HILLGROVE
RESOURCES

ASX RELEASE

Thursday, 23 August 2018

RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2018

HIGHLIGHTS

- 10,764t of copper (up 51% H1 2017: 7,119t) and 3,812oz of gold (up 76% H1 2017: 2,160oz) produced in concentrate.
- Giant Pit cutback completed, leading to strip ratio[1] below 1.3 for the current half year (compared to the average project strip ratio of 5.5 to 1).
- Total ore mined of 3.5 million tonnes, an increase of 84% from the corresponding prior period.
- The increase in ore mined has led to a substantial increase in ore stockpiles, enabling the mill to preferentially treat higher grades (up 57% H1 2018 0.72% compared to H1 2017 0.46%).
- A15.4% reduction in C1 unit costs, dropping from US$2.40/lb to US$2.03 in the current period.
- The Total Recordable Injury Frequency Rate of 17.2 (19.7 for corresponding period) has continued to improve to 14.8 at the time of writing this report.

HALF YEAR FINANCIAL PERFORMANCE

- Underlying EBITDA of $22.7m was up 184% from the corresponding half year, following the completion of the Giant Pit cutback.
- Net concentrate revenue of $86.9 million was up 57% at an average cash realised copper price of A$8,984/t (June 2017: A$7,519/t).
- A statutory profit after tax of $13.9 million was up 275% (June 2017: a loss of $8.0 million).
- Improved balance sheet - total liabilities have decreased by $14.3 million since 31 December 2017.

Results for the period ($ million)	6 months to 30 June 2018	6 months to 30 June 2017	Change
Revenue	**86.9**	**55.5**	31.4
Statutory profit/(loss)	**13.9**	**(8.0)**	21.9
EBITDA	**22.7**	**8.0**	14.7
Underlying profit/(loss)	**13.9**	**(2.3)**	16.2

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

GROWTH

In the coming months the evaluation of several growth opportunities and value generation projects will continue with:

- Kanappa - diamond drilling of the central portion of the zone is planned for mid-September,
- Kanmantoo Underground – a magneto-telluric (MT) survey completed which will map the down-dip continuation of the major structures, and
- PHES - the Company is expected to select a shortlist of bidders to progress to the binding bid stage in the September quarter.

OUTLOOK

Looking forward, open cut mining will continue until mid-2019 when mining is scheduled to cease. During this period ore stockpiles will increase to an expected 4.8 million tonnes, which will allow processing to continue until the September quarter of 2020.

As the pit gets deeper, the work area will become smaller, reducing mining efficiency and increasing unit mining costs, but the lower strip ratio over the period until mining ceases will allow the Company to continue to preferentially treat higher grade ores, resulting in higher production, which when combined with the strong fixed price book, will see the generation of positive cash flows.

Post mining the preferential treatment of higher grade ores will continue for several months, after which the milled grade will reduce as the remainder of stockpiled ore is treated. Positive cash generation should continue during this period, as Kanmantoo will be operating on a much lower cash cost base as it will no longer incur mining costs.

In the short term, the aim is to use this cash flow to continue reducing creditor balances to normal terms and then to build cash balances. Evaluation of the best use of future cash balances will continue and will be focussed on delivering the best result for the Company and shareholders.

While the goal is to return cash to shareholders through fully franked dividends, at the same time the exploration projects at Kanappa, Mt Rhine and other regional projects will continue to be prudently progressed. These projects may represent considerable value opportunities, as they can utilise the valuable existing processing facilities beyond 2020 when processing of Kanmantoo ore is currently due to be completed.

Previous guidance on 2018 copper and gold production, C1 cost, capital and exploration expenditure remains unchanged.

For more information contact:

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CFO & Company Secretary
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Appendix 4D

Interim Report

Half year ended 30 June 2018

Name of entity	Hillgrove Resources Limited
ABN	73 004 297 116
Half year ended	30 June 2018
Previous corresponding reporting period	30 June 2017

Results for announcement to the market

Revenue from ordinary activities	up	57%	to	$86,950,000
Profit from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	up	275%	to	$13,913,000
Profit for the period attributable to the owners of Hillgrove Resources Limited	up	275%	to	$13,913,000

Dividends

No dividends were paid or proposed to members during the half year ended 30 June 2018 or in the previous period.

Brief explanation of results

A net profit after tax of $13,913,000 is reported by the Group for the half year (30 June 2017 restated: loss of $7,963,000).

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 30 June 2018 for additional detail.

Statements

The following statements are included in the attached Interim Report for the half year ended 30 June 2018:

- statement of profit or loss and other 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 30 June 2018	Previous period 31 December 2017
Net tangible asset backing per ordinary security (undiluted)	4.9 cents	2.7 cents

Control gained or lost during the period

Control gained

There were no transactions entered into by the Group during the half year ended 30 June 2018 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 2018 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 2018	Equity Holding 2017
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 2018.

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 2018

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 2018.

