HILLGROVE RESOURCES

ASX RELEASE

Tuesday, 28 February 2017

ASX Market Announcement
Australian Securities Exchange
Level 4 Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir or Madam

LODGEMENT OF APPENDIX 4E – YEAR ENDED 31 DECEMBER 2016

Please find attached the Preliminary Unaudited Final Report – 31 December 2016 (Appendix 4E) under Listing Rule 4.3A relating to Hillgrove Resources Limited's results for the 12 month period 1 January 2016 to 31 December 2016 – CY 16.

The full annual report together with the financial report of Hillgrove Resources Limited ("the Company") and the consolidated entity, being the Company and its controlled entities, for the year ended 31 December 2016 and the auditors' report will be released by 31 March 2016 per ASX Guidelines.

Yours Faithfully

Paul Kiley
Company Secretary

ASX Preliminary Final Report – 31 December 2016

Lodged with the ASX under Listing Rule 4.3A

HILLGROVE RESOURCES LIMITED
ABN 73 004 297 116

Table of Contents

Appendix 4E: Preliminary final report for period ending 31 December 2016

Name of entity	Hillgrove Resources Limited
ABN	73 004 297 116
Financial year ended	12 Months to 31 December 2016 (CY16)
Previous corresponding reporting period	12 Months to 31 December 2015 (CY15)

Results for announcement to the market (unaudited)

Revenue from ordinary activities	**$113.1m**	CY15: $139.5m
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	**($109.1m)**	CY15: ($130.1m) *restated**
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	**($109.1m)**	CY15: ($130.1m) *restated**

Overview of preliminary consolidated financial results

Revenue from the sale of concentrate (including realised hedging gains) decreased from $139.5 million in 2015 to $113.1 million in 2016. Total concentrate sold in 2016 was 60,213 dry tonnes (CY15: 75,028 tonnes) at an average realised price of AUD $7,327 per tonne of payable copper (CY15: AUD $7,824 per tonne).

The volume of concentrate produced in 2016 was lower than the previous year because of the higher than normal waste stripping required to advance the Giant Pit cut-back. At times during the year, cash constraints limited the ability of the Company to mine at the desired volumes of waste and ore. However by late in the fourth quarter, with the benefit of new capital and improved spot copper prices, the Company was able to increase mining rates to 20,000 BCM's per day which it has sustained into 2017. This mining rate will enable the Giant Pit cut-back to be completed by mid-2017.

Although revenue was lower in 2016, this was more than offset by lower cash costs of production. This is reflected in improvements to both EBITDA and operating activities cash flow from 2015, with cash flow from operating activities increasing from $12.7 million to $21.0 million. As this cash was used to fund the cutback development, capital expenditure rose from $21.6 million in 2015 to $28.3 million.

The loss after tax for CY16 of $109.1 million includes half year 30 June 2016 impairment write downs of Kanmantoo mine assets of $67.1 million and deferred tax assets of $19.2 million. No further impairment adjustments to the carrying value of assets were made at 31 December 2016.

During 2016, the Company has successfully completed a number of initiatives aimed at providing additional cash flow for the completion of the Giant Pit cut-back. These include a capital raising of approximately $5.0 million through a convertible note offer to all shareholders, the sale and leaseback of concentrate containers to the value of $2.5 million and securing a $4.0 million working capital loan provided by the South Australian Government.

In addition, the copper hedge book was cashed-out in August 2016 for $14.4 million which enabled the Company to fully repay the USD debt early. This restructure occurred before the sustained rise in spot copper prices, which by the end of 2016 would have negated the value of the hedge book. As a consequence, Hillgrove remains unhedged at a time when spot copper prices have risen from a year low of around AUD $6,300 per tonne to AUD $7,602 at 31 December 2016.

* *Restatement: the financial statements for CY15 have been restated to reflect the inclusion of an accounting liability for a contractor rate variation estimated at $2.8 million. Further details are in the note 5 to the financial statements.*

Review of operations for the CY16 year and outlook

Hillgrove Resources Limited is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on developing its flagship Kanmantoo Copper Mine and associated regional exploration targets, located less than 55km from Adelaide in South Australia.

The Kanmantoo Mine has been mined at the rate of up to 20 million tonnes per annum and has produced up to 20,000 tonnes of copper per annum. Annual export earnings are in a range of $110 million to $170 million per annum. Copper concentrate production from the Kanmantoo Copper Mine is sold to Freepoint Metals & Concentrates LLC under a 100% off take agreement.

During the reporting period and particularly since March 2016 when the Consolidated Entity (Hillgrove) announced forecast cash shortfalls, Hillgrove has worked hard with employees, suppliers and other stakeholders to successfully implement a number of measures to restructure its balance sheet and to improve its liquidity.

These measures have included:

- A number of cost reduction/payment deferral initiatives, including a 10% salary deferral for all employees,
- The close out of the copper hedge book at a near year-low spot copper price of $6,300 per tonne which allowed the repayment of its US dollar debt to Freepoint subsidiary, Ventures Australia LLC,
- The replacement of Macquarie Bank's environmental rehabilitation performance bond with a bond from the South Australian Government which is secured against Hillgrove's assets,
- A $4.0 million working capital loan from the South Australian Government Financing Authority,
- Successfully completed a capital raising of $5.0 million through a convertible note offer (including free attaching options with an expiry date of September 2017), and
- The negotiation of significant cost savings and working capital improvements with the cooperation of the main mining contractors.

