



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 31 December 2017

HIGHLIGHTS

Operations – completion of the cutback has led to improvements in the performance of the Kanmantoo mine, with increases in mining movements, plant throughput, and reduced unit costs during the quarter. Of note, December 2017 copper production was a significant step up from prior months, with 1,785 tonnes produced, the highest monthly production since 2014.

The quarterly output of 4,135 tonnes produced represents the highest quarter since September 2015. This was driven by the higher mining rate of 4,691k tonnes, which resulted in an annual movement of 18,303k tonnes, 21% higher than the previous year.

Growth Opportunities – progression of the Company's growth projects continued during the quarter, with completion of the initial project execution plan for Nugent Underground, completion of the soil sampling at Kanappa and commencement of the ground magnetic survey, partial completion of the soil sampling program for Mt Rhine, and discussions with energy providers to progress the Pumped Hydro project.

Fixed Pricing – an additional 8,000 tonnes of fixed pricing was put in place at an average price of \$8,938 per tonne after margins. The Company had 12,000 tonnes of fixed pricing in place at quarter end at an average price of \$8,740 per tonne after margins.

Notes Redemption – the Company's convertible notes were redeemed/converted, which simplified the Company's capital structure, strengthened the balance sheet, and reduced a layer of administration and cost.

LOOKING FORWARD

Operations – the Company expects the continuation of the improved productivity and the copper production experienced in December 2017 to continue through 2018. While the full 2018 guidance will be provided in the Company's 2017 Annual Report, copper production is expected to be in the range of 22,000 to 24,000 tonnes, with gold production to be approximately 3,000 ounces.

Growth Opportunities – work on each of the growth opportunities will continue, including optimising the plan for the Nugent Underground, further geophysical and geochemical surveys to identify drill targets for both Kanappa and Mt Rhine, as well as continued discussions with energy providers to further progress the Pumped Hydro project.

Cashflow – with the increased levels of copper production, cashflows are expected to increase considerably, allowing the Company to improve its balance sheet through a reduction in amounts owing to creditors, the repayment to employees of deferred salaries and a build-up of cash balances.



MANAGING DIRECTOR'S STATEMENT

The fourth quarter was a pleasing one, with the completion of the cutback at Kanmantoo leading to a significant improvement of performance in both the pit as well as the processing plant. This was particularly evident in December 2017, when:

- Copper production – increased from an average of 1,183 tonnes per month for the first 11 months of 2017 to 1,785 tonnes in December;
- Mining movements – the drier weather, improved excavator availability and blasting improvements lifted the mining movements to 18.5kBCM per day in December, which is above plan; and
- Mill throughput – 306k tonnes of ore were processed during December, the second highest recorded monthly throughput on primary ore.



In addition, the ore body has outperformed the estimated copper metal Resource by 2% over the quarter.

With the expected improvement in the balance sheet and with a positive trajectory into 2018, additional fixed copper pricing lines have been established, allowing the Company to capitalise on the sustained increase in copper prices during the quarter by locking in prices for an additional 8,000 tonnes at an average price of \$8,938 per tonne after margins. As at the end of December, the company had fixed an average copper price of \$8,740 per tonne after margins for 12,000 tonnes.

During the quarter, the Company also continued to progress the growth projects that have been identified as opportunities to provide significant extensions to mine life at Kanmantoo. These projects leverage the Company's knowledge of the copper-gold orebodies at Kanmantoo and the surrounding district and the established infrastructure, increasing the chances of success and reducing development lead times compared to greenfield exploration projects.

- Nugent Underground – a draft project execution plan to explore the underground continuation of the high grade Cu and Au ore zones mined within the Nugent open pit was completed, with the project now being optimised to integrate with open pit mining, milling schedules and cash flows;
- Kavanagh Deeps – a suite of deep drill holes to intersect the down-dip continuation of the high grade copper-gold Kavanagh ore zones have been designed, and tenders sought for drilling to evaluate their underground potential;
- Kanappa – completion of the soil geochemical survey which shows a 4.8km long geochemical zone and commencement of the ground magnetic survey over the main geochemical anomaly;
- Mt Rhine – partial completion of the soil sampling program which shows a 1km long copper-gold zone and is ongoing; and
- Pumped Hydro – subsequent to the Company's submission to the SA Government's Bulk Energy Storage request in September 2017, discussions have continued with energy providers to progress this business opportunity, which would utilise part of the Kanmantoo infrastructure while still allowing the underground and regional projects to operate.