Directors

The Directors of the Company during this period were:

- John Gooding
- Maurice Loomes
- Philip Baker
- Steven McClare
- Anthony Breuer

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 programme 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 December 2017 of 31.8 million tonnes (9.5Mt Measured, 10.1Mt Indicated, 12.3Mt 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. Open cut mining is expected to be completed in mid-2019 with processing of ore stockpiles continuing until late-2020.

Operating and Financial Review

Operations – Mining

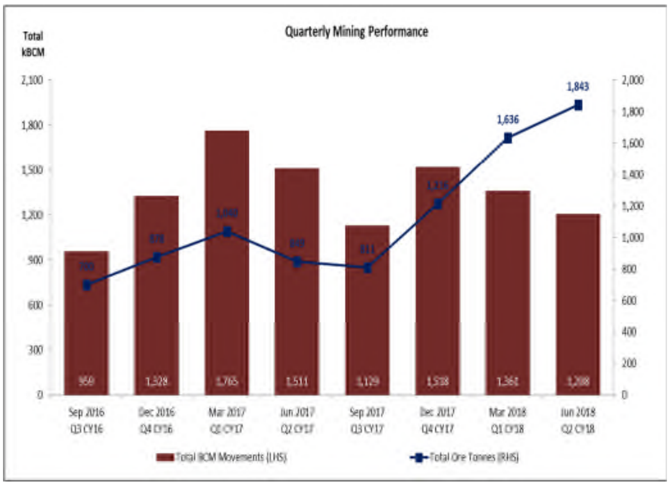
Mining production rates have declined as the pit approaches completion and the working areas reduce in size. At the same time the strip ratio has continued to fall from 4.4 waste tonnes for each tonne of ore this time last year, to below 1.3 for the current half year[1]. The lower stripping ratio has meant that ore stockpiles have grown considerably with about 1.8M tonnes of ore added to stockpiles in the half year to June.

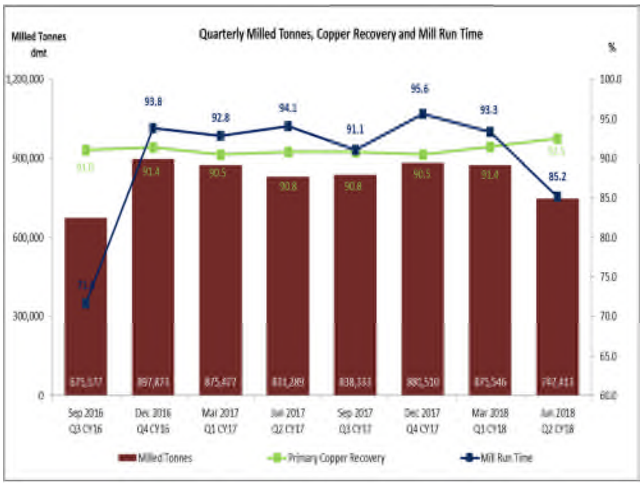
Total material mined for the half year to 30 June 2018 was 2,569k BCM including 3.5M tonnes of ore (30 June 2017: 3,276k BCM and 1.9M tonnes of ore). Including adverse weather delays in 2018, total material removed from the pit was down 22% on the previous corresponding period, however ore produced was up 84%.

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

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

Despite the shrinking mine footprint and delays caused by increased geotechnical works to prevent rockfall, the mining fleet has continued to operate with two excavators to minimise the time taken to reach ultimate pit depth and as a result, reduce total mining costs.





Operations – Processing

The substantial increase in ore stockpiles has enabled the mill to preferentially treat higher grades. Mill throughput for the half year to 30 June 2018 was 1,623kt at 0.72% copper head grade (30 June 2017: 1,706kt at 0.46% Cu). The average copper recovery achieved for the half year was 92.0% reflecting the more efficient mill performance for the higher feed grade. Mill throughput was curtailed during May with a 10 day unplanned shutdown to repair a bearing failure in the primary crusher.

Total production for the half year to 30 June 2018 was 45,676 dmt of concentrate containing 10,764 tonnes of copper metal (30 June 2017: 31,426 dmt containing 7,119 tonnes of copper metal).

Total gold produced was 3,812 ounces (30 June 2017: 2,160 ounces) which was the equivalent of over 700 copper metal tonnes in value. The quantity of gold produced in the half year has been higher than normal due to the processing of ore from an area of the pit with higher gold grades, but mining from this area is now completed.

Unit Cash Costs

With the higher volume of copper production, the C1 unit cost for the half year to 30 June 2018 decreased to US$2.03 (A$2.63) per lb payable copper compared to the half year to 30 June 2017 C1 unit cost of US$2.40 per lb. The copper production mining cost in the first half of 2018 includes deferred mining costs which are now being allocated back from the balance sheet, but this has been outweighed by the mining costs attributable to the large build-up of ore stockpiles.

The total unit cost including depreciation and royalties was US$2.43 (A$3.15) per lb payable copper compared to US$2.90 (A$3.84) per lb in the previous corresponding half year.

