HILLGROVE RESOURCES

ASX RELEASE

Monday, 28 August 2017

RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2017

HIGHLIGHTS

Operations – Giant Pit cutback nearing completion with a remaining strip ratio as at 30 June 2017 of below 1.8 to 1 (compared to the average project strip ratio of 5.5 to 1).

- Midlife rebuilds to both primary excavators were brought forward and successfully completed but resulted in lower than planned mining production.
- Despite operational challenges including equipment unavailability, the need to undertake east wall buttressing and downtime due to wet weather during the second quarter, the improved average daily mining production rates seen since December 2016 were maintained.
- Quarterly mining unit costs decreased for the third consecutive quarter.

Cash management – although the Company's short term liquidity position remains challenging, the following underlying improvements have been achieved in the half year:

- Creditors – improved terms with major suppliers and creditors.
- PetroBond - a $2.7 million bond established for fuel supply.
- Electranet bond – Swiss Re provided a $1.64 million non-cash backed security bond.
- Revenue – copper revenue for 6,000 tonnes now locked in at an average price of A$7,893 after margins.

HALF YEAR FINANCIAL PERFORMANCE

- Underlying EBITDA of $8.0m was down $11.5 million from the corresponding half year due mainly to the reduced amount of pre-stripping and other mine costs deferred to the balance sheet.
- 7,119t of copper and 2,160oz of gold produced in concentrate (June 2016: 6,756t and 7,015 ozs).
- Revenue of $62.0 million at an average cash realised copper price of A$7,519/tonne (June 2016: A$6,731/t).
- A statutory net loss after tax of $9.6 million (June 2016: a loss of $102.7 million) including a $5.7 million charge for the fair value uplift in convertible notes issued to shareholders (so that the convertible note liability is recorded in the balance sheet at market value).

Results for the period ($ million)	6 months to 30 June 2017	6 months to 30 June 2016	Change
Revenue	**62.0**	58.8	(3.2)
Statutory (loss)/profit	**(9.6)**	(102.7)	93.1
EBITDA	**8.0**	19.5	(11.5)
Underlying (loss)/profit	**(3.9)**	(35.6)	31.7

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GROWTH

Organic growth opportunities exist, utilising Kanmantoo's infrastructure, including:

- potential to extend the current mine life through an underground mining operation at Kanmantoo (ASX release 25 May 2017),
- regional exploration projects at Kanappa with a 3.7km long, 600m wide, copper-gold zone and Mt Rhine, gold zones of 6m @ 15.9g/t Au in channel sampling of surface outcrops (ASX release 14 Dec 2006), and
- the possibility to use the Kanmantoo Pit for a pumped hydro electricity generation project at the cessation of open-cut mining. The Company is working with a highly experienced engineering group to further investigate the viability of this option.

OUTLOOK

On top of the operational challenges confronted during the first half of this year as noted above, significant rain in the latter part of August has limited access to the pit and resulted in lower mining movements. This now means completion of the cut-back of the Giant pit is being pushed back to the end of the third quarter of 2017. In consequence, access to higher grade ore and the opening up of multiple ore sources are being delayed with the result that the planned "step change" in copper production from less than 1,200 tonnes per month to approximately 2,000 tonnes per month is also delayed until the fourth quarter. It is likely therefore that a portion of the higher grade production which had been scheduled for the second half of 2017 will be deferred into 2018.

The Board is lowering the annual copper production guidance to 16,000 to 18,000 copper metal tonnes. All other guidance remains unchanged.

It is to be noted that the expected reduction in copper production this year is not lost production for the mine, merely a timing difference in production of copper. For this reason, the expected future value of the mine is not diminished – the copper not mined this year will be mined during the remaining mine life. At the same time, the prevailing higher copper prices enhances the value of the mine.

While the operation continues to be focussed on completing the cut-back of the Giant pit at Kanmantoo, liquidity has been and continues to be the priority issue for the Company. It is anticipated that the Company's liquidity position will improve by early in the fourth quarter through the aforementioned step change in average monthly copper production and upon the exercise of options by holders (expiry date of options is 21 September 2017).

The value of the Kanmantoo operation is driven by four primary drivers:

Copper Grade

In May 2016, following an extensive review, the company announced an updated Mineral Resource Estimate. This resource model has been accurate over a sustained period with the combined Measured, Indicated and Inferred categories reconciling positively during the last sixteen months and providing confidence for future mine production.

Copper Price

The Australian dollar copper price has significantly improved in the past year, by more than thirty percent. With its improved financial position and creditworthiness, the Company has fixed the copper price on future sales for 6,000 tonnes at an average price of A$7,893/tonne after margins (which are above the Company's budget levels). This mitigates any downside copper price risk in the critical near term period and allows the Company to remain highly exposed to movements in the copper price in the longer term.

Mining Productivity

Increased mining productivity allows more material to be mined with waste moved faster to expose ore and more ore trucked out of the pit to stockpiles. The availability of stockpiled ore allows the mill to preferentially feed higher grade material for processing which significantly enhances resilience. The year to date has been challenging with equipment rebuilds and reliability, east wall instability and wet weather disruptions with rain most recently in the second half of August. To overcome these issues and improve mining movements, an equipment reliability project has been implemented with the full co-operation of the equipment supplier, a buttress and a ramp bypass have been established on the eastern wall instability area, and the pit will be progressively flattened and become more efficient in the fourth quarter.

Input Costs

Lower mining movements impact on liquidity by extending the cash constrained period, but it is important to note they do not significantly impact the value generated from Kanmantoo, as the equipment is predominantly charged on a usage basis and mining of the copper ore is deferred, not lost. However, additional time-based fixed overhead costs may be incurred in time. The other notable cost increase has been electricity cost. The Company is aggressively pursuing a return to traditional pricing levels through a large ACCC approved consortium of users, which aims to enter long term contracts commencing in 2018.