The balance sheet restructure has placed the Company on a significantly stronger financial footing with the Giant pre-strip nearing completion and higher grade ore to be available from the middle of 2017. With over $60 million invested in the cutback of the Giant Pit, the Company will complete the final pre-stripping by the middle of 2017 and then should be in a position to generate significant free cash-flows over the remainder of the Life of Mine.

This will be driven by the strip ratio which will materially reduce in mid-2017 (percentage of waste moved decreases with depth) allowing enhanced cash generation and the accumulation of ore stockpiles which will increase operational flexibility and reliability and optimise the processing plant performance.

Review of operations for the CY16 year and outlook continued

KANMANTOO COPPER MINE PRODUCTION STATISTICS

		CY15	MAR-16 QTR	JUN-16 QTR	SEP-16 QTR	DEC-16 QTR	CY16
		12 MTHS	3 MTHS	3 MTHS	3 MTHS	3 MTHS	**12 MTHS**
Ore to ROM from Pit	kt	3,290	665	595	700	878	**2,838**
Ore to long term stockpiles	kt	252	1	0	0	0	**1**
Mined Waste	kt	17,350	3,843	3,000	2,265	3,224	**12,332**
Total Tonnes Mined	kt	20,892	4,509	3,595	2,965	4,102	**15,171**
To ROM from LT Stockpiles	kt	784	427	0	0	0	**427**
Mining Grade to ROM	%	0.59	0.58	0.52	0.47	0.44	**0.50**
Ore Milled	kt	4,104	865	759	675	898	**3,197**
Milled Grade - Cu	%	0.52	0.54	0.56	0.51	0.46	**0.52**
- Au	g/t	0.11	0.32	0.20	0.19	0.14	**0.21**
Recovery - Cu	%	80.3	72.6	78.8	91.0	91.4	**82.7**
- Au	%	47.1	51.2	49.7	52.1	59.4	**52.7**
Cu Concentrate Produced	Dry mt	74,971	16,148	14,221	13,134	16,339	**59,842**
Concentrate Grade - Cu	%	23.1	21.0	23.6	23.6	23.0	**22.8**
- Au	g/t	2.8	8.8	5.3	5.2	4.4	**6.0**
Contained Metal in Con. - Cu	t	17,306	3,397	3,359	3,103	3,765	**13,624**
- Au	oz	6,790	4,587	2,428	2,187	**2,316**	**11,518**
- Ag	oz	114,399	29,828	23,569	22,598	**28,047**	**104,041**
Total Concentrate Sold	Dry mt	75,028	15,382	15,765	12,829	**16,237**	**60,213**

During 2016, Hillgrove achieved production of 59,842 tonnes of dry concentrate containing 13,624 tonnes of copper and 11,518 oz of gold from the Kanmantoo Copper Mine. Key operational aspects included:

- Ore processed was ahead of guidance at 3,197kt, (CY15: 4,104kt) but below CY15 due to lower ore production associated with constrained working areas, high strip ratios and low mining movements caused by working capital constraints.
- Nugent pit was backfilled and Emily pit was partially backfilled.

Mining unit costs increased from $11.27 per BCM in CY15 to $14.01 per BCM in CY16, as a direct result of declining productivity associated with the low mining movements. The highest cost period was in the third quarter but this position was reversed in the last quarter as capital funding eased cash constraints and the operation reverted to more productive mining sequencing.

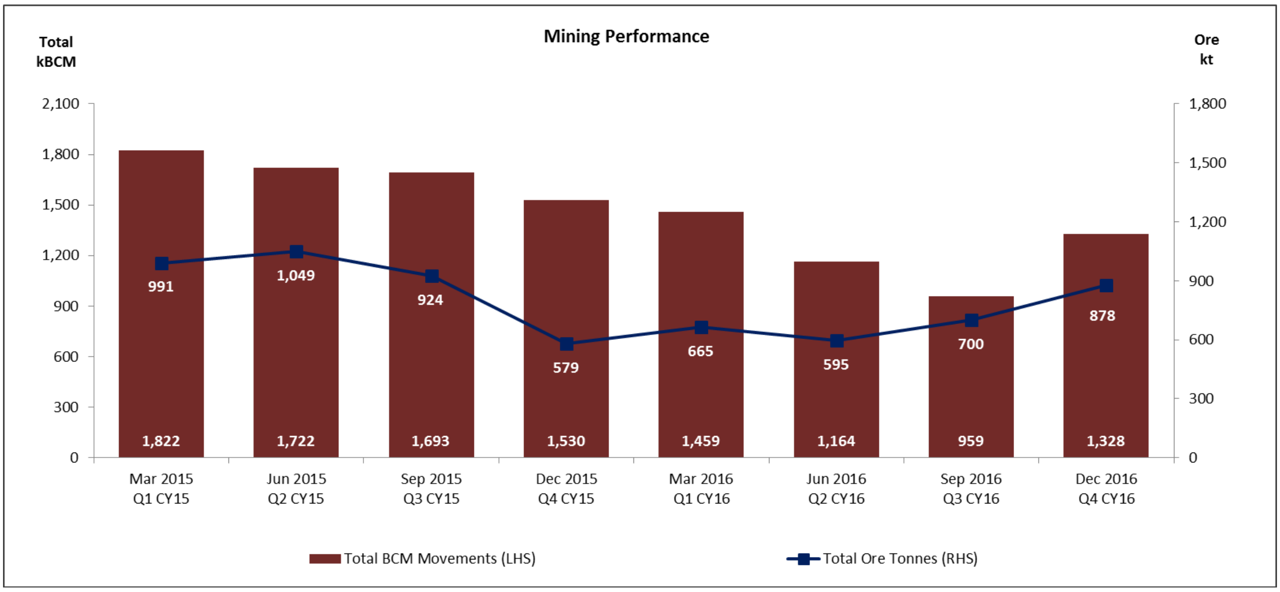
Mill throughput decreased 22%, and processing unit costs increased from $5.99 per tonne in CY15 to $6.98 per tonne in CY16. This was predominantly due to processing harder primary ore and a lack of ore feed from mine output and depleted ore stockpiles which led to lower processing rates and higher unit costs associated with lower economies of scale.