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

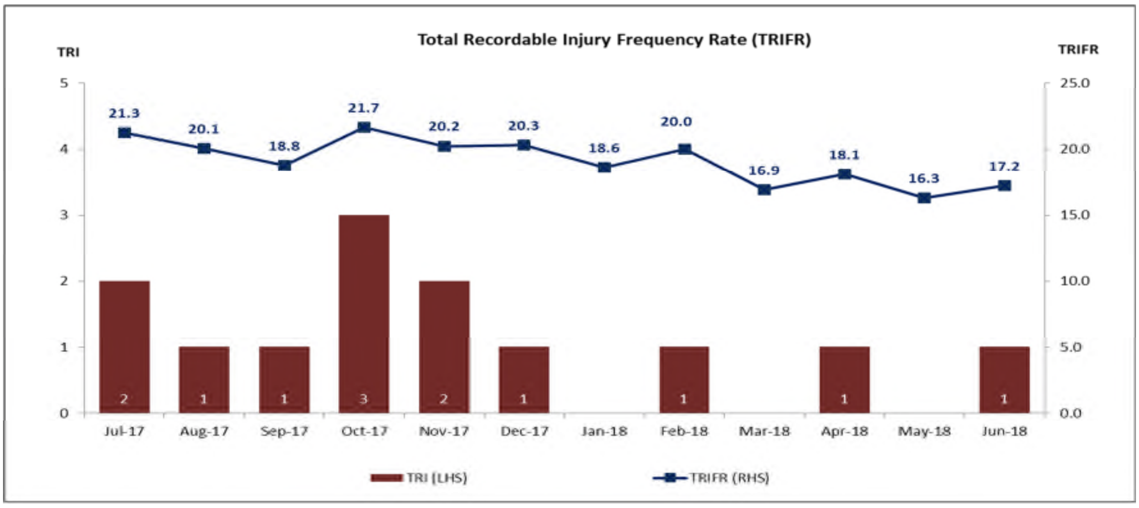
Concentrate Sales

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 2018, five ships totalling 56,197 wmt of copper concentrate were loaded, all of which went to smelters in China. Total copper metal sold for the half year was 10,428 payable tonnes, up 52% on the previous corresponding period.

Since 2017, Hillgrove has been able to protect itself from downside copper price risk by fixing the price for future ship loads with Freepoint. As at 31 December 2017, the Company had 12,000 tonnes of copper metal at agreed fixed prices averaging A$8,740 per tonne. During the half year to 30 June 2018, a total of 8,445 tonnes were sold at fixed pricing and the remainder at prevailing spot prices. With new fixed price arrangements put in place, at 30 June 2018, the Company had 15,650 tonnes of copper metal at agreed fixed prices averaging A$8,996 per tonne.

Safety

The 12-month Total Recordable Injury Frequency Rate (per million manhours) at 30 June 2018 was 17.2. Subsequent to balance date safety performance has continued to improve with the TRIFR at 14.8 at the time of this report.



Environment and Community

Hillgrove continues to progressively rehabilitate the Kanmantoo Mining Lease and convert former pasture areas into high quality native vegetation to meet our environmental offset obligations. During the half year the landform above the previously back-filled Nugent pit was shaped in preparation for vegetation. In total the Company has rehabilitation work underway on 62 hectares. In April 2018, about 8 hectares of the Integrated Waste Landform (IWL) was hydro-seeded with locally collected and cultivated native seeds.

Hillgrove continues to actively engage with local communities and landowners around the Kanmantoo mine. There were two meetings of the Kanmantoo Callington Community Consultative Committee and three meetings of the Master Planning Committee which has the ongoing amenity of the mine site post-closure as an objective.

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

Funding

During the first half of 2018 the Company continued to rely on support from major contractors and other supplier creditors. Higher copper production and higher sales prices have enabled creditor payments to be increased such that the Company has been able to reduce total liabilities by $14.3M since 31 December 2017 and at the same time decrease the trade creditors average days outstanding. The Company remains on schedule with payment plans, does not require any future third party finance and expects to return creditors to normal industry trading terms before the end of the year.

Exploration

The Kanappa copper-gold exploration project is located approximately 60kms by road from Kanmantoo and is hosted by similar geology as that at the Kanmantoo mine. During the half year, an induced polarity (IP) survey was completed which reinforced the previous magnetic and soil sampling results. Diamond drilling of the central portion of the 2km long chargeability anomaly is planned for September 2018 once all the relevant landowner and Government approvals have been granted.

The Mt Rhine copper-gold exploration project is also within the Kanmantoo Trough and within 70kms of the Kanmantoo copper mine. Mt Rhine has a much higher gold tenor compared to Kanappa and an IP survey was also completed during the half year. The chargeability anomaly is 1.7km long and broadly coincident with previous geochemistry and magnetic results.

The Kanmantoo underground project is an Exploration Target [1] comprising nine different underground opportunities beneath or along strike from the Giant open pit with a target grade of between 1.7% and 2.2% copper. During the half year, regulatory approval has been obtained for a single exploration drive below the old Nugent pit.