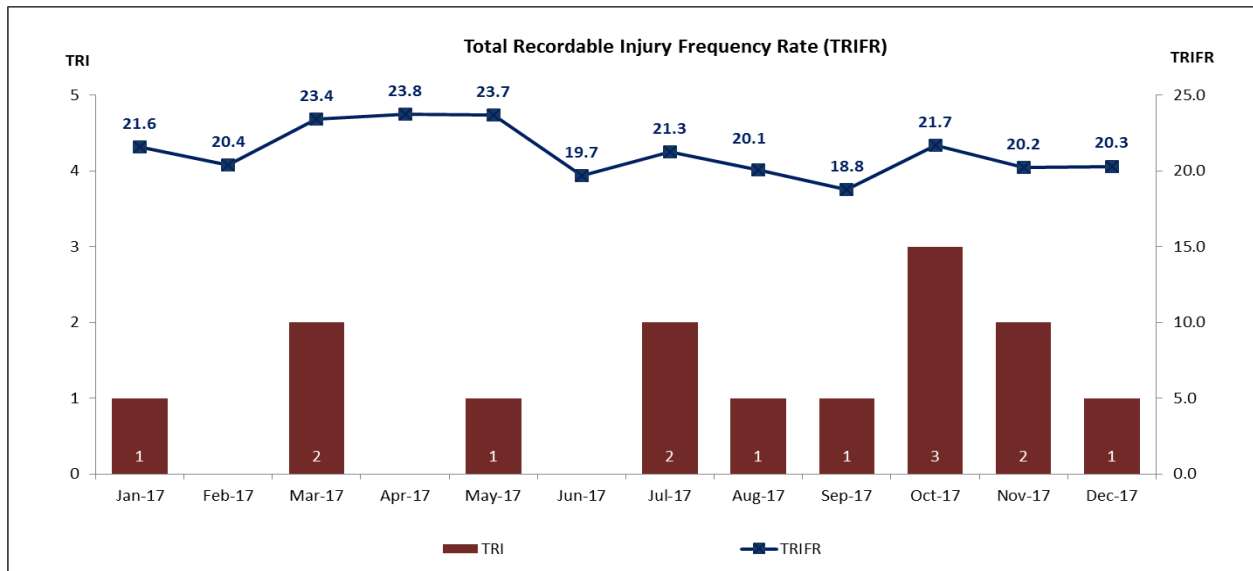
KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

Safety

There were six incidents recorded in the quarter which was an unacceptably high number and lifted the TRIFR to 20.3 from 18.8. On a positive note, the incidents themselves, whilst requiring treatment, were not of a serious nature.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



Operations Overview

As expected, there were fewer weather-related interruptions to mining activity during the fourth quarter. The equipment availability issues experienced during the third quarter were also largely addressed. As a consequence, total material mined improved to 1,518k BCM for the quarter at an average rate of 16.5k BCM per day.

Completion of the RL1004 bench level during the quarter also marked the turning point of the Giant Pit in terms of ore production, with future benches now yielding ore tonnes at rates faster than the plant can process. Ore produced in the fourth quarter was 1,216k tonnes, with 341k tonnes added to stockpiled ore. The added benefit is reflected in the average milled grade of 0.52% exceeding the average mined grade. Overall, for the past quarter, mining has recovered more copper metal than estimated by the Resource model in the areas mined by 2%.

With the cutback now complete, the month of December 2017 in particular demonstrated the productive potential of the Kavanagh ore body. Mine movement in December 2017 averaged 18.5k BCM per day at a strip ratio of 2.2:1, resulting in production of 1,785 tonnes of copper metal. Figures 2 to 4 reflect this improved performance in December 2017.

Mill throughput for the quarter increased to 882k tonnes. Plant run time was improved at 95.6% for the quarter, with the only unplanned stoppages being to repair a stripped conveyor belt and to visually inspect mill liner wear rates. Also, crushing rates increased due to the presentation of better fragmented ore from improved drill and blast techniques.

Total production for the quarter was 19,669 DMT of concentrate, containing 4,135 tonnes of copper metal and 2,725 ounces of gold. This brought annual production for 2017 to 14,802 tonnes of copper and 6,785 ounces of gold.

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		CY16	MAR-17 QTR	JUN-17 QTR	SEP-17 QTR	DEC-17 QTR	CY17
Ore to ROM from Pit	kt	2,838	1,040	849	811	1,216	3,915
Mined Waste	kt	12,332	4,413	3,821	2,679	3,475	14,388
Total Tonnes Mined	kt	15,171	5,453	4,669	3,490	4,691	18,303
Closing Ore Stocks	kt	40	205	242	183	524	524
Mining Grade	%	0.50	0.45	0.44	0.54	0.48	0.48
Ore Milled	kt	3,197	875	831	838	882	3,427
Milled Grade - Cu	%	0.52	0.47	0.45	0.47	0.52	0.48
- Au	g/t	0.21	0.08	0.08	0.13	0.19	0.12
Recovery - Cu	%	82.7	90.5	90.8	90.8	90.5	90.6
- Au	%	52.7	48.7	51.7	54.6	51.2	51.8
Cu Concentrate Produced	Dry mt	59,842	16,223	15,203	16,170	19,669	67,265
Concentrate Grade - Cu	%	22.8	23.0	22.3	21.9	21.0	22.0
- Au	g/t	6.0	2.0	2.3	3.7	4.3	3.1
Contained Metal in Con. - Cu	t	13,624	3,727	3,392	3,548	4,135	14,802
- Au	oz	11,518	1,060	1,100	1,900	2,725	6,785
- Ag	oz	104,042	27,254	25,986	26,448	30,862	110,551
Total Concentrate Sold	Dry mt	60,213	15,939	15,865	15,786	17,571	65,161