The majority of capital expenditure was represented by the $23.7 million spent on pre-strip capitalisation (where the strip ratio exceeds 10:1) in respect of the Giant Pit cut-back.

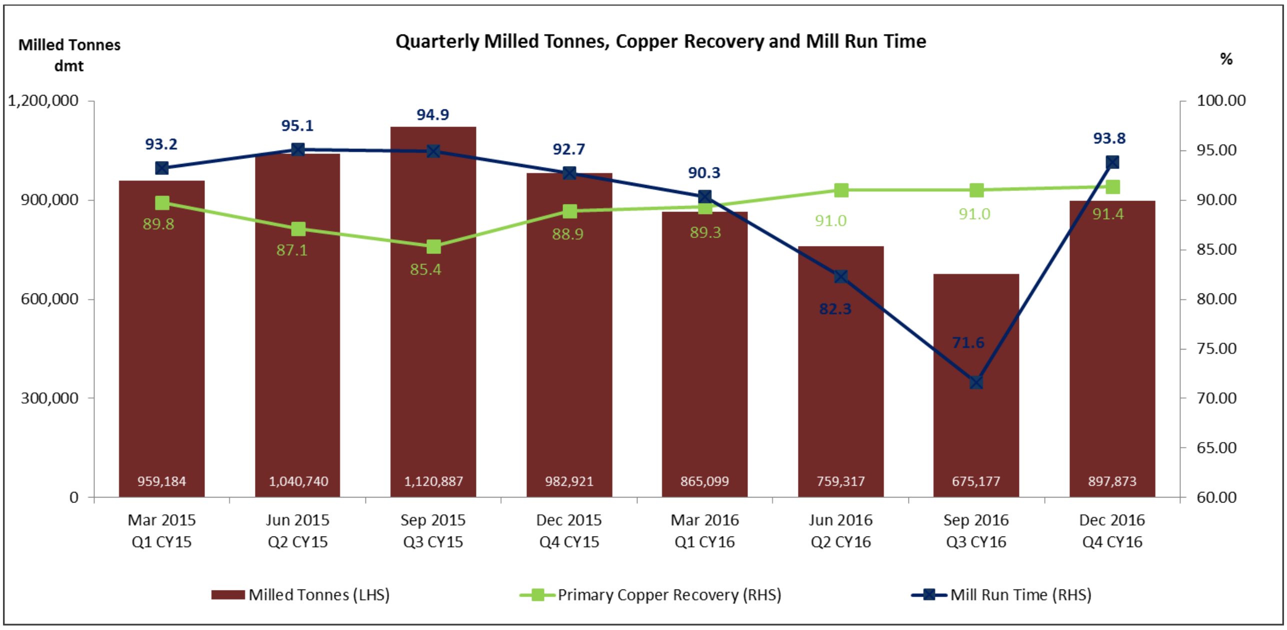
The C1 cash cost for CY16 was US$1.73/lb (CY15: US$2.11/lb) which was lower than guidance.

Review of operations for the CY16 year and outlook continued

KANMANTOO COPPER MINE PERFORMANCE



KANMANTOO QUARTERLY MILLED TONNES, COPPER RECOVERY (%) AND MILL RUN TIME (%)



Exploration Programme

Expenditure on exploration was reduced during the year and efforts concentrated on assessing the data accumulated in the previous year. This assessment has allowed targets to be prioritised and modest expenditure is budgeted to recommence in the second half of 2017. The intent is to focus on near mine extensions and regional targets within trucking distance of the existing infrastructure at Kanmantoo.

Indonesia

The focus on Kanmantoo operations has meant the Company's Indonesian advanced exploration projects at Bird's Head in West Papua and Sumba Island are no longer considered core assets. Hillgrove believes there is inherent value in these assets and continues to receive enquires from interested parties.