Regionally, the Company has been granted four Exploration Licences in the South East of South Australia along the Padthaway Magmatic Ridge.

In the half year, Hillgrove decided that it would not appeal the decision of the Indonesian Department of Mines to terminate its ownership interests in the Indonesian assets at Bird's Head in West Papua and Sumba Island. The Indonesian projects have been on care and maintenance since 2013 and the carrying value of both projects has been fully impaired since 2015.

Pumped Hydro Energy Storage (PHES) project

With the unique existing infrastructure and favourable proximity to the South Australian electricity grid at Kanmantoo, there has been significant interest from parties exploring the opportunity to develop a PHES project at the site post the completion of open cut mining at the Kanmantoo pit. The PHES is a non-core activity and during the half year the Company appointed Key Pacific Advisory Partners to manage a formal evaluation and bid process for the PHES.

The Board is pleased with the response to the process, the aim of which is to unlock the value inherent in this project post the completion of open pit mining at Kanmantoo. The process is ongoing and the Company expects to select a shortlist of bidders to progress to the binding bid stage in the September quarter.

[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

The benefit of higher copper production from increased feed grades through the mill, combined with a lower waste to ore mining strip ratio is reflected in the underlying EBITDA which was $22.7 million for the six months ended 30 June 2018 compared to $8.0 million for the previous corresponding half.

Net profit after tax for the half year was $13.9 million compared to a net loss of $8.0 million in the comparative period. The result in the previous year was adversely impacted by the requirement to fair value the convertible notes on issue at balance date, income tax expense on deferred hedge gains (which have now been fully recycled to the income statement) and higher interest expense on debt now repaid.

Income Statement

	Half Year	Half Year	
$ million	**June 2018**	**June 2017**	**Change**
Copper revenue	91.2	57.0	34.2
Gold revenue	5.1	3.9	1.2
Silver revenue	1.4	1.1	0.3
Less: Treatment and refining costs	(10.8)	(6.5)	(4.3)
NET REVENUE FROM SALE OF CONCENTRATE	**86.9**	**55.5**	**31.4**
Mining costs	(41.9)	(36.2)	(5.7)
Pre-strip and deferral	(7.3)	10.0	(17.3)
Processing costs	(15.1)	(13.2)	(1.9)
Transport and shipping costs	(5.1)	(2.7)	(2.4)
Other direct costs	(2.6)	(2.5)	(0.1)
Inventory movements	13.8	1.5	12.3
Royalties	(4.1)	(2.2)	(1.9)
Corporate costs	(2.2)	(2.2)	-
TOTAL COSTS	**(64.5)**	**(47.5)**	**(17.0)**
Net realised gains/(losses)	0.1	(0.1)	0.2
Other income	0.2	0.1	0.1
UNDERLYING EBITDA	**22.7**	**8.0**	**14.7**
Depreciation and amortisation	(7.8)	(6.0)^	(1.8)
Exploration and feasibility costs	(0.1)	-	(0.1)
Net unrealised gains/(losses)	-	(0.5)	0.5
UNDERLYING EBIT	**14.8**	**1.5**	**13.3**
Net interest and financing charges	(0.9)	(2.2)	1.3
Income tax benefit/(expense)	-	(1.6)	1.6
UNDERLYING NET PROFIT/(LOSS) AFTER TAX	**13.9**	**(2.3)**	**16.2**
Non-underlying items (net of tax) Fair value movement – convertible notes	-	(5.7)	5.7
REPORTED NET PROFIT/(LOSS) AFTER TAX	**13.9**	**(8.0)^**	**21.9**

^ *prior year's depreciation restated for adjustments described in Note 1b of the attached financial statements.*

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

Income Statement (continued)

Revenue

Revenue in the six months to 30 June 2018 was from the sale of 46,730 dmt of copper concentrate containing 10,407 payable copper tonnes (30 June 2017: 31,804 dmt and 6,861 tonnes payable copper). Gross metal revenue before treatment and refining deductions was $97.7 million compared to $62.0 million for the same period last year.

For the half year to June 2018, the average realised cash price was A$8,984 per tonne or A$4.08/lb (vs A$7,519 per tonne in the previous corresponding period). The average realised price increased significantly, reflecting the contracted high fixed prices for the half year as well as the high prevailing spot prices in the second quarter of 2018.

As part of the implementation of the new accounting standard for revenue (AASB 15), the Company has reclassified revenue-related treatment and refining charges as a deduction from the gross metal revenue instead of previously being recorded as a separate expense. Treatment charges (whilst calculated using the reduced Japanese benchmark) were $10.8 million in the first half of 2018 having increased due to the rise in volume of concentrate sold.