Steve McClare, the CEO & Managing Director said "I'm extremely pleased with the resilience and tenacity of everyone involved with Kanmantoo, continually meeting the many recent challenges including prolonged weather interruptions, geotechnical issues and poor equipment availability. Whilst the cutback has been delayed, it is nearing completion and with it the strip ratio reduces, feed grade fed to the mill will increase and revenue will increase. With the Mineral Resource Model continuing to reconcile positively over a sustained period the project value remains intact. I would like to sincerely thank all employees, suppliers, contractors, community members, SA Government and all other stakeholders, for their unwavering support. "

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Appendix 4D

Interim Report

Half year ended 30 June 2017

Name of entity	Hillgrove Resources Limited
ABN	73 004 297 116
Half year ended	30 June 2017
Previous corresponding reporting period	30 June 2016

Results for announcement to the market

Revenue from ordinary activities	up	5.5%	to	$62,050,000
Loss from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	down	90.7%	to	$9,554,000
Loss for the period attributable to the owners of Hillgrove Resources Limited	down	90.7%	to	$9,554,000

Dividends

No dividends were paid or proposed to members during the half year ended 30 June 2017 or in the previous period.

Brief explanation of results

A net loss after tax of $9,554,000 is reported by the Group for the half year (30 June 2016: loss of $102,694,000).

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 30 June 2017 for additional detail.

Statements

The following statements are included in the attached Interim Report for the half year ended 30 June 2017:

- 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)	2.7 cents	15.2 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 2017 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 2017 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 2017.

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 2017

Hillgrove Resources Limited
and its Controlled Entities

ACN 004 297 116

Contents

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 2017.

Directors

The Directors of the Company during this period were:

- John Gooding
- Maurice Loomes
- Philip Baker
- Steven McClare
- The Hon. Dean Brown, AO retired 31 May 2017
- Antony Breuer appointed 1 June 2017

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 South Australia.

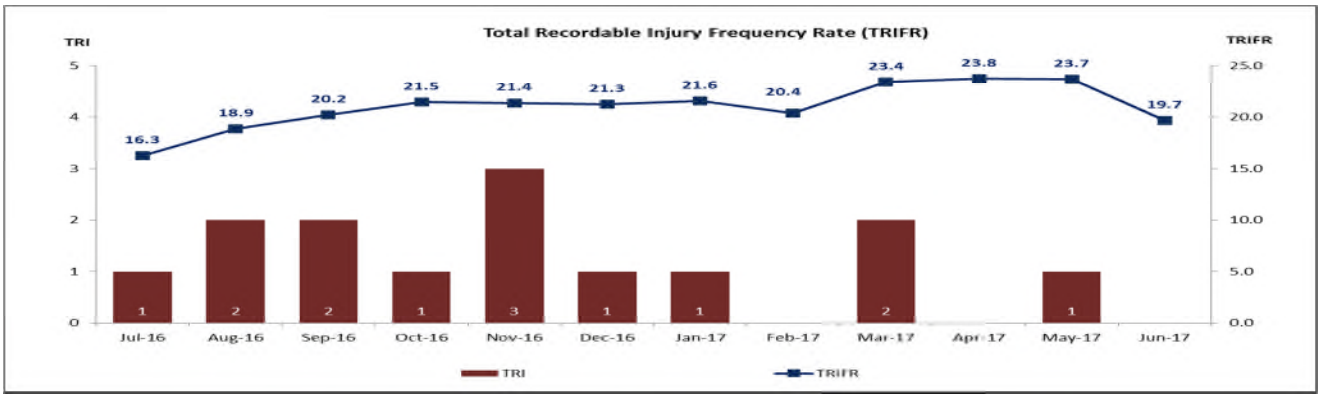
Kanmantoo Copper Mine

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 200 employees, along with some 60 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 at September 2016 of 34.5 million tonnes (10.3Mt Measured, 10.8Mt Indicated, 13.4Mt 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

The 12 month Total Recordable Injury Frequency Rate (per million man hours) at 30 June 2017 was 19.7.



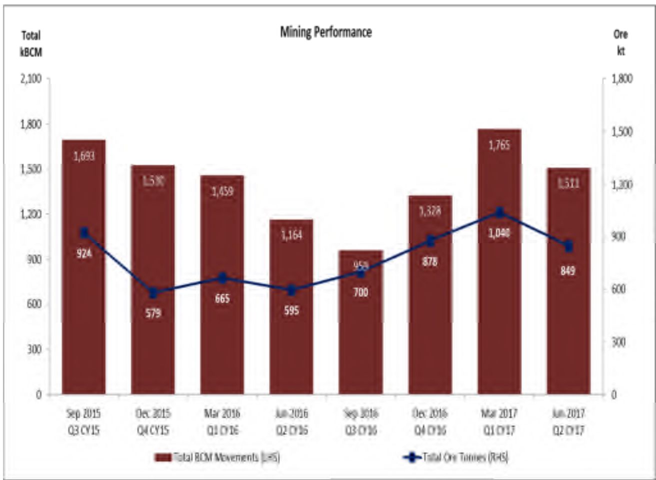
Directors' Report (continued)
Operating and Financial Review (continued)

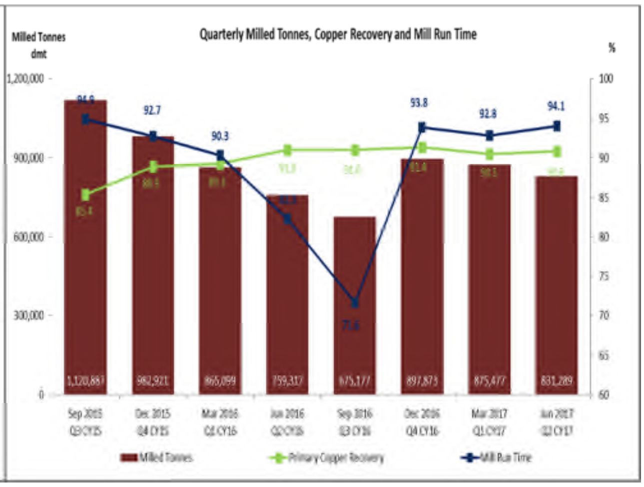
Operations – Mining

The improved mining production rates seen since December's capital raise were maintained despite both primary excavators being down for extended periods to complete midlife rebuilds during the half year, and unplanned operational delays associated with wall movement above the main access ramp. The wall has been stabilised with buttressing and will continue to be monitored.