Review of operations for the CY16 year and outlook continued

Statement of profit or loss

$ million	12 months to 31 Dec 2016	12 months to 31 Dec 2015 restated	Change
Revenue from sale of concentrate	100.7	130.5	(29.8)
Hedge gains / (losses)	12.4	9.0	3.4
TOTAL REVENUE	**113.1**	**139.5**	**(26.4)**
Cash costs of production			
Mining	(73.6)	(81.7)	8.1
Pre-strip and deferral	32.8	32.3	0.5
Processing	(22.3)	(24.6)	2.3
Transport and shipping	(5.0)	(6.4)	1.4
Treatment and refining	(12.4)	(17.9)	5.5
Other direct costs	(5.8)	(7.9)	2.1
Inventory movements	(1.0)	(9.5)	8.5
Royalties	(1.3)	(1.6)	0.3
Corporate costs	(4.1)	(4.3)	0.2
Gain/(loss) on disposal of assets	0.1	(0.5)	0.6
Other income	0.5	0.2	0.3
Net foreign exchange gain/(loss) realised	1.2	(1.5)	2.7
TOTAL CASH COSTS OF PRODUCTION	**(90.9)**	**(123.4)**	**32.5**
UNDERLYING EBITDA	**22.2**	**16.1**	**6.1**
Depreciation and amortisation	(46.1)	(36.4)	(9.7)
Net foreign exchange gain/(loss) unrealised	-	(1.0)	1.0
UNDERLYING EBIT	**(23.9)**	**(21.3)**	**(2.6)**
Net interest and financing charges	(4.2)	(3.9)	(0.3)
Income tax (expense)/benefit	(13.9)	8.0	(21.9)
UNDERLYING NPAT	**(42.0)**	**(17.2)**	**(24.8)**
Non-underlying items, net of tax	(67.1)	(112.9)	45.8
Reported net profit / (loss) after tax	**(109.1)**	**(130.1)**	**21.0**
Non-underlying Items			
Impairment - long term stockpiles write down	-	(11.8)	11.8
Impairment - Indonesian exploration write down	-	(29.9)	29.9
Impairment - Australian exploration write down	-	(1.4)	1.4
Impairment - Kanmantoo assets write down	(67.1)	(69.8)	2.7
Total Non-underlying Items	**(67.1)**	**(112.9)**	**45.8**

Review of operations for the CY16 year and outlook continued

For the year ended 31 December 2016, the net loss after tax was $109.1 million compared to a net loss after tax of $130.1 million for the year ended 31 December 2015. The net losses after tax are predominantly due to the inclusion of non-cash asset impairment charges from the first half of 2016 which arose as a result of consensus forecast lower future commodity prices. In addition, at 30 June 2016 there was a $19.2 million write down of deferred tax assets. Before the impairment charges, the result for 2016 was a net EBIT loss of $23.9 million compared to a net EBIT loss of $21.3 million in 2015. Depreciation in CY16 was $9.7 million higher with the change in the useful life estimation of the tailings storage facility. With non-cash depreciation added back, underlying EBITDA in 2016 improved by $6.1 million to $22.2 million.

Revenue for the 12 months to 31 December 2016 was $100.7m (CY15: $130.5m). The drop was primarily due to copper production decreasing from 17,306 tonnes in CY15 to 13,624 tonnes in CY16 and the realised copper price reduced of $3.55/lb in CY15 compared to $3.30/lb in CY16. Cash production costs were $32.5 million lower in CY16, more than offsetting the lower revenue.

During the period, 60,213 tonnes of dry concentrate containing 13,002 tonnes of payable copper was sold from the Kanmantoo Copper Mine (CY15: 75,028t / 16,132t) supplemented by the production of 11,518oz of gold (CY15 6,790oz).

Cash flow Overview

Operating activities cash flow

$ million	12 months to 31 Dec 2016	12 months to 31 Dec 2015	Change
Receipts from customers	97.3	119.4	(22.1)
Payment to suppliers, employees and contractors	(76.3)	(106.7)	30.4
Net cash inflows from operating activities	**21.0**	**12.7**	**8.3**

Net cash inflows from operating activities for the 12 months ended 31 December 2016 were $21.0m compared with $12.7m in CY15. The decrease in customer receipts is driven by the reduced copper production which was more than offset by lower cash costs of production. The balance sheet restructure initiatives and support from key stakeholders helped to increase the overall cash inflow from operating activities.

Investing activities cash flow

$ million	12 months to 31 Dec 2016	12 months to 31 Dec 2015	Change
Payments for exploration activities	(0.4)	(1.0)	0.6
Payments for property, plant and equipment	(28.3)	(21.6)	(6.7)
Proceeds on sale of plant and equipment	0.6	0.7	(0.1)
Net cash inflows from investing activities	**(28.1)**	**(21.9)**	**(6.2)**

Cash flows from investing activities amounted to an outflow of $28.1m in CY16 compared to an outflow of $21.9m in CY15. The increase is largely due to the increase in capitalised pre-strip in the year (CY16 - $23.7 / CY15 - $18.1m).

Review of operations for the CY16 year and outlook continued

Financing activities cash flow

$ million	12 months to 31 Dec 2016	12 months to 31 Dec 2015	Change
Proceeds from early termination of derivatives	14.4	-	14.4
Net proceeds from issue of shares	-	9.2	(9.2)
Repayment of borrowings	(18.4)	(18.0)	(0.4)
Proceeds from new borrowings (net of costs)	8.5	17.2	(8.7)
Net interest paid	(1.6)	(1.9)	0.3
Net cash inflows from financing activities	**2.9**	**6.5**	**(3.6)**

The early close out of the hedge book in August 2016 generated $14.4 million which, along with the cash on hand, was used to fully repay the USD debt from Freepoint subsidiary Ventures Australia LLC.