Costs

Total cost of sales were $64.5 million compared to $47.5 million for the previous corresponding half year. The increase of $17.0 million is explained below:

- Mining costs were $41.9 million in the six months to 30 June 2018 compared to $36.2 million for the same period last year. Total material moved to 30 June 2018 was 7.9 million tonnes at an average cost of $5.28 per tonne (30 June 2017: 10.1 million tonnes at $3.58 per tonne). Much of the increase in unit costs is a natural outcome of the deepening pit with tighter access. While it is more difficult to maintain the previous digging and trucking efficiencies, the compensating factor is the much higher yields of ore as the waste strip ratio has steadily fallen. The 24% rise in the price of diesel fuel in 2018 added $1.0 million to costs in the half year. Also 2017 mine costs benefited by $1.6 million from the recognition of discounts relating to the last two months of 2016 as part of the overall cost savings initiative agreed with the principal mine equipment hire contractor.

- Pre-strip and deferral – with the completion of the Giant Pit cutback in mid-2017 and the reduction in strip ratio, the Company has switched from deferring mining costs to the balance sheet, to allocating deferred mining costs back from the balance sheet and expensing to profit and loss. As a result operating costs in 2018 include an allocation of $7.3 million as opposed to a $10.0 million deferment and pre-strip credit booked in respect of the previous corresponding half year.

- Processing costs were up $1.9 million. Ten days milling were lost with the primary crusher bearing failure in May, and the cost of repairs was about $0.7 million. This repair cost included the task of rotating and refurbishing the SAG mill girth gear, a preventative maintenance measure which was brought forward to coincide with the crusher downtime. The prices of key consumables also rose in 2018 including diesel fuel, electricity, grinding media and reagents.

- Transport and shipping costs have increased by $2.4 million. About three quarters of the increase is attributable to the higher volume of concentrate shipped compared to the previous corresponding half year. About $0.6 million of the increase is due to rising ship freight rates which is indirectly related to higher world oil prices.

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

Income Statement (continued)

Costs

- With the decline in waste strip ratio, the mine produced 1.8 million tonnes more ore than the mill could process at full capacity during the first half of 2018. At 30 June 2018 total stockpiles of ore stood at 2.3 million tonnes with an average grade of 0.32% copper. The mine cost associated with the increased ore stockpiles is the primary reason for the $13.8 million credit for inventory movement in costs of production.

- The SA Government royalty rate is 5.0% for the remaining mine life and the increase of $1.9 million in 2018 reflects the increased sales volume.

- The Company has no income tax expense for the period because it has utilised its carried forward tax losses. At 30 June 2018, the Company had approximately $140 million of carried forward tax losses for which the tax benefit has not been recognised on the balance sheet.

Cash flow overview

$ million	Half Year June 2018	Half Year June 2017	Change
Net cash inflows from operating activities	6.5	3.5	3.0
Net cash used in investing activities	(3.5)	(5.0)	1.5
Net cash inflows/ (outflows) from financing activities	(3.0)	(0.1)	(2.9)
Net increase/(decrease) in cash held	0.0	(1.6)	1.6
Cash and cash equivalents at the end of half year	**0.5**	**0.4**	**0.1**

Operating activities cash flow

Net cash inflows from operating activities for the six months ended 30 June 2018 were $6.5 million which was higher than the prior period. Cash received in the course of operations from the sale of copper concentrate was $86.9 million which is similar to reported revenue. This was an increase of $38.3 million over the same period last year due to higher production and higher metal prices. Cash paid in the course of operations to contractors, suppliers and employees was $80.4 million which is substantially more than reported costs. This is because the additional cash flow was used to pay-down trade creditors and other payables which have decreased from $48.3 million at the start of the period to $38.5 million by 30 June 2018.

Investing activities cash flow

Net cash used in investing activities was $3.5 million in the current six months compared to an outflow of $5.0 million in the previous corresponding period. Expenditure on geotechnical measures to safeguard the pit walls from rockfalls has increased during the current half year while sustaining capital expenditure items have reduced as the end of mine life approaches. Cash flows in the prior year includes payments for capitalised mining costs.

Financing activities cash flow

In the six months to 30 June 2018 there was a net cash outflow of $3.0 million for financing activities which mainly reflects the complete settlement of a major contractor deferred payment liability ($1.9 million) plus two instalments repaying a contractor promissory note borrowing ($0.5 million). Cash outflow for interest on the SA Government loan and other financing charges was $0.6 million.

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

Statement of financial position

Total equity has increased by $14.3 million from 31 December 2017 mainly reflecting the net profit for the period of $13.9 million. In addition, there was a $0.4 million increase in employee share options reserve to reflect the value of performance rights granted during the period.

Assets

Total assets were $97.0 million as at 30 June 2018 which was unchanged from December 2017. Ore stockpiles which have built-up but are not expected to be processed in the next twelve months have been classified as non-current assets. The $12.6 million decrease in property, plant and equipment is mainly due to depreciation and the allocation of deferred mining costs to the P&L.

No further mining expenditure was capitalised to deferred waste stripping of the Giant Pit and at 30 June 2018 the balance of deferred mining costs remaining to be allocated stood at $19.9 million. Considering all factors relevant to the assessment of recoverable value of the Company's total assets, no reversal of previous impairments or recognition of deferred tax assets was warranted at balance date of 30 June 2018.