The overriding mining objective has been to flatten the pit to make the work areas more efficient. During the half year the focus was on waste stripping in order to bring the Giant Pit cutback close to completion.

Total material mined for the half year to 30 June 2017 was 3,276k BCM including 1.9M tonnes of ore (30 June 2016: 2,623k BCM and 1.3M tonnes of ore). Accordingly, the strip ratio has continued its expected decline from 5.4 waste tonnes for each tonne ore to 4.4 for the current half year[1].





Operations – Processing

The mill continued to perform during the June quarter at an average annualised throughput of 3.3Mtpa. This is slightly down on the March quarter, driven by a decrease in grinding throughput rates as harder ore was processed. The slower throughput rate increased processing residence time, leading to an increase in copper recovery from the March quarter despite the lower feed grade. Gold recovery also increased due to the flash flotation cell being optimised, despite gold feed grades remaining at relatively low levels.

Mill throughput for the half year to 30 June 2017 was 1,706kt at 0.46% copper head grade (30 June 2016: 1,624kt at 0.55% Cu). The average copper recovery achieved for the half year was 90.7% reflecting the improved mill performance for the given feed grade.

Total production for the half to 30 June 2017 was 31,426 dmt of concentrate containing 7,119 tonnes of copper metal (30 June 2016: 30,369 dmt containing 6,756 tonnes of copper metal).

Total gold produced was 2,160 ounces (30 June 2016: 7,015 ounces) which was the equivalent of over 530 copper metal tonnes in value. The quantity of gold produced in 2016 was higher than normal due to the mining of a specific area of the pit where gold grades were known to be high.

[1] *Strip ratio: (tonnes of waste) / (tonnes of Mineral Resource) above cut-off grade of 0.2%Cu*

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

Unit Cash Costs

The C1 unit cost for the half year to 30 June 2017 increased to US$2.40 per lb payable copper (A$3.18/lb) compared to the half year to 30 June 2016 C1 unit cost of US$1.39 per lb. Even though copper production in the first half of 2017 was higher than the same period last year, stripping costs deferred to the balance sheet have decreased from US$0.87 per lb in 2016 to US$0.06 per lb as the Giant cutback pre-strip has neared completion. Also the value of by-product credits has decreased from US$0.54 per lb in 2016 to US$0.23 per lb due to the high quantity of gold that came from the old Spitfire end of the pit in early 2016.

The total unit cost including depreciation and royalties was US$2.90 per lb payable copper (A$3.84/lb) compared to US$3.48 per lb (A$4.74/lb) in the previous corresponding half year.

Concentrate Sales

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 2017, three ships totalling 32,828 wmt of copper concentrate were loaded, all of which went to smelters in China.

During the first half of 2016, Hillgrove had a forward book of copper hedging which was progressively closed out to supplement the value of concentrates sold to Freepoint at prevailing spot prices. During August 2016, Hillgrove took the decision to close out the entire forward book at a time of low copper prices in order to realise $16M of cash to retire external debt. Since then the bulk of concentrate sales has been at spot prices which have risen to levels higher than the previous average of the hedge book.

From early 2017, Hillgrove has been able to put in place downside price protection by fixing the price for the next two ship loads on a rolling basis with Freepoint.

For the half year to June 2017, the average realised cash price was A$3.41/lb before the addition of non-cash accounting hedge gains deferred from 2016. The average price excluding realised hedging for the half year to June 2016 was A$2.62/lb.

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.

Hillgrove continues to progressively rehabilitate the Mining Lease and improve its areas containing off-set rehabilitation. The back-filling of the Emily Pit was completed during the half year.

Site rehabilitation continued with an additional 18.5 ha shaped to the final profile and planted with locally collected and cultivated native seeds.

Funding

Liquidity has continued to be tight but manageable for the Company during the first half of 2017 and is expected to gradually improve as the Giant Pit waste removal burden is diminished. The Company has been able to fund its ongoing operations from internal cashflows and other cash saving initiatives and continues to be supported by its major contractors and other supplier creditors.

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

Exploration

Hillgrove has commenced internal studies to evaluate growth opportunities that utilise the existing Kanmantoo infrastructure and which have the potential to extend the mine life at Kanmantoo. To date Hillgrove has advanced two of its higher priority targets,

- to investigate the continuity of the higher grade copper-gold mineralisation below the existing Kanmantoo Copper operation, and
- to investigate the extent and tenor of the copper-gold mineralisation at the Kanappa and Mt Rhine exploration projects.

An analysis of the large drill hole database of the Company, in conjunction with the open pit production data and geologic knowledge gained from mining of over 200 vertical metres of the main orebodies at Kanmantoo, shows that a number of higher-grade copper-gold zones do extend to depth beneath or along strike from the Giant open pit. Hillgrove has approximated an Exploration Target [1] at the Kanmantoo Copper Mine of between five and ten million tonnes with a target grade of between 1.7% and 2.2% Cu and 0.4g/t to 1.0g/t Au, containing approximately 80,000 tonnes to 160,000 tonnes of copper metal and 60,000 ounces to 120,000 ounces of gold.

The Kanappa copper-gold exploration project is within the Kanmantoo Trough and hosted by similar geology as that at the Kanmantoo Copper-Gold Mine. The Kanappa project is located approximately 60kms by road from Kanmantoo. Rock chip sampling has confirmed the high grade tenor of the outcropping copper mineralisation with rock chips to 34.8% Cu. Field mapping has identified in excess of 100 sites of outcropping copper and copper-gold mineralisation, some of which have been previously exploited by historic mining.

Further exploration activities are in progress to continue to sample and map the zone to the north. This is expected to be followed by a programme of electrical and magnetic geophysical surveys to define drill targets.

The Mt Rhine copper-gold exploration project is also within the Kanmantoo Trough and within 70kms of the Kanmantoo copper mine. Previous sampling (14/12/2006) has identified a 1km long, 100m wide high grade gold zone with channel samples of 6m @ 15.9g/t Au. Separately, soil sampling has also identified a 2km long copper zone. Further sampling and mapping work is in progress.