A $4.0 million loan from the South Australian Government was drawn down in June 2016 and in December 2016 $5.0 million of convertible notes were issued to shareholders.

Guidance

The guidance Hillgrove provided in February 2016 was revised in March 2016 with the release of the 2015 Annual Report. The Company's actual performance against its revised 2016 guidance is summarised in the table below.

CY16	Guidance	Actuals Achieved
Ore Mined	**2,500kt - 2,700kt**	2,838kt
Ore Processed	**2,850kt - 3,050kt**	3,197kt
Copper contained in concentrates produced	**14,500kt - 16,500t**	13,624t
Gold contained in concentrates produced	**8,000oz - 10,000oz**	11,518oz
Copper equivalents in concentrates produced	**16,500t to 19,000t**	16,505t
C1 Costs	**US$1.85 - $2.15 per lb**	US$1.73 per lb
Capital Projects (excludes pre-strip)*	**$1.0M - $1.4M**	$3.8M

* In addition to the capital projects, $23.7 million of pre-strip was completed.

Copper produced was below guidance and gold produced was above guidance, with production on a copper equivalents basis at the lower end of guidance.

Life of Mine Plan and Outlook for 2017

In February 2016 Hillgrove re-optimised its geological model and has since outperformed against it. The key to 2017 remains removing or managing the liquidity constraints to enable the step change in mining productivity, which has been achieved post the convertible note capital raising, to be sustained. Completion of the Giant cutback by mid-2017 allows unit costs to be reduced, stockpiles of ore to be built and transitions the operation into a period of cash generation.

With an increased mining rate, lower unit costs in both mining and processing, a robust geological model, minimal further capital requirements and a favourable outlook for commodity prices, there is potential to create significant value for shareholders.

The company provides the following guidance for the current Financial Year ending 31 December 2017 (CY17) for the Kanmantoo Copper Mine:

- Copper produced 18,000t to 20,000t copper contained in concentrates
- Gold produced 5,500oz to 7,500oz gold contained in concentrates
- C1 Costs US$1.75 to US$2.05 per lb (at a 0.75 exchange rate)
- Capital Projects (excl. pre-strip) $1.8 million to $2.5 million

In addition to the above forecast capital expenditure, Hillgrove plans to complete capital development in the Giant Pit for $4.2 million in CY17 (pre-strip and deferred mining), significantly lower than the $32.8 million spent on pre-strip and deferred mining in CY16.

The 2017 financial year will be one of step change, with copper production forecast to be significantly higher than the previous year as higher grade ore is made available for processing and stockpiled ore adds to resilience following the completion of the Giant Pit cut back, leading to strong cash generation.

Mineral Resource and Ore Reserve Estimate

In October 2016 a Mineral Resource Estimate and Ore Reserve Estimate was announced for the Kanmantoo Copper Mine.

KANMANTOO GLOBAL MINERAL RESOURCE ESTIMATE AT 30 SEPTEMBER 2016

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

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

KANMANTOO GLOBAL ORE RESERVE ESTIMATE AT 30 SEPTEMBER 2016

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

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

The 2016 Mineral Resource Estimate resulted in 34.5Mt at grades of 0.60% copper, 0.10g/t gold and 1.2g/t silver using a cut-off grade of 0.20% copper as outlined below, while the 2016 Ore Reserve Estimate increased by 5.4kt copper metal (or 10%), net of mining depletion since 30 June 2016.

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.

Preliminary consolidated statement of profit or loss for the 12 months ended 31 December 2016

		2016	2015
		$'000	$'000
			restated
Revenue		**113,127**	139,501
Other income		**565**	160
Expenses		**(137,614)**	(161,015)
Impairment charges		**(67,117)**	(112,915)
Interest and finance charges		**(3,174)**	(2,721)
Rehabilitation and mine closure provision discount unwind		**(1,035)**	(1,135)
Profit / (Loss) before income tax		**(95,248)**	(138,125)
Income tax (expense) / benefit	Note 1	**(13,886)**	7,999
Profit / (Loss) for the year attributable to owners		**(109,134)**	(130,126)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Other financial assets		**-**	389
Exchange differences on translation of foreign operations		**-**	(28)
Unrealised gain/(loss) on cash flow hedges taken to equity		**(10,550)**	19,220
Income tax relating to components of other comprehensive income		**3,165**	(5,766)
Other comprehensive income for the period (net of income tax)		**(7,385)**	13,815
Total comprehensive income for the period		**(116,519)**	(116,311)
Total comprehensive income for the period is attributed to:			
Equity holders of Hillgrove Resources Limited		**(116,519)**	(116,311)
Non-controlling interests		**-**	-
Total comprehensive income		**(116,519)**	(116,311)