Liabilities

Total liabilities have decreased by $14.3 million to $68.9 million as at 30 June 2018. The decrease is mainly due to the pay down of trade creditors, some borrowings and the deferred salaries of employees using the surplus cash generated from operations during the first half.

About two thirds of the total liabilities balance is owed to four mining-related creditors each of which have agreed payment plans or are on current terms. Based on current cashflow projections, the Company expects to return to normal trading terms with all creditors by the fourth quarter of 2018.

Rehabilitation provisions for Kanmantoo and Comet Vale were $14.9 million and $0.1 million respectively as at 30 June 2018. This has decreased by $0.5 million with expenditure during the half year of $0.7 million, offset by present value unwind of $0.2 million which is recorded as an interest expense.

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

Looking forward, open cut mining will continue until mid-2019 when mining is scheduled to cease. During this period ore stockpiles will increase to an expected 4.8 million tonnes, which will allow processing to continue until the September quarter of 2020.

As the pit gets deeper, the work area will become smaller, reducing mining efficiency and increasing unit mining costs, but the lower strip ratio over the period until mining ceases will allow the Company to continue to preferentially treat higher grade ores, resulting in higher production, which when combined with the strong fixed price book, will see the generation of positive cash flows.

Post mining the preferential treatment of higher grade ores will continue for several months, after which the milled grade will reduce as the remainder of stockpiled ore is treated. Positive cash generation should continue during this period, as Kanmantoo will be operating on a much lower cash cost base as it will no longer incur mining costs.

In the short term, the aim is to use this cash flow to continue reducing creditor balances to normal terms and then to build cash balances. Evaluation of the best use of future cash balances will continue and will be focussed on delivering the best result for the Company and shareholders.

In the coming months the evaluation of several growth opportunities and value generation projects will continue with:

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- Kanmantoo Underground – a magneto-telluric (MT) survey completed which will map the down-dip continuation of the major structures, and
- PHES - the Company expects to select a shortlist of bidders to progress to the binding bid stage in the September quarter.

While the goal is to return cash to shareholders through fully franked dividends, at the same time the exploration projects at Kanappa, Mt Rhine and other regional projects will continue to be prudently progressed. These projects may represent considerable value opportunities, as they can utilise the valuable existing processing facilities beyond 2020 when processing of Kanmantoo ore is currently due to be completed.

Previous guidance on 2018 copper and gold production, C1 cost, capital and exploration expenditure remains unchanged.

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 23rd day of August 2018

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 2018, 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.

AG Forman
Partner
PricewaterhouseCoopers

Adelaide
23 August 2018

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Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 30 June 2018

	Note	Half Year June 2018 $'000	Half Year June 2017 $'000 restated
Concentrate revenue	2	**86,950**	55,543
Other income	3	**217**	99
Expenses	4	**(72,369)**	(54,099)
Interest and finance charges	5	**(885)**	(2,193)
Fair value movement in convertible notes		**-**	(5,683)
Profit / (loss) before income tax		**13,913**	(6,333)
Income tax benefit/(expense)		**-**	(1,630)
Profit / (loss) for the half year attributable to owners		**13,913**	(7,963)
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)
Income tax relating to components of other comprehensive income		**-**	1,630
		-	(3,802)
Total comprehensive income / (loss) for the half year attributable to equity holders of Hillgrove Resources Limited		**13,913**	(11,765)

Earnings per share for loss attributable to the ordinary equity holders of the Company:	**Cents**	**Cents**
Basic earnings per share	**2.44**	(3.65)
Diluted earnings per share	**2.34**	(3.65)

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 2018

	Note	30 June 2018 $'000	31 Dec 2017 $'000
Current assets			
Cash and cash equivalents		**482**	471
Trade and other receivables		**3,539**	5,216
Inventories	6	**10,413**	12,734
Total current assets		**14,434**	18,421
Non-current assets			
Inventories	7	**16,264**	-
Property, plant and equipment	8	**65,013**	77,691
Exploration and evaluation expenditure		**927**	889
Project costs		**324**	-
Deferred tax asset		**-**	-
Total non-current assets		**82,528**	78,580
Total assets		**96,962**	97,001
Current liabilities			
Trade and other payables		**38,456**	48,317
Provisions		**3,499**	2,896
Borrowings	9	**6,805**	8,151
Employee benefits payable		**6,059**	6,716
Deferred income		**759**	1,155
Total current liabilities		**55,578**	67,235
Non-current liabilities			
Provisions		**12,629**	13,826
Borrowings	10	**61**	1,388
Employee benefits payable		**590**	609
Deferred income		**63**	190
Total non-current liabilities		**13,343**	16,013
Total liabilities		**68,921**	83,248
Net assets		**28,041**	13,753
Equity			
Contributed equity	11	**234,329**	234,334
Reserves		**3,508**	3,128
Retained earnings / (accumulated losses)		**(209,796)**	(223,709)
Total equity		**28,041**	13,753