FIGURE 2. KANMANTOO MONTHLY COPPER MINE PERFORMANCE

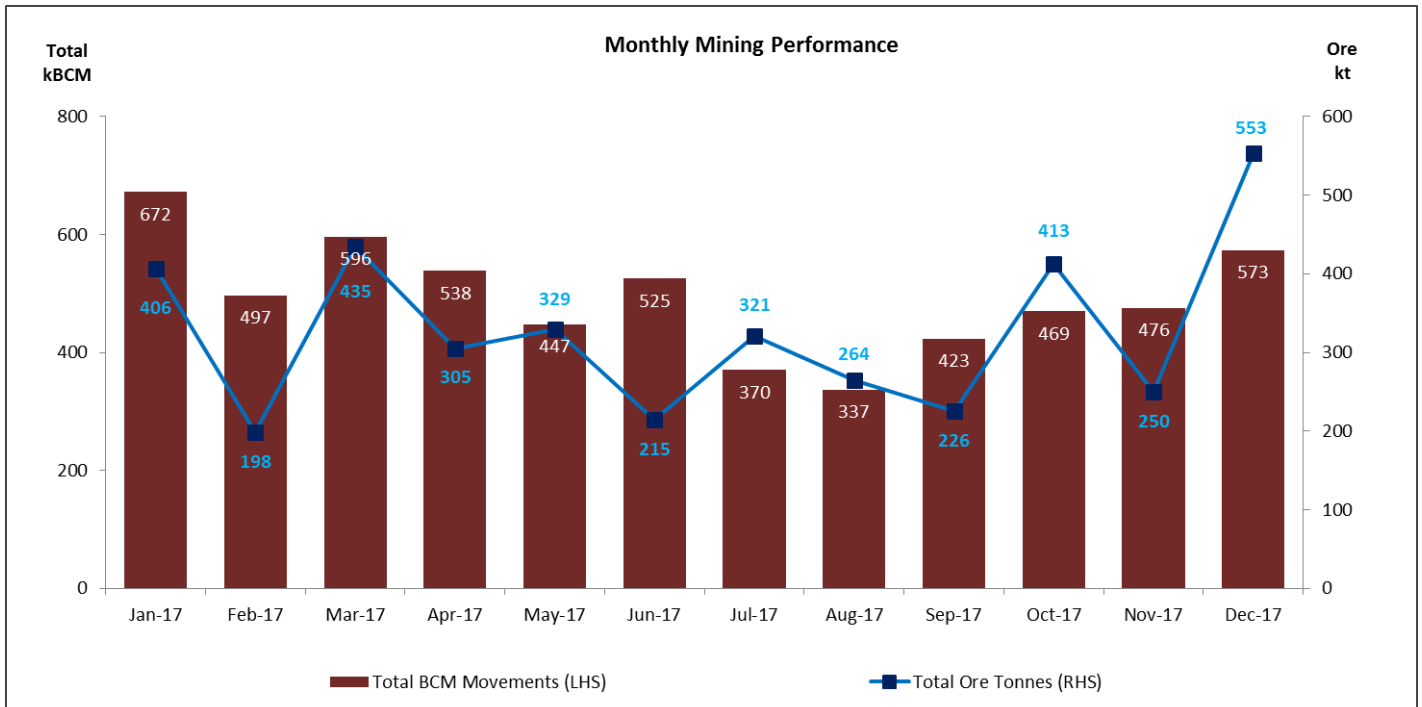




FIGURE 3. KANMANTOO