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.

[1] *The Exploration Target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource under the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, the JORC Code" (JORC 2012). The Exploration Target is not being reported as part of any Mineral Resource or Ore Reserve*

Directors' Report (continued)

Operating and Financial Review (continued)

Review of consolidated financial results

For the six months ended 30 June 2017, the net loss after tax was $9.6 million compared to a net loss of $102.7 million in the comparative period however, the prior year loss included 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. On a comparable basis, the underlying EBIT result for 2017 was a net loss of $0.1 million compared to an underlying net loss of $20.8 million for the corresponding period last year.

Underlying EBITDA for the first half of 2017 was $8.0 million compared with $19.5 million last year but this variance was due mainly to the reduced amount of pre-stripping and other mine costs deferred to the balance sheet under the stripping accounting policy. Excluding the stripping adjustment, total cash costs of production were $64.0 million this half year (30 June 2016: $61.2 million).

Income Statement

	Half Year	Half Year	
$ million	**June 2017**	**June 2016**	**Change**
Revenue from sale of concentrates	56.6	52.1	4.5
Hedge gains	5.4	6.7	(1.3)
TOTAL REVENUE	**62.0**	**58.8**	**3.2**
Mining costs	(36.2)	(33.8)	(2.4)
Pre-strip and deferral	10.0	21.9	(11.9)
Processing costs	(13.2)	(11.7)	(1.5)
Transport and shipping costs	(2.7)	(2.2)	(0.5)
Treatment and refining costs	(6.5)	(6.2)	(0.3)
Other direct costs	(2.5)	(3.0)	0.5
Inventory movements	1.5	(2.2)	3.7
Royalties	(2.2)	(0.6)	(1.6)
Corporate costs	(2.2)	(2.0)	(0.2)
Other income	0.1	0.1	0.0
Net realised gains/(losses)	(0.1)	0.4	(0.5)
TOTAL CASH COSTS OF PRODUCTION	**(54.0)**	**(39.3)**	**(14.7)**
UNDERLYING EBITDA	**8.0**	**19.5**	**(11.5)**
Depreciation and amortisation	(7.6)	(40.6)	33.0
Net unrealised gains/(losses)	(0.5)	0.3	(0.8)
UNDERLYING EBIT	**(0.1)**	**(20.8)**	**20.7**
Net interest and financing charges	(2.2)	(2.0)	(0.2)
Income tax benefit/(expense)	(1.6)	(12.8)	11.2
UNDERLYING NET PROFIT/(LOSS) AFTER TAX	**(3.9)**	**(35.6)**	**31.7**
Non-underlying items (net of tax)			
Impairment – Kanmantoo assets write down	-	(67.1)	67.1
Fair value movement – convertible notes	(5.7)	-	(5.7)
REPORTED NET PROFIT/(LOSS) AFTER TAX	**(9.6)**	**(102.7)**	**93.1**

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

Income Statement (continued)

Revenue

Revenue in the six months to 30 June 2017 was from the sale of 31,804 dmt of copper concentrate containing 6,861 payable copper tonnes (30 June 2016: 31,148 dmt and 7,121 tonnes payable copper). Total revenue was $62.0 million compared to $58.8 million for the same period last year. The current period revenue includes $5.4 million of non-cash accounting hedge gains recycled from the early closeout in August 2016 when the gains realised were deferred in equity. The average cash copper price realised in the first half of 2017 was A$7,519 per tonne while the average price realised for the half year to 30 June 2016 was A$6,731 per tonne inclusive of realised hedge gains. Compensating for the lower copper prices in 2016, gold revenue was higher than normal at $9.9M due to the high grades of precious metals contained within ore from the southern end of the pit yielding 7,015 ounces compared to 2,160 ounces in the current half for gold revenue of $3.9 million.

Costs

Total cash costs of production increased by $14.7 million on the previous corresponding half year due to a combination of factors:

- Mining costs were $36.2 million in the six months to 30 June 2017 compared to $33.8 million for the same period last year. This 7% increase in costs mainly reflects higher mining activity as the previous half year was constrained by abnormally wet weather and digging was slowed to stay within the confines of available cash funds. Into 2017, the Company was successful in obtaining lower charge rates from key mining suppliers and contractors. Total material moved to 30 June 2017 was 10.1 million tonnes at an average cost of $3.58 per tonne (30 June 2016: 8.1 million tonnes at $4.17 per tonne).

- During 2016, a higher proportion of mining costs were deferred to the balance sheet under the Company's policy of pre-strip capitalisation for areas in excess of a 10:1 waste strip ratio because mining was still in the upper levels of the Giant Pit cutback. As mining at Giant has progressed, the stripping burden has reduced. In the six months to 30 June 2017 the credit for pre-strip and deferred mining costs was $10.0 million compared to $21.9 million for the previous corresponding half year.

- Processing costs were up $1.5 million, of which about $0.5 million correlates to the increased volume of mill throughput. For the third consecutive year, South Australian electricity costs have risen abnormally with the 2017 rate increase of over 35% adding $1.0 million to Hillgrove's first half processing costs. Hillgrove is now part of a South Australian business electricity buying group which, with the approval of the ACCC, is seeking to achieve purchase prices for power which are closer to generation costs.

- Despite the same number of ships being loaded in both half year periods, transport and shipping costs were $0.5 million higher which mainly reflects the rebound in global shipping freight rates.

- In the first half of 2016, there was a net drawdown of inventories of $2.2 million mainly due to the treatment of long term oxide stockpiles. In the first half of 2017, the mine is starting to produce more ore than the mill can process, leading to a net $1.5 million increase in inventories for the current half year with ore stockpiles being accumulated which can mitigate the risk of disruptions to operations.

- In January 2017 the Kanmantoo mine reached the fifth anniversary of production since re-commencement under Hillgrove. This meant that the SA Government royalty rate stepped up from 1.5% for the first five years to 5.0% for the remaining mine life. As consequence, the expense for royalties is $1.6 million higher than the previous corresponding period.