Preliminary consolidated statement of financial position as at 31 December 2016

	31 Dec 2016 $'000	31 Dec 2015 $'000 restated
Current assets		
Cash and cash equivalents	**1,942**	6,100
Trade and other receivables	**3,994**	3,434
Inventories	**4,991**	6,904
Derivative financial instruments	**-**	10,212
Other financial assets	**324**	-
Total current assets	**11,251**	26,650
Non-current assets		
Property, plant and equipment	**67,105**	145,632
Exploration and evaluation expenditure	**802**	792
Deferred tax assets	**4,856**	15,577
Derivative financial instruments	**-**	9,382
Total non-current assets	**72,763**	171,383
Total assets	**84,014**	198,033
Current liabilities		
Trade and other payables	**36,423**	34,247
Provisions	**3,027**	2,504
Borrowings	**2,951**	3,826
Employee benefits payable	**2,768**	2,360
Deferred income	**229**	-
Total current liabilities	**45,398**	42,937
Non-current liabilities		
Provisions	**8,574**	6,660
Borrowings	**10,401**	15,116
Employee benefits payable	**927**	126
Deferred income	**468**	-
Total non-current liabilities	**20,370**	21,902
Total liabilities	**65,768**	64,839
Net assets	**18,246**	133,194
Equity		
Contributed equity	**217,538**	216,272
Reserves	**9,042**	16,122
Retained earnings / (accumulated losses)	**(208,334)**	(99,200)
Total equity	**18,246**	133,194

Preliminary consolidated statement of cash flows for the 12 months ended 31 December 2016

		2016	2015
		$'000	$'000
Cash flows from operating activities			
Cash receipts in the course of operations		**97,302**	119,379
Cash payments in the course of operations		**(76,342)**	(106,720)
Net cash generated by operating activities	Note 2	**20,960**	12,659
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		**(383)**	(1,042)
Payments for property, plant and equipment		**(28,319)**	(21,589)
Proceeds on sale of available for sale financial assets		**-**	235
Proceeds on disposal of plant and equipment		**611**	454
Net cash used in investing activities		**(28,091)**	(21,942)
Cash flows from financing activities			
Proceeds from early termination of derivatives		**14,434**	-
Proceeds from issue of shares		**-**	10,078
Transaction costs for issue of shares		**(30)**	(830)
Proceeds from borrowings		**8,930**	18,051
Transaction costs of borrowings		**(424)**	(896)
Repayment of borrowings		**(18,354)**	(18,000)
Interest received from investments		**80**	144
Interest paid on borrowings		**(1,663)**	(2,018)
Net cash from / (used) in financing activities		**2,973**	6,529
Net decrease in cash and cash equivalents		**(4,158)**	(2,754)
Cash and cash equivalents at the beginning of financial period		**6,100**	8,854
Cash and cash equivalents at the end of the financial period		**1,942**	6,100

Preliminary consolidated statement of changes in equity for the 12 months ended 31 December 2016

	Contributed equity	Reserves	Retained earnings	Total equity
	$'000	$'000	$'000	$'000
Balance 1 January 2015	206,860	2,464	30,926	240,250
Profit / (Loss) previous stated	-	-	(127,356)	(127,356)
Prior period adjustment	-	-	(2,770)	(2,770)
Profit / (Loss) restated	-	-	(130,126)	(130,126)
Transactions with owners:				
Contributions of equity	9,412	-	-	9,412
Other comprehensive income	-	13,815	-	13,815
Share based compensation	-	(157)	-	(157)
Balance 31 December 2015	216,272	16,122	(99,200)	133,194
Profit / (Loss)	-	-	(109,134)	(109,134)
Transactions with owners:				
Contributions of equity	1,266	-	-	1,266
Other comprehensive income	-	(7,385)	-	(7,385)
Share based compensation	-	305	-	305
Balance 31 December 2016	**217,538**	**9,042**	**(208,334)**	**18,246**

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2016

1. Reconciliation of income tax expense

	2016 $'000	2015 $'000 restated
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense/(benefit)	**(95,248)**	(138,125)
Tax at the Australian tax rate of 30%	**(28,574)**	(41,438)
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	**91**	(68)
- Non-assessable income	**(242)**	-
- Non-deductible expenses	**3**	207
- Losses from non-resident foreign operations	**246**	9,247
- Tax losses not recognised	**42,398**	26,196
- Research and development concession	**-**	(1,542)
- Adjustment for income tax of prior periods	**(36)**	(601)
Income tax (benefit)/expense	**13,886**	(7,999)

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2016 continued

2. Reconciliation of operating profit after income tax to net cash provided by operating activities

	2016 $'000	2015 $'000 restated
Operating profit (loss) after income tax	**(109,134)**	(130,126)
Add / (less) items classified as investing/financing activities		
Net loss on sale of investments	**-**	381
Net (gain)/loss on sale of fixed assets	**(32)**	111
Net Interest expense	**3,174**	2,560
Add/(less) non-cash items		
Depreciation and amortization	**45,669**	36,347
Impairment asset write downs	**67,117**	101,118
Inventory NRV write downs	**-**	11,797
Employee share options	**(304)**	(157)
Unrealised FX (gains)/losses	**(808)**	1,162
Unrealised (gains)/losses on financial derivatives	**(3,648)**	(1,113)
Discount on unwind of rehabilitation provision	**1,035**	1,136
Allocation of deferred mining costs to cost of goods sold	**-**	2,784
Net cash generated by operating activities before change in assets and liabilities	**3,069**	26,000
Changes in operating assets and liabilities		
(Increase) / decrease in receivables, prepayments and inventories	**2,247**	(7,946)
Increase / (decrease) in trade creditors and accruals	**3,636**	4,325
(Increase) / decrease in net deferred tax assets	**10,721**	(7,999)
Increase / (decrease) in provisions	**1,287**	(1,721)
Net cash generated by operating activities	**20,960**	12,659

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2016 continued

3. Going Concern

The consolidated financial statements have been prepared on the 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 31 December 2016, the Group's current liabilities exceeded its current assets by $34.1 million.