MONTHLY PROCESSING PERFORMANCE

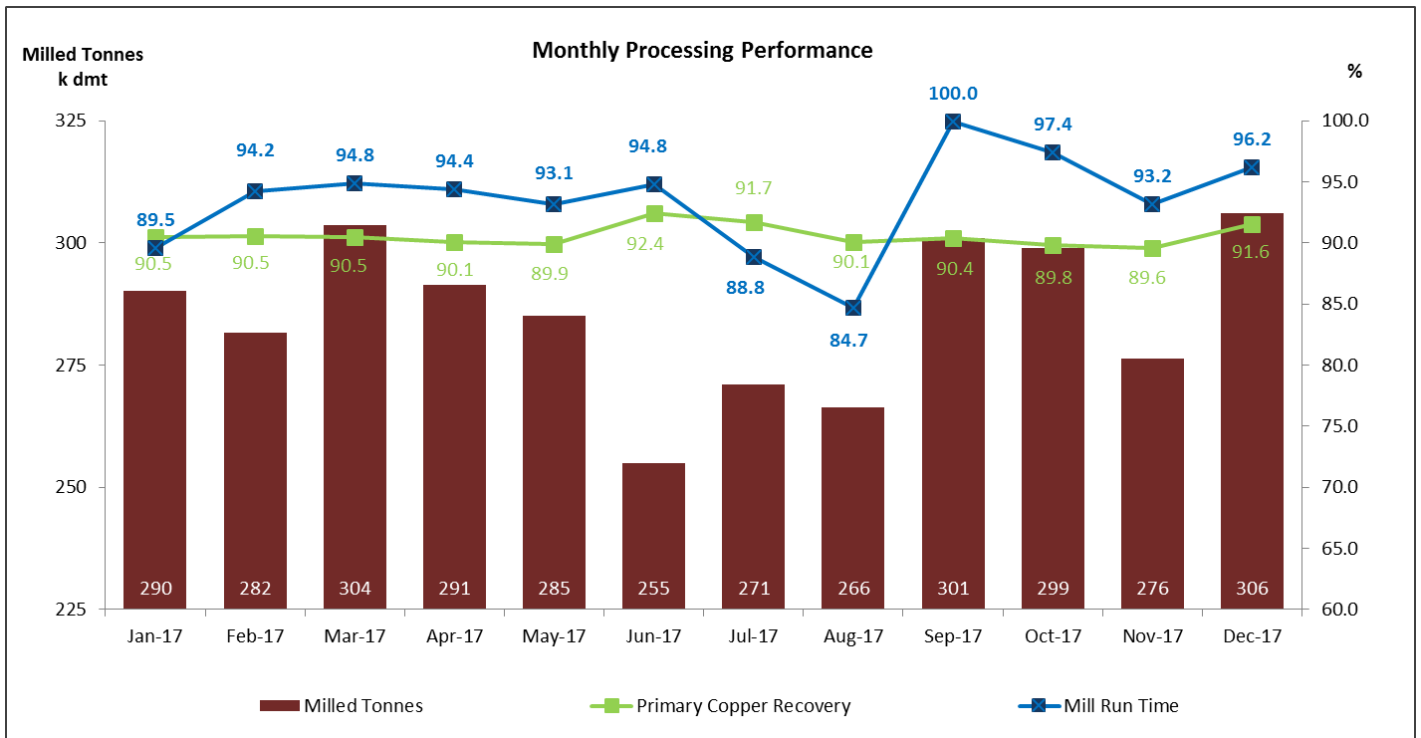
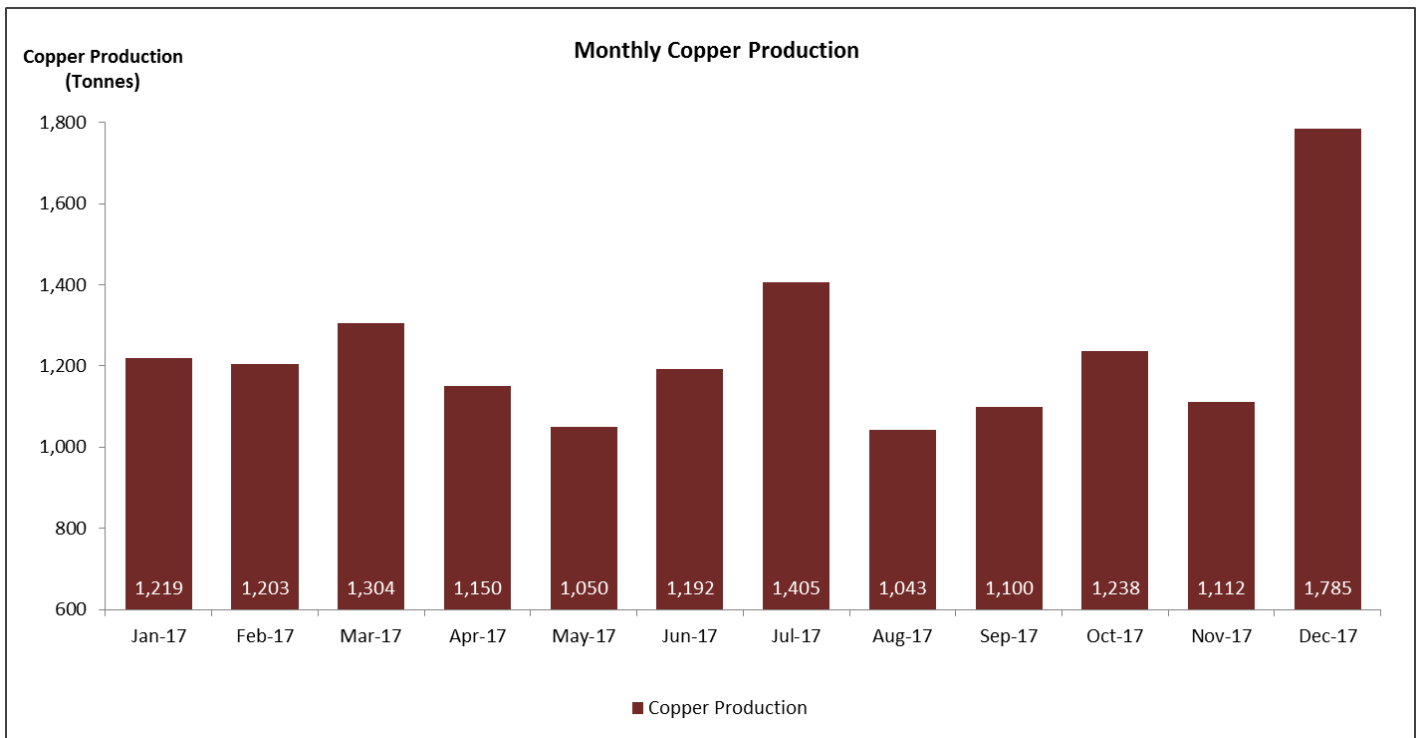