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

Income Statement (continued)

The depreciation and amortisation expense for the first half of 2017 was $7.6 million. This is lower than previous years because of the large impairment write downs taken in 2015 and 2016. Depreciation and amortisation in the first half of 2016 at $40.6 million was also higher than normal due to 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.

Non-underlying items

The profit and loss for the half year to 30 June 2017 includes a non-cash charge totalling $5.7 million which has arisen due to the accounting requirement to reflect the intrinsic market value of the convertible noteholders' rights to convert their notes into shares in the Company. The share price at the time of the notes being issued was 4.1 cents and by 30 June 2017 the share price was 8.2 cents and therefore the likelihood of conversion by noteholders has increased. The rise in fair value of the notes, whilst an increased liability for the Company, reflects the inherent value of the Convertible Notes in the hands of noteholders. The Convertible Notes were offered to all eligible shareholders at the time.

In light of weaker consensus commodity prices prevailing last year, at 30 June 2016 there was an impairment charge of $67.1 million reducing the carrying value of the Kanmantoo mine assets to $61.4 million. In addition the Company derecognised a portion of the deferred tax asset, totalling $19.2 million and leaving a balance of $4.9 million. As was the case at 31 December 2016, an assessment of the discounted future cash flows for the Kanmantoo Cash Generating Unit ("CGU") has shown the calculated recoverable amount as at 30 June 2017 exceeds the carrying value and no further impairment adjustments are required to the June 2017 carrying values nor are any reversals to prior years considered justified at this stage.

Cash flow overview

$ million	June 2017	June 2016	Change
Net cash inflows from operating activities	3.5	9.5	(6.0)
Net cash used in investing activities	(5.0)	(11.8)	6.8
Net cash inflows/ (outflows) from financing activities	(0.1)	2.8	(2.9)
Net increase/(decrease) in cash held	(1.6)	0.5	(2.1)
Cash and cash equivalents at the end of half year	**0.4**	**6.6**	**(6.2)**

Operating activities cash flow

Net cash inflows from operating activities for the six months ended 30 June 2017 were $3.5 million, which is $6.0 million lower than the prior period cash flow of $9.5 million. Receipts from the sale of copper concentrate reduced by $3.0 million mainly due to lower gold production. There was also a $3.0 million increase 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 $5.0 million in the current six months compared to an outflow of $11.8 million in the previous corresponding period. The majority of expenditure in both half years relates to pre-strip mining costs which have decreased as the Giant cut-back has approached completion.

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

Financing activities cash flow

In the six months to 30 June 2017 there has been a small net cash outflow of $0.1 million from financing activities. About $0.4 million has been raised through the early exercise of convertible note options and about $0.5 million has been paid for interest and borrowing costs. The previous year included $4.0 million in a new secured loan received from the South Australian Government Financing Authority and $1.2 million in principal and interest repayments on pre-existing loans.

Statement of financial position

Total equity has decreased by $11.9 million from 31 December 2016 reflecting the net loss of $9.6 million and the net amortisation of deferred hedge gains in reserves of $3.8 million partially offset by $1.4 million of equity issued to creditors and option holders.

Assets

Total assets (current and non-current) have increased by $3.4 million in the six month period since 31 December 2016. The carrying value of property, plant and equipment increased by $3.2 million from $67.1 million to $70.3 million. Additions to mine development were $2.3 million and mainly related to pit wall infrastructure and tails dam work. Expenditure on deferred waste stripping of the Giant Pit was $8.7 million. Carrying value was reduced by depreciation and amortisation of $7.6 million and $0.1 million of vehicle disposals.

Liabilities

Total liabilities (current and non-current) have increased by $15.4 million during the half year to 30 June 2017. This increase is the result of a number of factors including;

- The fair value revaluation of the convertible notes which are trading well above the redemption price has led to a $5.7 million increase (before $0.2 million of conversions) in the value of the instrument which is classified as a borrowing.

- About $7.0 million of the increase in liabilities is due to an increase in the overall level of trade creditors and accruals largely through a combination of agreed deferments of payments with key suppliers and continuing tight liquidity conditions particularly in the earlier part of the half year.

- Similarly, the continued deferment of salaries and wages as agreed with the Company's employees has seen a $1.1 million increase in employee benefits payable.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 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.

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

Outlook

On top of the operational challenges confronted during the first half of this year as noted above, significant rain in the latter part of August has limited access to the pit and resulted in lower mining movements. This now means completion of the cut-back of the Giant pit is being pushed back to the end of the third quarter of 2017. In consequence, access to higher grade ore and the opening up of multiple ore sources are being delayed with the result that the planned "step change" in copper production from less than 1,200 tonnes per month to approximately 2,000 tonnes per month is also delayed until the fourth quarter. It is likely therefore that a portion of the higher grade production which had been scheduled for the second half of 2017 will be deferred into 2018.

The Board is lowering the annual copper production guidance to 16,000 to 18,000 copper metal tonnes. All other guidance remains unchanged. It is to be noted that the expected reduction in copper production this year is not lost production for the mine, merely a timing difference in production of copper. For this reason, the expected future value of the mine is not diminished – the copper not mined this year will be mined during the remaining mine life. At the same time, the prevailing higher copper prices enhances the value of the mine.

The value of the Kanmantoo operation is driven by four primary drivers:

- Copper Grade - In May 2016, following an extensive review, the company announced an updated Mineral Resource Estimate. This resource model has been accurate over a sustained period with the combined Measured, Indicated and Inferred categories reconciling positively during the last sixteen months and providing confidence for future mine production.

- Copper Price - The Australian dollar copper price has significantly improved in the past year, by more than thirty percent. With its improved financial position and creditworthiness, the Company has fixed the copper price on future sales for 6,000 tonnes at an average price of A$7,893/tonne after margins (which are above the Company's budget levels). This mitigates any downside copper price risk in the critical near term period and allows the Company to remain highly exposed to movements in the copper price in the longer term.