While liquidity remains tight in the short term, it is manageable and is much improved since the half year financial report was released in August 2016. During the past six months the Group has reached the following agreements with two of its largest mining contractors, Andy's Earthmovers (Asia Pacific) Pty Ltd ("AEM") and Roc-Drill Pty Ltd ("RD").

a) On 23 September 2016 Emeco Holdings Limited ("EHL") an ASX-listed company, announced AEM will become a wholly owned subsidiary of EHL, subject to a merger proposal. On 22 November 2016, the Company announced that the Group had entered into an agreement with EHL to vary the AEM supply agreement to include among other things:

   - an agreed payment plan in respect of the outstanding balance payable to AEM expected to be $14 million on 28 February 2017 (inclusive of work yet to be invoiced) with monthly instalments commencing from 1 November 2017 until 30 June 2018,
   - substantial discounts in charge rates, from November 2016 until September 2019 (expected discount from November 2016 until February 2017 is $4 million),
   - the Company will be treated as a new entity by AEM with no cash outlays for 45 days from the date of invoice, which will be a payment-free period coinciding with the completion of the Giant Pit cut-back, and
   - in addition to the $14 million outstanding balance above, payment of a premium by the Group in instalments from 1 November 2017 to 1 June 2018 amounting to $5.3 million in recognition of past and continuing support by AEM, less the November 2016 to March 2017 discount (expected to be around $4 million)

   The EHL agreement is conditional on the completion of the merger between EHL and AEM which has been deferred from early January 2017 until 31 March 2017.

b) In the event the merger above does not proceed, the Group has negotiated an alternative agreement with AEM, under which:

   - Amended payment terms for the expected $14 million creditor balance on 28 February 2017 (inclusive of work yet to be invoiced) have been agreed, with
     - $3.2 million of the creditor balance deferred until 1 July 2017, with the amount to be paid determined by the copper price, and
     - AEM will receive 18.0 million shares in return for a $1.8 million debt for equity swap.
     - The remaining balance will be paid on normal terms, and
   - In addition to the $14 million outstanding balance above, the $5.3 million premium noted above will be payable on a monthly instalment basis from 1 July 2017 for 12 months.

c) The Group has entered into an agreement with RD to amend the payment terms on its creditor balance of approximately $4.5 million, under which:

   - RD has agreed to defer payment of $1,350,000 of its outstanding creditor balance until 1 July 2017, with the amount to be paid determined by the copper price;
   - the Company issued 10,157,905 Shares to RD on 16 December 2016 in return for a $1,015,790 debt for equity swap; and
   - the Group has agreed to pay the remaining balance in the normal course of business.

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2016 continued

In addition, the previously advised forecast cash shortfall has been mitigated through a number of other initiatives including:

- The $5.0 million convertible note issue in December 2016, which matures in December 2019.
- The revised reserve and resource statement (announced in October 2016) and which added 5,400 tonnes of copper to the project,
- The replacement of the Macquarie $1.6 million Electranet Performance Bond with a life of mine insurance bond from Swiss Re, which allowed the use of $1.6 million, previously used to cash back the bond, and
- The payment-free period during the Giant Pit cut-back and substantially discounted mining rates which will flow from the EHL merger.

Moreover, the Group's financial position and outlook have been strengthened by the sustained increase in the spot copper price which has risen from around A$6,300 per tonne in mid-last year to A$7,602 per tonne at 31 December 2016.

The Group continues to work closely and cooperatively with suppliers and service providers and will rely on their ongoing support to assist in managing the Group's cash balance.

Notwithstanding the agreements entered into and the initiatives referred to above, in order for the Group to continue as a going concern, the Group must achieve the following;

- The continuing financial support of the Company's largest mining contractors (AEM and RD), which includes complying with the payment plans agreed with those contractors as detailed above.
- 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 2017 is required.
- Completion of the Giant Pit Pre-strip on budget and on schedule and the ability to achieve its cash flow forecast as production continues.

If the Group is unable to achieve the outcomes noted above then there is material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group 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 preliminary consolidated financial statements for the 12 months ended 31 December 2016 continued

4. Impairment of non-current assets

In accordance with the consolidated entity's accounting policies, impairment testing is carried out to ensure assets are not carried at more than their recoverable amount at balance date. As the recoverable amount can vary with market conditions and the future estimated price of copper, impairment testing is done at balance date to reflect prevailing market conditions.

