/lb to US\$2.25/lb).


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

US cents per lb	CY15	MAR-16 QTR	JUN-16 QTR	SEP-16 QTR
	12 MTHS	3 MTHS	3 MTHS	3 MTHS
Total Mining Cost	163	174	173	194
Deferred Mining	-29	-36	-16	-19
Pre-strip	-37	-64	-110	-48
Ore Inventory Adjustment	18	2	15	-6
Mining Costs	115	76	62	121
Processing Costs	51	63	56	60
Other Direct Cash Costs	16	16	15	18
Total Onsite Costs	182	155	133	199
Transport & Shipping	12	11	11	11
Treatment, Refining & Smelter Charges	41	39	35	31
Total Offsite Costs	53	50	46	42
Precious Metals Credits	-24	-64	-42	-51
Total Direct Operating Costs (C1 Cash Costs)	211	141	137	190
Royalties	3	3	4	3
D&A	71	201	211	24
TOTAL COSTS	285	345	352	217

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.

Shipping

During the quarter, Hillgrove despatched its 35th and 36th shipments of copper concentrate of 9,979WMT (9,237DMT) and 10,025WMT (9,215DMT) respectively.

Revenue

Revenue for the quarter was \$26.0 million at an average realised price for copper of \$2.87/lb (USD2.15/lb).

Exploration Programme

There was no exploration expenditure during the quarter.

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 Bird's Head Copper/Gold Project and the Sumba Gold Project and continues discussions with potential interested parties on these projects.

HILLGROVE CORPORATE

Balance Sheet Restructure

During the quarter the Company continued the balance sheet restructure which was put in place to address the forecast cash shortfall first announced on 31 March 2016.



Debt restructure

- The Company closed out its hedging (Australian Dollar copper swaps), realising proceeds of A\$16.5m;
- The Company's obligations under the Mining Act 1971 are now secured directly to the SA Government on a first ranking basis and the Macquarie bank guarantee was cancelled;
- The Senior debt of US\$13.65m was fully repaid to Ventures Australia LLC, along with all interest payable on the debt and bank guarantee and associated legal fees; and
- The current performance bond issued by Macquarie to Electranet for \$1.6m remains in place, and must be cash backed to 50% in December 2016 and 50% in March 2017, or earlier in the event the Company raises new debt.

Container Sale & Leaseback

The Company completed the sale and leaseback of 450 containers to Flinders Logistics, which unlocked the \$2.5m value in the containers and provided the Company with additional short term working capital and reduced costs into the future.

Offtake Agreement Amendments

The Company's Offtake Agreement has been amended so that price participation charges (A\$5.3m) have been deferred until 2018 and the precious metals royalty reduce by 65%, resulting in lower offtake charges.

Pro-Rata Issue

Following the balance sheet restructure, the Board announced the Company had signed a term sheet with one of its major shareholders to fully underwrite a Pro-Rata Subordinated Convertible Note issue to raise approximately A\$5.0 million, subject to due diligence and the signing of the Underwriting Agreement.

Events Subsequent

Subsequent to quarter end, an updated Mineral Resource and Ore Reserve estimate (MRE) was released by the Company. Ore Reserves increased by 7.4kt copper metal (14%) before mining depletion, predominantly driven by a classification upgrade of Inferred Mineral Resources within the Giant Pit design resulting from the infill drilling campaign. Net of mining depletion since 30 June 2016, the Ore Reserve Estimate increased by 5.4kt copper metal (10%).

The long term mine plan and cash flow forecasts have been updated for the new MRE and as a result:

- The \$15.0 million cashflow gap reported in the 30 June 2016 Half Year report has now been reduced to between \$5.0 million and \$10.0 million, subject to copper prices; and
- The peak deficit period has been deferred from March 2017 to June 2017, allowing the Company more time to seek any additional funding that may be required.

Pro-Rata Issue

Due diligence on the Pro-Rata Issue is nearing completion, but has been delayed pending the release of the updated MRE and the Underwriter's technical review of the update. Once this has been completed, the Company will proceed to the verification of the prospectus and lodgement of the prospectus with the ASX.

Cash and Investments

Cash as at 30 September 2016 was \$0.6 million, with debt at \$6.6 million. The significant reduction in debt in the quarter was a result of the repayment of the Ventures Australia LLC debt facility. The balance \$6.6 million comprises of the SA Government loan and a promissory note to a mining contractor.

**CORPORATE INFORMATION****Issued Share Capital at 30 September 2016**

Ordinary shares	188,109,342
Employee Performance Rights	9,410,500
Unlisted options	-

Share price activity for the Quarter

High	0.14
Low	0.05
Last 30 September 2016	0.08

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.

Mineral Resource Estimate for All Deposits at 30 September 2016

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Measured	10.3	0.6	0.1	1.2	66
Copper Mine,	Indicated	10.8	0.6	0.1	1.4	70
All Deposits	Inferred	13.4	0.6	0.1	1.0	75
	Total	34.5	0.6	0.1	1.2	211

Ore Reserve Estimate at 30 September 2016

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Proved	7.1	0.6	0.08	1.1	44
Copper Mine	Probable	2.3	0.5	0.05	0.8	12
	Total	9.5	0.6	0.07	1.0	57

Competent Person's Statement

The Ore Reserve and Mineral Resource estimates were prepared by Competent Persons in accordance with the JORC Code 2012.

Further information on the Kanmantoo Mineral Resources and Ore Reserves is available in the Hillgrove Updated Mineral Resource and Ore Reserve Estimate released to the ASX on 18 October 2016, which is also available on the Hillgrove Resources website at www.hillgroveresources.com.au.

Hillgrove Resources confirms that it is not aware of any new information or data that materially affects the information included in that market announcement and, in the case of estimates of Mineral Resources and Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Hillgrove Resources confirms that the form and context in which the findings of the Competent Persons (Peter Rolley and Michaela Wright in relation to the Mineral Resource estimates and Lachlan Wallace in relation to the Ore Reserve estimates) are presented, have not been materially modified from the original market announcement.