- Mining Productivity - Increased mining productivity allows more material to be mined with waste moved faster to expose ore and more ore trucked out of the pit to stockpiles. The availability of stockpiled ore allows the mill to preferentially feed higher grade material for processing which significantly enhances resilience. The year to date has been challenging with equipment rebuilds and reliability, east wall instability and wet weather disruptions with rain most recently in the second half of August. To overcome these issues and improve mining movements, an equipment reliability project has been implemented with the full co-operation of the equipment supplier, a buttress and a ramp bypass have been established on the eastern wall instability area, and the pit will be progressively flattened and become more efficient in the fourth quarter.

- Input Costs - Lower mining movements impact on liquidity by extending the cash constrained period, but it is important to note they do not significantly impact the value generated from Kanmantoo, as the equipment is predominantly charged on a usage basis and mining of the copper ore is deferred, not lost. However, additional time-based fixed overhead costs may be incurred in time. The other notable cost increase has been electricity. The Company is pursuing a return to traditional pricing levels through a large ACCC approved consortium of users, which aims to enter long term contracts commencing in 2018.

While the operation continues to be focussed on completing the cut-back of the Giant pit at Kanmantoo, liquidity has been and continues to be the priority issue for the Company. It is anticipated that the Company's liquidity position will improve by early in the fourth quarter through the aforementioned step change in average monthly copper production and upon the exercise of options by holders (expiry date of options is 21 September 2017).

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 13.

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

Dated at Adelaide this 28th day of August 2017

Mr John Gooding Chairman	**Mr Steven McClare** Managing Director

Auditor's Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half-year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Hillgrove Resources Limited and the entities it controlled during the period.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
28 August 2017

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Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 30 June 2017

		Half Year	
		June 2017	June 2016
	Note	$'000	$'000
Revenue	2	62,050	58,814
Other income	3	99	137
Expenses	4	(62,197)	(79,713)
Impairment charges	5	-	(67,083)
Interest and finance charges	6	(2,193)	(2,010)
Fair value movement in convertible notes	11	(5,683)	-
Profit / (loss) before income tax		**(7,924)**	**(89,855)**
Income tax benefit/(expense)		(1,630)	(12,839)
Profit / (loss) for the half year attributable to owners		**(9,554)**	**(102,694)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Realised gain on cash flow hedges taken out of reserves and reclassified to profit or loss		(5,432)	-
Unrealised loss on cash flow hedges taken to reserves		-	(6,901)
Income tax relating to components of other comprehensive income		1,630	2,118
		(3,802)	**(4,783)**
Total comprehensive income / (loss) for the half year attributable to equity holders of Hillgrove Resources Limited		**(13,356)**	**(107,477)**

	Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the Company:	**Cents**	**Cents**
Basic earnings per share	(4.37)	(57.14)
Diluted earnings per share	(4.37)	(57.14)

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

Consolidated Statement of Financial Position
As at 30 June 2017

	Note	30 June 2017 $'000	31 Dec 2016 $'000
Current assets			
Cash and cash equivalents		377	1,942
Trade and other receivables		4,332	3,994
Inventories	7	6,351	4,991
Total current assets		**11,060**	**10,927**
Non-current assets			
Property, plant and equipment	8	70,312	67,105
Exploration and evaluation expenditure	9	883	802
Deferred tax asset		4,856	4,856
Total non-current assets		**76,051**	**72,763**
Total assets		**87,111**	**83,690**
Current liabilities			
Trade and other payables		43,434	36,425
Provisions		3,446	3,027
Borrowings	10	6,542	2,834
Employee benefits payable		3,855	2,768
Deferred income		277	229
Total current liabilities		**57,554**	**45,283**
Non-current liabilities			
Provisions		8,981	8,574
Borrowings	11	12,990	10,193
Employee benefits payable		947	927
Deferred income		326	468
Total non-current liabilities		**23,244**	**20,162**
Total liabilities		**80,798**	**65,445**
Net assets		**6,313**	**18,246**
Equity			
Contributed equity	12	218,814	217,538
Reserves		6,625	10,280
Retained earnings / (accumulated losses)		(219,126)	(209,572)
Total equity		**6,313**	**18,246**

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

Consolidated Statement of Changes in Equity
For the half year ended 30 June 2017

Consolidated	Contributed equity $'000	Reserves $'000	(Accumulated losses) / retained earnings $'000	Total equity $'000
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**
Balance 1 January 2017	**217,538**	**10,280**	**(209,572)**	**18,246**
Total comprehensive income for the half year	-	(3,802)	(9,554)	(13,356)
Transactions with owners:				
Share based compensation	-	147	-	147
Notes converted to shares	209	-	-	209
Options exercised	414	-	-	414
Shares issued to creditors	653	-	-	653
Balance 30 June 2017	**218,814**	**6,625**	**(219,126)**	**6,313**

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

Consolidated Statement of Cash Flows
For the half year ended 30 June 2017

	Half-year	
	June 2017	June 2016
	$'000	$'000
Cash flows from operating activities		
Cash receipts in the course of operations	48,573	51,408
Cash payments in the course of operations	(45,055)	(41,917)
Net cash generated from operating activities	**3,518**	**9,491**
Cash flows from investing activities		
Payments for exploration, evaluation and development	(179)	(154)
Payments for property, plant and equipment	(4,856)	(11,709)
Proceeds on disposal of property, plant and equipment	-	57
Net cash used in investing activities	**(5,035)**	**(11,806)**
Cash flows from financing activities		
Proceeds from options exercised	414	-
Proceeds from borrowings	300	4,000
Transaction costs of borrowings	(214)	-
Repayment of borrowings	(300)	(486)
Interest paid	(248)	(706)
Interest received	-	52
Net cash provided by financing activities	**(48)**	**2,860**
Net increase / (decrease) in cash held	(1,565)	545
Cash at beginning of the half year	1,942	6,100
Cash at end of the half year	**377**	**6,645**

The above 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 2017

1. Basis of preparation

This 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 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 2016 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 2017, the Group's current liabilities exceeded its current assets by $46.5 million (31 December 2016: $34.4 million). Much of the increase in current liabilities reflects planned payment deferral agreements reached with the largest three mining contractors which have been disclosed in Note 1 to the 31 December 2016 annual financial statements. All of these agreements remain in place with the exception of the agreement with Maxam Australia Pty Ltd, where the Group has reached agreement to further defer monthly repayments due on the $2.5 million promissory note by twelve months, now starting April 2018 (previously April 2017).