An impairment is not a write off but a provision which can be reversed in the event of improvements in market outlook or operational performance including mine life extensions. Hillgrove has elected to use a value in use methodology to estimate the recoverable amount rather than the fair value less cost of disposal method as the value in use methodology more closely portrays Kanmantoo's current life of mine plan.

The Kanmantoo cash generating unit has been reviewed by updating Life of Mine Plans and assumptions, including operating costs, capital costs, and production activity in line with actual operating and cost performances.

At 30 June 2016 the consensus future copper prices decreased significantly which when applied to the recoverable amount for the Company's Kanmantoo assets, resulted in an impairment charge of $67.1 million, reducing Kanmantoo's carrying value to $61.4 million.

Since 30 June 2016, the Company announced a revised Mineral Resource and Reserve Statement which added 5,400 copper tonnes, net of depletion. In addition the copper price has staged a recovery late in the year which has continued into 2017. Applying methodology consistent with that used at previous balance dates, the calculated recoverable amount exceeds the carrying value comfortably, in line with sensitivities noted in the accounts for the half year ended 30 June 2016.

A 5% change to June 2016 copper prices would result in a carrying value change of approximately $18 million. However, given that the copper price had only risen appreciably in the last few months of 2016, and a desire to see improved operational improvements and production sustained well into 2017, past impairment charges have not been written back at this time.

Carrying values of property, plant and equipment at the Kanmantoo mine will be reviewed again at 30 June 2017 to determine if, and to what extent, they should be raised by a write-back of prior periods' impairment charges. It is noted however that the higher copper price at the end of 2016 has increased even further during the first few months of 2017. Further, the step change in operational performance which occurred from mid-December 2016 has been sustained to the date of this report. It follows that the carrying values of Hillgrove fixed assets as at 31 December 2016 are more reflective of the forward consensus prices and exchange rate used to assess impairment at 30 June 2016 which are shown below.

Assumptions for 30 June 2016	**2017**	**2018**	**2019**	**2020**
Ave. market price of analysts forecast copper price per tonne (real AUD)	6,719	7,263	7,811	8,253
Consensus pricing as at 31 December 2016				
Ave. market price of analysts forecast copper price per tonne (real AUD)	7,159	7,292	7,541	7,853

The AUD:USD foreign exchange forward curve in December 2016 beginning at 0.72 in January 2017 as well as a discount rate of 9.50% (real) have been utilised in considering impairment (30 June 2016: 0.75 and 9.5%).

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2016 continued

5. Restatement of prior period

During the 12 months ended 30 June 2016, charge rates for use of mining equipment by Hillgrove were reduced by Andy's Earthmovers (Asia Pacific) Pty Ltd ("AEM") in the amount of $5.3 million by a variation to the contract between the parties. This included a reduction in payments by Hillgrove of $2.8 million for the 6 months ended 31 December 2015.

In September 2016, AEM entered into a merger arrangement with Emeco Holdings Limited ("EHL") and another mine equipment supplier. This merger is subject to shareholder and other approvals which are scheduled for ratification in mid-March 2017. In November 2016, the Company entered into an agreement with EHL, which inter alia recognises an amount of $5.3 million to be paid by the Company from 1 November 2017 until 1 June 2018 offset by substantially discounted AEM mining rates, subject to the merger proceeding. Please refer to the note on going concern for more details.

As a fall back and in the event the EHL merger does not proceed, in December 2016 the Company has also entered into an alternative agreement with AEM, under which AEM became entitled to charge a higher rate during the 12 month period commencing 1 July 2017 in the amount of $5.3 million, subject to satisfactory ongoing performance by AEM. In the event the merger proceeds as planned, AEM will no longer be entitled to charge the $5.3 million to Hillgrove but instead a charge estimated to be $1.1 million will be incurred by Hillgrove and become payable during the 8 months commencing 1 November 2017.

The entering into these two definitive agreements in late 2016 has crystallised a liability of $5.3 million which will be paid from or after mid-2017. As a consequence the Company has now brought to account this liability as an accrual and given effect to recognising a benefit derived from 1 July 2015, as noted above. The financial statements for the year ended 31 December 2015 have been restated. This has resulted in an increase in operating expenses, and in the loss for the period of $2.8m and an increase in current liabilities of $2.8m, and a decrease in net assets of $2.8m as at 31 December 2015.

6. Discontinued operations

There were no operations that were discontinued during the year.

7. Events occurring after the balance sheet date

There were no subsequent events to the release date of this report.

Supplementary 4E Information

Dividends

No dividends were paid or proposed to members during the 12 month period ended 31 December 2016 or in the previous period.

Report based on unaudited accounts

This report has been based on accounts which are currently being audited.

Net tangible assets per security

NTA backing	Current period	Previous period restated
Net tangible asset backing per ordinary security (undiluted)	$0.09	$0.71

Subsidiaries

The consolidated results incorporate the assets, liabilities and results of the following subsidiaries. The proportion of ownership interest is equal to the proportion of voting power held. International Accounting standards have been used in consolidating foreign entities. There are no associates or joint venture entities.

Name of entity	Country of incorporation	Class of Share	Equity Holding 31 Dec 2016	Equity Holding 31 Dec 2015
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

Control gained or lost during the period

There were no transactions entered into by the group during the period ended 31 December 2016 that resulted in control being gained or control being lost over any entities.