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 2018

Consolidated	Contributed equity $'000	Reserves $'000	(Accumulated losses) / retained earnings $'000	Total equity $'000
Balance 1 January 2017	217,538	10,280	(209,572)	18,246
Profit/(loss) for the period	-	-	(7,963)	(7,963)
Other comprehensive income	-	(3,802)	-	(3,802)
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	(217,535)	7,904
Balance 1 January 2018	234,334	3,128	(223,709)	13,753
Profit/(loss) for the period	-	-	13,913	13,914
Other comprehensive income	-	-	-	-
Transactions with owners:				
Share-based compensation	-	380	-	380
Options exercised	(5)	-	-	(5)
Balance 30 June 2018	**234,329**	**3,508**	**(209,796)**	**28,041**

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 2018

	Half-year June 2018 $'000	Half-year June 2017 $'000
Cash flows from operating activities		
Cash receipts in the course of operations	**86,913**	48,573
Cash payments in the course of operations	**(80,419)**	(45,055)
Net cash generated from operating activities	**6,494**	3,518
Cash flows from investing activities		
Payments for exploration, evaluation and development	**(424)**	(179)
Payments for property, plant and equipment	**(3,104)**	(4,856)
Net cash used in investing activities	**(3,528)**	(5,035)
Cash flows from financing activities		
Proceeds from options exercised	**-**	414
Proceeds from borrowings	**-**	300
Transaction costs of borrowings	**(135)**	(214)
Repayment of borrowings	**(2,390)**	(300)
Interest paid	**(430)**	(248)
Net cash provided by financing activities	**(2,955)**	(48)
Net increase / (decrease) in cash held	**11**	(1,565)
Cash at beginning of the half year	**471**	1,942
Cash at end of the half year	**482**	377

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 2018

1. Basis of preparation

This consolidated interim financial report for the half year reporting period ended 30 June 2018 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 2017 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*.

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.

a. Working capital

As at 30 June 2018 the Group's current liabilities exceeded its current assets by $41.1 million ($48.8 million at 31 December 2017). This net current liability position is principally due to:

- Deferral of creditor payments as the Group continues to manage its cash balance and liquidity position through agreed payment plans with its major creditors.

- Continued investment in ore stockpile inventory which requires $16.3 million of lower grade stockpiles to be classified as a non-current asset as it is not expected to be processed in the next 12 months.

The Directors believe they have reasonable grounds to expect that the Group will have sufficient funds to settle its liabilities and meet its debts as and when they fall due. The Directors have considered the funding and operational status of the business, including:

- Following the completion of the Giant Pit cutback, the operating performance of the Kanmantoo mine improved significantly from December 2017, with increases in ore extraction and copper output which reduced unit costs. These improvements were sustained for the period and are expected to continue through the remainder of 2018 with continued strong operating cost control and management at Kanmantoo.

- The Group has generated positive cashflows from operating activities in the current half year sufficient to reduce creditors and borrowings by over $12 million. This performance has continued during July and August 2018 (up to the date of this report).

- The most recent rolling twelve-month cash flow forecast shows continued positive cash flows from operations which will enable the Group to meet its obligations, build cash reserves and improve upon the current working capital balance without any requirement for new external finance.

- To minimise short term downside copper price risk on the expected copper output the Group has fixed pricing for 15,650 tonnes at $8,996 per tonne as at 30 June 2018.

- Short term mining risk is mitigated by the existence of large ore stockpiles which could keep the plant processing at full capacity for approximately 8 months.

- The Group continues to manage its cashflows according to agreed payment plans in place with its major creditors. The Group expects to be on normal trading terms with all creditors prior to 31 December 2018.

- Copper concentrate production is expected to continue until late 2020, but mining activity is expected to wind down and be completed in mid-2019. The reduction in mining cash costs will lead to higher free cash flows.

Notes to the Financial Statements

For the half year ended 30 June 2018 (continued)

1. Basis of preparation (continued)

b. Restatement of prior period

In 2017, an error was identified within the depreciation calculation caused by the incorrect application of residual values for various items of plant and equipment. The error has been corrected by restating the line items in the profit and loss statement as shown below (note: there is no impact on balance sheet and cashflow statement comparatives in these financial statements);

Statement of profit or loss (extract)	HY 2017 $'000s	increase/(decrease) $'000s	HY 2017 restated $'000s
Expenses (depreciation)	(7,643)	1,591	(6,052)
Net profit/(loss) for half year	(9,554)	1,591	(7,963)

c. Critical accounting judgements and key sources of estimation uncertainty

Recoverability of non-current assets

The carrying value of non-current assets such as property plant and equipment and deferred tax assets 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. Assets that have suffered an impairment charge are reviewed for possible reversal of the impairment at each reporting date.

Inventory valuation

Inventory is recognised at the lower of cost and net realisable value. Net realisable value is based on the estimated amount expected to be received when the inventory is completely processed and sold. The estimation of net realisable value of ore stockpiles involves judgements about the quantity of metal that can be recovered, future commodity prices, production costs and selling costs.