While liquidity remains tight in the short term, it is manageable and has improved since the full year financial report was released in March 2017. In the past six months the Group has also been able to improve its liquidity through the following initiatives:

- PetroBond - the Company negotiated a $2.7 million PetroBond which allowed it to return to normal creditor terms with its fuel supplier instead of paying cash up front.
- Electranet bond - the Company replaced the $1.64 million Electranet security bond with a bond from Swiss Re which, unlike the previous bond, does not require cash backing.
- Revenue - the Company has been able to take advantage of its improving financial position and credit-worthiness and eliminate price and exchange rate risk on copper revenues by locking-in prices on future shipments through a rolling facility with its offtake partner. At the date of this report it had locked in 6,000 tonnes at an average price of A$7,893 per tonne after margins.

Moreover, the Group's financial position and outlook has been strengthened by the sustained increase in the spot copper price during 2017 and up to the date of this report.

As part of its ongoing management of cashflows and working capital, the Group prepares a rolling 12 month cashflow forecast. The most recent cashflow forecast to August 2018 shows positive cashflows from operations will enable the Group to both meet its obligations and to improve upon the current working capital balance. This cashflow forecast is dependent on:

- achieving planned production to enable the Group to achieve its cash flow forecast, and
- continuing to work closely and cooperatively with suppliers and service providers and relying on their ongoing support to defer the payment of amounts that are outside normal payment terms to assist in managing the Group's cash balance.

In light of these circumstances, there is a 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. To address this uncertainty the Group has a number of measures in place to achieve the outcomes outlined above and therefore the financial report has been prepared on a going concern basis. 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 2017 (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. 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 2017, 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, the value of the recognised tax assets are considered probable to be utilised through generation of future taxable income. Based on the last tax return as at 31 December 2016, the Group has $25 million in carry-forward tax losses and $28 million in research and development tax offsets, so the amount recognised is only a portion of the amount available to be utilised.

Accounting for convertible notes issue

At 30 June 2017, the Group has measured the fair value of the embedded derivative relating to the noteholders conversion option (ie. the noteholder's option to convert the notes into shares) based on the market price of convertible notes in reference to the listed share price of the Company at balance date. Taking into account notes already converted, the $5.7 million upward movement in the fair value of the embedded derivative from the original amount recorded at 31 December 2016 to 30 June 2017 has been recognised as a finance cost in the statement of profit and loss.

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 2017 (continued)

	Half Year	
	June 2017	**June 2016**
	$'000	**$'000**

2. Revenue

Copper concentrate at spot	51,590	41,181
Copper forward sales delivered gains realised	5,432	6,749
Gold in concentrate	3,935	9,866
Silver in concentrate	1,093	1,018
Total Revenue	**62,050**	**58,814**

3. Other Income

Interest	4	54
Grant income	95	70
Other	-	13
Total other income	**99**	**137**

4. Expenses

Cash costs of production	51,147	34,956
Depreciation and amortisation	7,643	40,603
Inventory movement	(1,559)	2,245
Cost of goods sold	57,231	77,804
Government royalties	2,154	651
Corporate and other costs	2,203	1,982
Net (gain)/loss on sale of assets	20	(38)
Net realised foreign exchange (gains)/losses	143	(385)
Net unrealised foreign exchange (gains)/losses	446	(301)
Total expenses per Profit or Loss	**62,197**	**79,713**

Notes to the Financial Statements

For the half year ended 30 June 2017 (continued)

5. Impairment Losses

	Half Year	
	June 2017	June 2016
	$'000	$'000
Impairment of non-current assets related to Kanmantoo CGU	-	67,083

At 30 June 2017 the Group had a single CGU being the Kanmantoo Copper Mine.

As indicators of impairment are identified, impairment testing is carried out to ensure assets are not carried at more than their recoverable amount at balance date, in accordance with the consolidated entity's accounting policies. 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. The Kanmantoo CGU has been reviewed by updating Life of Mine Plans and assumptions, including planned production, operating costs, capital costs, production activity in line with actual operating and cost performances and the forward profile and long-term view of copper and precious metal prices and currency exchange rates.

As was the case at 31 December 2016, by applying methodology consistent with that used in previous years, the calculated recoverable amount as at 30 June 2017 exceeds the carrying value.

While the recovery in the copper price has been maintained in the first six months of 2017, a desire to see improved operational improvements and production sustained well into 2017 has meant that past impairment charges have not been written back at this time.

6. Interest and finance charges

	Half Year	
	June 2017	June 2016
	$'000	$'000
Discount on unwind of rehabilitation provision	458	508
Bank fees and other borrowing costs	577	500
Interest on borrowings	895	829
Interest on financial liabilities	263	173
Total interest and finance charges	**2,193**	**2,010**

Notes to the Financial Statements
For the half year ended 30 June 2017 (continued)

7. Current assets – Inventories

	30 Jun 2017 $'000	31 Dec 2016 $'000
Concentrates	473	807
ROM stockpile	2,869	808
Stores and consumables	3,009	3,376
	6,351	**4,991**

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

	30 Jun 2017 $'000	31 Dec 2016 $'000
Land and buildings		
At cost	5,524	5,524
Accumulated depreciation	(379)	(379)
	5,145	5,145
Plant & equipment		
At cost	72,930	72,896
Accumulated depreciation	(58,600)	(56,713)
	14,330	16,183
Motor vehicles		
At cost	1,175	1,261
Accumulated depreciation	(646)	(633)
	529	628
Mine development		
At cost	154,623	152,314
Accumulated depreciation	(125,693)	(119,836)
	28,930	32,478
Deferred mining costs – at cost	21,378	12,671
Total property, plant and equipment	**70,312**	**67,105**

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 2017 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 2017 (continued)