FIGURE 4. KANMANTOO MONTHLY COPPER PRODUCTION



Costs

With the improvement in mining productivity, unit costs decreased from \$15.45 per BCM in the September 2017 quarter to \$13.38 per BCM in the December 2017 quarter. This brought the full year unit mining cost to \$13.15 per BCM, which is 6% lower than in 2016. The mining cost component of C1 unit cost also reduced to US\$1.31/lb, even after accounting for the reducing credit for deferred stripping due to the increase in ore stocks.

Processing unit costs for the quarter were \$7.57 per tonne milled. The full year average processing unit cost was \$7.41/tonne compared to \$6.98/tonne in 2016, with the increase a result of the higher electricity prices.

C1 unit cost for the December quarter was US\$2.13/lb, with the reduction reflecting the benefit of higher production. Despite this, the transport and shipping component of C1 increased in the fourth quarter due to substantial increases in ocean freight rates for vessels. This impact was more than compensated by higher precious metal credits due to the elevated gold production. However, gold feed grades are expected to return to lower levels in future.

The full year C1 unit cost for 2017 was US\$2.33/lb. This included a US\$0.37 ore inventory adjustment credit as a result of mined ore being added to long term stockpiles.

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

US cents per lb	CY16	MAR-17	JUN-17	SEP-17	DEC-17	CY17
	12 MTHS	3 MTHS	3 MTHS	3 MTHS	3 MTHS	12 MTHS
Total Mining Cost	184	197	203	194	187	195
Deferred Mining	-23	-14	-76	-39	-19	-36
Pre-strip	-61	-11	0	0	0	-3
Ore Inventory Adjustment	3	-22	11	2	-37	-13
Mining Costs	103	150	138	157	131	143
Processing Costs	57	58	65	68	59	62
Other Direct Cash Costs	15	12	13	12	13	12
Total Onsite Costs	175	220	201	237	203	217
Transport & Shipping	11	12	12	12	15	13
Treatment, Refining & Smelter Charges	34	32	36	32	36	34
Total Offsite Costs	45	44	48	44	51	47
Precious Metals Credits	-47	-23	-24	-34	-41	-31
Total Direct Operating Costs (C1 Cash Costs)	173	241	240	247	213	233
Royalties	3	9	13	11	12	11
D&A	115	38	39	37	17	32
TOTAL COSTS	291	288	292	295	242	276

NOTES TO TABLE 2:

Deferred Mining: Within each pit, the cost of higher waste benches, proportional to the copper contained in the ore, is normalised for the impact of strip ratios and copper grades over the life of specific pits.

Pre-Strip: Upper levels of pits where the strip ratio is greater than 10:1 (waste:ore) are capitalised and amortised over the life of the mine based on metal.

Ore Inventory Adjustment: Mining costs per tonne of ore added to (-'ve) or processed from (+'ve) long term stockpiles.

FIGURE 5. KANMANTOO QUARTERLY MINING UNIT COSTS

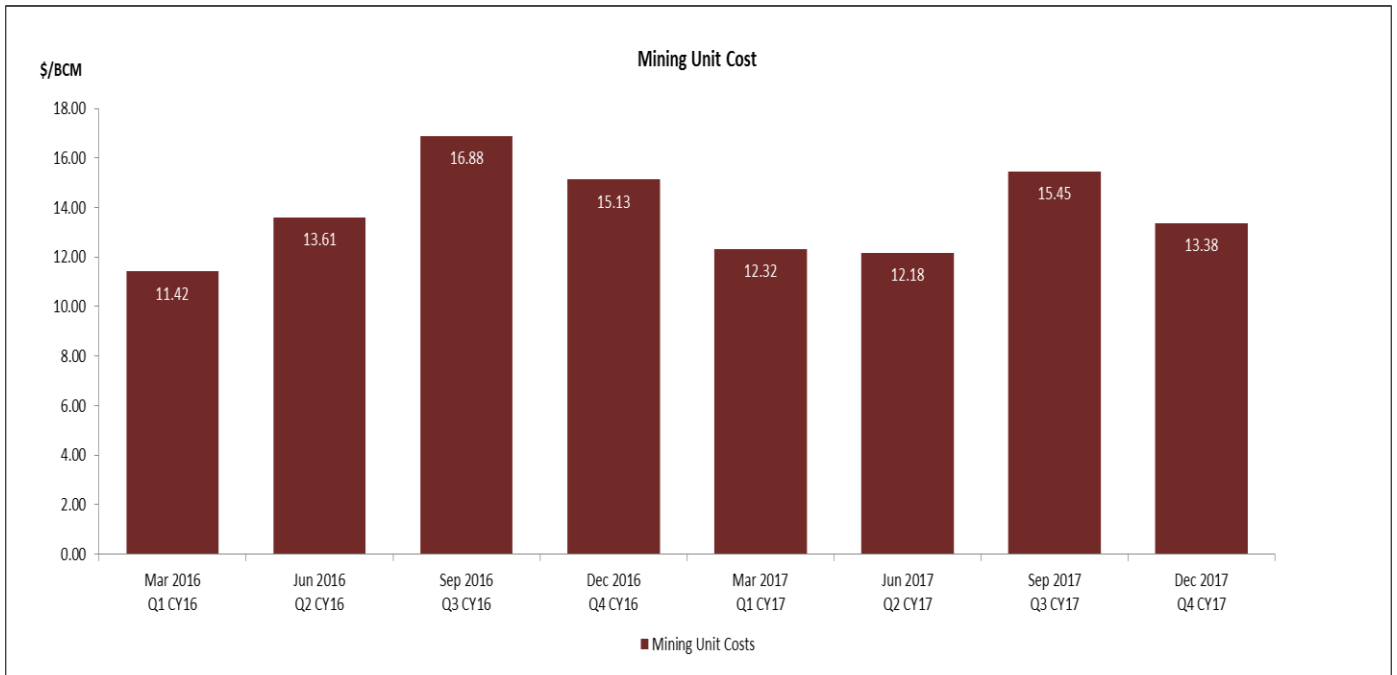
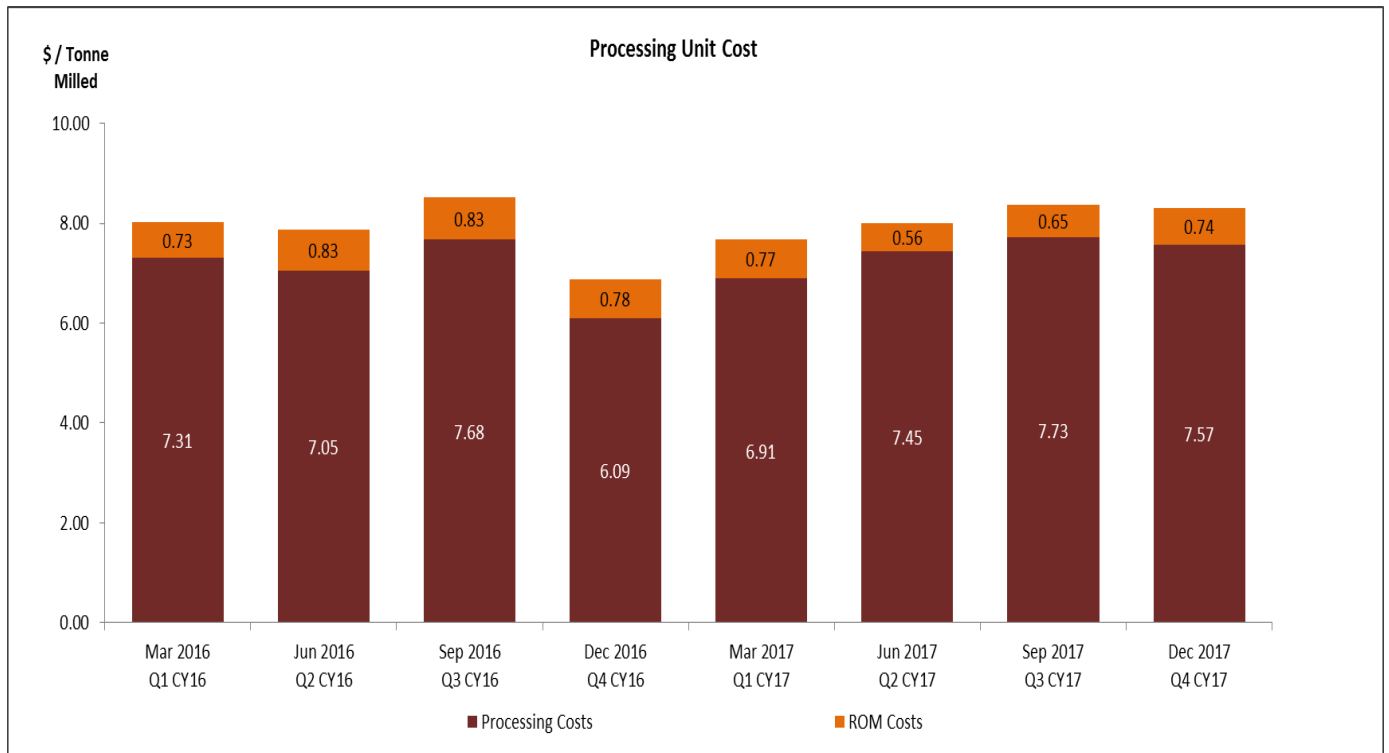


FIGURE 6. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



Revenue

Revenue for the quarter (including precious metals credits and amortised hedge gains) was \$35.2 million. The average realised price for copper metal sold was \$8,005 per tonne (up from \$7,558 last quarter), equivalent to US\$2.79 per lb. The prevailing copper price today is circa US\$3.20 per pound (A\$8,750 per tonne).