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

	30 Jun 2017	31 Dec 2016
	$'000	**$'000**
Land and Buildings		
Carrying amount at beginning of the period	5,145	9,096
Disposals	-	-
Depreciation	-	(105)
Impairment loss (refer Note 5)	-	(3,846)
Carrying amount at end of the period	5,145	5,145
Plant and equipment		
Carrying amount at beginning of the period	16,183	35,487
Additions	34	351
Disposals	-	(2,310)
Depreciation	(1,887)	(6,680)
Impairment loss (refer Note 5)	-	(10,665)
Carrying amount at end of the period	14,330	16,183
Motor vehicles		
Carrying amount at beginning of the period	628	562
Additions	-	401
Disposals	(86)	(161)
Depreciation	(13)	(174)
Carrying amount at end of the period	529	628
Mine development		
Carrying amount at beginning of the period	32,478	83,474
Additions	2,308	26,755
Transfers from exploration	-	97
Depreciation	(5,856)	(38,710)
Impairment loss (refer Note 5)	-	(39,138)
Carrying amount at end of the period	28,930	32,478
Deferred mining costs		
Carrying amount at beginning of the period	12,671	17,014
Additions	8,707	9,091
Allocation to operating costs	-	-
Impairment loss (refer Note 5)	-	(13,434)
Carrying amount at end of the period	21,378	12,671
Total property, plant and equipment	**70,312**	**67,105**

Notes to the Financial Statements
For the half year ended 30 June 2017 (continued)

9. Non-current assets – Exploration expenditure

	30 Jun 2017 $'000	31 Dec 2016 $'000
Balance at beginning of the period	802	791
Additions	81	142
Transfers to mine development	-	(97)
Impairment losses	-	(34)
Movement due to foreign exchange revaluation	-	-
Carrying amount at end of the period	**883**	**802**

10. Current liabilities – Borrowings

	30 Jun 2017 $'000	31 Dec 2016 $'000
Secured		
Loan - South Australian Government (i)	4,171	-
Unsecured		
Lease liabilities	436	443
Promissory note (ii)	464	1,365
Deferred payment (iii)	1,471	1,026
	2,371	2,834
Total current borrowings	**6,542**	**2,834**

(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 the accumulating balance is repayable at maturity in early 2018.

(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.

(iii) A contractor creditor of the Company has agreed to receive a deferred payment in lieu of a portion of an amount owed for past services. Under the terms of the deferral, the face value of the obligation is scaled up or down according to the future copper price giving rise to an embedded derivative which is measured at fair value based on consensus forecast copper pricing.

Notes to the Financial Statements
For the half year ended 30 June 2017 (continued)

11. Non-current liabilities – Borrowings

	30 Jun 2017 $'000	31 Dec 2016 $'000
Secured		
Loan - South Australian Government	-	4,086
Convertible Notes (a)	10,474	5,000
Less: transaction costs	-	(621)
	10,474	8,465
Unsecured		
Lease liabilities	352	515
Promissory note (refer note 10)	2,164	1,213
	2,516	1,728
Total non-current borrowings	**12,990**	**10,193**

(a) In December 2016 $5.0 million of convertible notes were issued with a maturity date of December 2019. Accounting standards require the conversion feature of the instrument to be periodically measured at fair market value as affected by future changes in the Hillgrove share price. Since issuing the notes, the Hillgrove share price has risen from 4.2 cents to 8.2 cents at 30 June 2017. The fair value revaluation of the convertible notes which are trading above the redemption price has led to a $5.7 million increase in the liability (before $0.2 million of conversions) which has been recognised as an expense in the profit or loss.

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 2017						
Trade and other payables	43,434	-	-	-	-	43,434
Borrowings and interest	7,141	2,653	5,481	-	-	15,275
	50,575	**2,653**	**5,481**	**-**	**-**	**58,709**
At 31 December 2016						
Trade and other payables	36,425	-	-	-	-	36,425
Borrowings and interest	3,304	6,339	5,328	-	-	14,971
	39,729	**6,339**	**5,328**	**-**	**-**	**51,396**

Financing arrangements

The Group had no undrawn borrowing facilities as at 30 June 2017.

Notes to the Financial Statements

For the half year ended 30 June 2017 (continued)

12. Contributed equity

	30 Jun 2017 $'000	31 Dec 2016 $'000
Share capital		
Issued and paid up capital 232,919,285 shares (2016: 206,767,247) fully paid	218,605	217,538
Ordinary Shares - movements during the year		
Balance as at beginning of year	217,538	216,272
Shares Issued		
Share issue	1,067	1,271
Notes converted into shares	209	-
Transaction costs arising from share issues	-	(5)
Deferred tax credit recognised directly in equity	-	-
Balance at end of year	**218,814**	**217,538**

13. 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 2017 (continued)

14. Contingent liabilities

	30 Jun 2017 $'000	31 Dec 2016 $'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
Security bonds on rental properties and tenements	16	16
	16	**1,657**

The Electranet bond was provided by Macquarie Bank Limited under the Performance Bond facility agreement.

At 31 December 2016 the consolidated entity had a bank guarantee set aside for these obligations which could have been forfeited if the Consolidated Entity did not meet its obligations to Electranet. In February 2017 the bank guarantee was released and replaced with an unsecured insurance bond from Swiss Re.

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

The Consolidated Entity had no other contingent liabilities at 30 June 2017.

15. Events subsequent to balance date

There are no subsequent events to report.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 14 to 27 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 2017 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 28th day of August 2017

Mr John Gooding
Chairman

Mr Steven McClare
Managing Director

Independent auditor's review report to the shareholders of Hillgrove Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Hillgrove Resources Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of changes in equity, statement of cash flows and statement of profit or loss and other comprehensive income for the half-year ended on that date, selected explanatory notes and the directors' declaration for Hillgrove Resources Limited Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

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 is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hillgrove Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hillgrove Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 1 in the half-year financial report, which indicates that as at 30 June 2017 the consolidated entity's current liabilities exceeded its current assets by $46.5 million and it is reliant on the ongoing support of its major creditors. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
28 August 2017

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 up to 20,000t copper and associated gold and silver per annum over the current life of mine.

Kanmantoo Global Mineral Resource Estimate at 30 September 2016

	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

	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.

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.