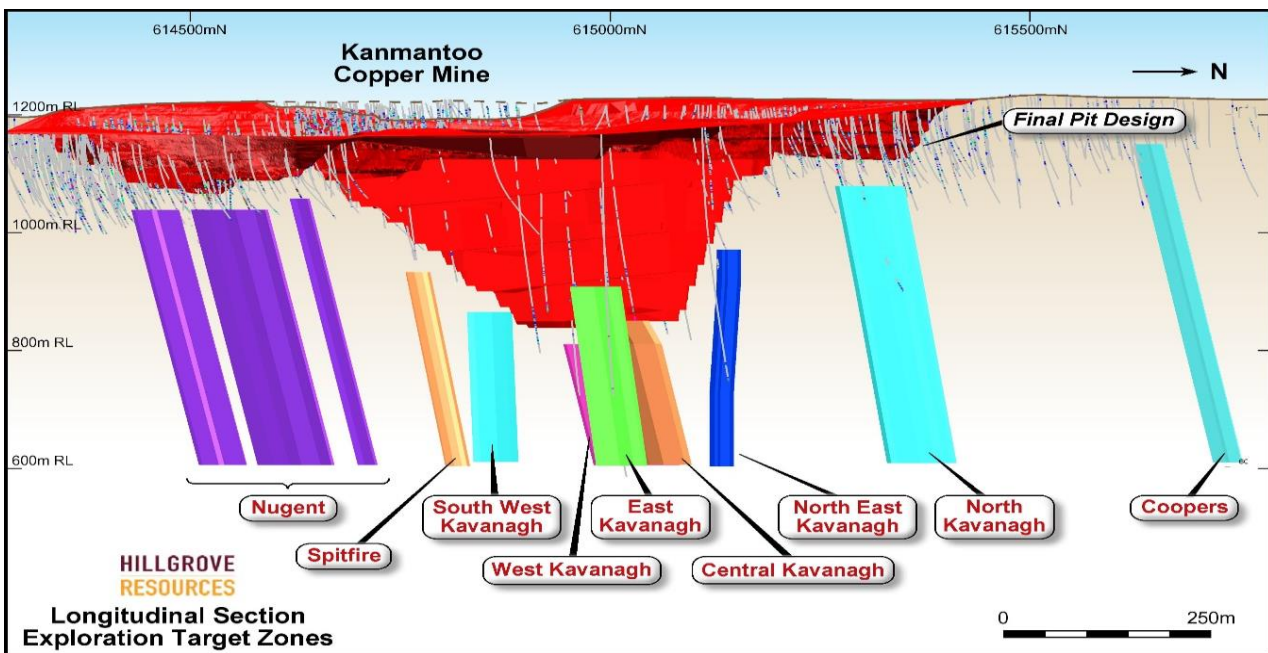
Kanmantoo Underground Copper Mine Growth Opportunity

The Company has previously announced an Exploration Target¹ 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 ozs to 120,000 ozs gold. The Exploration Target comprises nine different underground opportunities (see figure below) and the first of the targets able to be exploited is Nugent Underground, below the Nugent open pit which was mined by the Company in 2015.

Nugent Underground is within 180m of the existing haul road of the Giant open pit, and provides an early opportunity to source additional higher grade copper-gold ore for processing whilst the open pit is in operation. To assess the economic feasibility of an underground operation at Nugent, various studies are in progress, including preliminary resource estimate, geotechnical studies, conceptual underground mine design, drill plans and metallurgical test work studies.

During the quarter, the initial project execution plan for the Nugent Underground exploration was completed. The project is now being optimised to integrate with the existing open pit mining and milling schedule. The goals of the project still remain to define the Nugent orebody below RL1050 and gather valuable cost, engineering and operating parameters that can be applied to future underground feasibility assessments for the other targets.

A deep drilling program has also been designed to test the down dip extensions of the main Kavanagh orebodies. The focus of the drill plan is to intersect the copper-gold ore zone at around 400m below surface and pursue the copper zone intersected in previously reported KTDD027² of 21m @ 2.0% Cu, 0.1g/t Au and 7m @ 2.7% Cu, 0.6g/t Au. Drilling tenders have been circulated and drilling should commence in Q2 2018.



Regional Growth Opportunities at Kanappa and Mt Rhine

Exploration activities during the Quarter continue to progress the Company’s regional growth opportunities. Soil sampling and rock chip sampling at Kanappa were completed and reported during the quarter (ASX release 20 October 2017) revealing a copper-gold mineralised zone over 4.8km in length. Surface outcrops have shown up to 6.5% Cu and 0.8g/t Au. A ground magnetic survey is now being carried out at Kanappa over the main geochemical anomaly.

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).

² ASX release 25 May 2017 – Kanmantoo underground copper mine growth opportunity

In addition to this, a soil sampling program commenced at Mt Rhine (initial results released 25 October 2017) and is ongoing. The initial soil and rock chip samples highlighted a 1 km zone of copper- gold mineralisation with surface samples to 13.1% Cu and 49.8 g/t Au. The geochemical sampling program is expected to be completed in early 2018.

Further geophysical surveys (magnetics at Mt Rhine, and an IP survey at both projects) will continue in early 2018 to identify potential drill targets.

Pumped Hydro Potential

The Kanmantoo Pit presents a potential Pumped Hydro Energy Storage (PHES) opportunity due to the difference in elevation between the base of the pit and the upper reservoir (>400m), its proximity to the South Australian Electricity Interconnector, water availability, its land holding on surrounding properties and the South Australian electricity market requirements. PHES helps address the SA challenges emanating from reliance on renewable energy, by adding system stability and storage, and also by providing opportunities for associated projects, such as solar.

Hillgrove engaged a highly experienced engineering group to further investigate the potential viability of this option, culminating in a submission to the SA Government's Bulk Energy Storage request in September 2017. Since the submission, there has been interest from energy providers in reviewing the PHES potential.

Initial studies indicate the PHES project can operate in parallel with the proposed underground development opportunities.

HILLGROVE CORPORATE

Early Redemption of Convertible Notes

On 11 October 2017, the Company announced its intention to redeem its listed convertible notes (Notes) on a targeted redemption date of 22 December 2017. This followed a decision from the Board that it was in the best interests of Hillgrove to use the proceeds raised from the September 2017 exercise of its listed options to redeem the Notes, as this would simplify its capital structure reduce a layer of administration, and, to the extent Noteholders elected to convert their Notes to shares, strengthen its balance sheet.

At the request of Ariadne Capital Pty Ltd (Ariadne), which underwrote the issue of the Notes, the Company called a shareholder meeting at which Ariadne sought shareholder approval to convert all of its Notes. Approval was granted at the shareholder meeting held on 8 December 2017, and as a result, Ariadne was able to convert all of its Notes which increased its ownership of the Company to 26.4%.

On the 22 December 2017, the Company converted 99% of the Notes into fully paid shares, and redeemed the remaining Notes. As a result of this Note conversion, the Company issued an additional 140,668,792 shares and currently has 568,929,118 shares outstanding.

Additional Fixed Pricing

With the improved outlook of the Company as a result of the completion of the cutback, Hillgrove has been able to establish additional fixed pricing lines. This has allowed the Company to capitalise on the continued rise in the AUD copper price and lock in prices for an additional 8,000 tonnes of copper at an average price of \$8,938 per tonne after margins. As a result, the Company now has fixed pricing for 12,000 tonnes at an average copper price of \$8,740 per tonne after margins.

The Company will continue to explore further opportunities to capitalise on favourable copper price movements should they arise.

INDONESIAN GOLD AND GOLD/COPPER ASSETS

The focus on its Kanmantoo operations means the Indonesian assets are no longer considered core assets. Hillgrove believes there is inherent value in Bird's Head Copper/Gold Project and the Sumba Gold Project. During the quarter, Hillgrove has granted an exclusive option to a third party to conduct due diligence on the basis that, if exercised, the third party can acquire the assets on pre-agreed terms.

**CORPORATE INFORMATION****Issued Share Capital at 31 December 2017**

Ordinary shares	568,929,118
Employee Performance Rights	21,188,000

Share price activity for the Quarter

High	0.092
Low	0.079
Last 29 December 2017	0.086

SHARE REGISTRY

Boardroom Limited
GPO Box 3993
Sydney NSW 2001, Australia
F: +61 2 9290 9655
T: (within Australia) 1300 737 760
T: (outside Australia) +61 2 9290 9600

REGISTERED OFFICE

Hillgrove Resources Limited
Ground Floor
5-7 King William Road
Unley, South Australia, Australia
E: info@hillgroveresources.com.au
T: +61 8 7070 1698

Mineral Resource Estimate for All Deposits at 30 September 2016

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

Ore Reserve Estimate at 30 September 2016

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

Competent Person's Statement

The Ore Reserve and Mineral Resource estimates were prepared by Competent Persons in accordance with the JORC Code 2012. Further information on the Kanmantoo Mineral Resources and Ore Reserves is available in the Hillgrove Updated Mineral Resource and Ore Reserve Estimate released to the ASX on 18 October 2016, which is also available on the Hillgrove Resources website at www.hillgroveresources.com.au. Hillgrove Resources confirms that it is not aware of any new information or data that materially affects the information included in that market announcement and, in the case of estimates of Mineral Resources and Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Hillgrove Resources confirms that the form and context, in which the findings of the Competent Persons (Peter Rolley in relation to Exploration Results, 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.

For more information contact:

Steve McClare, Managing Director, Tel: +61 8 7070 1698