Ore reserve estimates

The Group's disclosed reserves are its best estimate of product that can be economically and legally extracted from the relevant mining properties. Estimates are developed after taking into account a range of factors including quantities, ore grades, production techniques and recovery rates, exchange rates, forecast commodity prices and production costs. The Group's estimates are supported by geological studies and drilling samples to determine the quantity and grade of each ore body. Significant judgement is required to generate an estimate based on the geological data available. Changes in reported reserves can impact the carrying value of property, plant and equipment including deferred mining expenditure, provision for mine rehabilitation, recognition of deferred tax assets and the amount of depreciation and amortisation charged to the profit or loss.

Notes to the Financial Statements

For the half year ended 30 June 2018 (continued)

1. Basis of preparation (continued)

c. Critical accounting judgements and key sources of estimation uncertainty (continued)

Pre-strip mine development and deferred mining costs

The Group capitalises pre-strip mining costs associated with the development of pit structures prior to normal production. The amount deferred is calculated according to the waste removal ratio when that ratio is significantly higher than the normal waste removal ratio expected to be experienced during ore production, as indicated by the mine plan. Capitalised pre-strip mining costs are classified under Mine Development within Property Plant and Equipment in the balance sheet and are being amortised to the Income Statement over the remaining life of the Kanmantoo mine. Deferred mining costs represent the mining costs which are normalised for the impact of waste removal ratios and copper grades over the productive life of specific pits. Costs are usually deferred in the upper benches of the pit when the waste removal ratio is generally higher and the copper grade is generally lower than the average of all the ore-producing benches in the pit. The deferred costs are returned to the cost of production as the relevant pit reaches its floor depth.

Restoration, rehabilitation and environmental obligations

Expenditures related to ongoing restoration, rehabilitation and environmental obligation activities are accrued and expensed as incurred and included in the relevant cost of mining activities. These expenditures are estimated either on the basis of detailed cost estimates or are in accordance with statutory provision requirements. Provision is made for the costs of decommissioning and site rehabilitation costs when the related environmental disturbance takes place. The provision represents management's best estimate of the costs that will be incurred, but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine.

d. 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 except for the adoption of new and amended standards as set out below.

e. New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards: AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. The impact of adoption of AASB 15 and the new accounting policy is disclosed in Note 2 below. AASB 9 did not have any impact on the balance sheet or the statement of profit/loss for the current period. Nevertheless, the Group's accounting policy for financial instruments has been updated accordingly.

f. Impact of standards issued but not yet applied by the Group

AASB 16 *Leases* is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date. The Group is in the process of assessing the impact of AASB 16.

Notes to the Financial Statements
For the half year ended 30 June 2018 (continued)

	Half Year	
	June 2018	**June 2017**
	$'000	**$'000**
2. Revenue		
Copper in concentrate	**91,255**	57,022
Gold in concentrate	**5,105**	3,935
Silver in concentrate	**1,364**	1,093
Treatment and refining deductions	**(10,774)**	(6,507)
Concentrate revenue	**86,950**	55,543

The Group has adopted AASB 15 *Revenue from Contracts with Customers* retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application (1 January 2018) in accordance with paragraph C3(b) of AASB 15. Additionally, the Group has elected to apply the standard to contracts not completed at the date of initial application.

The Group sells copper concentrate under an offtake contract and before the application of AASB 15, revenue was recognised when control of the assets passed to the customer either at local port or when loaded onto a ship. The Group trades using CIF terms (ie. Seller's cost, insurance and freight) for vessel chartering. Under AASB 15, the loading of concentrate onto vessels and the shipping of the concentrate to destination port are additional performance contract obligations for the purposes of measuring revenue. As a consequence, the cost of loading and chartering is deducted from revenue until each vessel reaches final destination port.

As at 31 December 2017, delivery of concentrate to the local port was completed, however loading of concentrate onto vessels and the shipping of concentrate to the destination port had not yet been performed. In the prior period under the previous policy, revenue and expenses of $849,000 were recognised in the Income Statement, having a nil impact on retained earnings. Under AASB 15 not all performance obligations have been met and therefore this revenue and expense have been deferred to the Balance Sheet and will be recognised once the performance obligations have been satisfied.

Had revenue been recognised under the new standard, the balances at 31 December 2017 would have been as follows:

Balance sheet (extract)	**FY 2017**	**Impact of AASB15**	**FY 2017 revised**
	$'000s	**$'000s**	**$'000s**
Assets	96,152	849	97,001
Liabilities	(82,399)	(849)	(83,248)
Retained Earnings	(223,709)	-	(223,709)

Notes to the Financial Statements
For the half year ended 30 June 2018 (continued)

	Half Year	
	June 2018	June 2017
	$'000	$'000
3. Other Income		
Interest	**2**	4
Grant income	**214**	95
Other	**1**	-
Total other income	**217**	99
4. Expenses		
Total production costs	**64,608**	47,438
Depreciation and amortisation	**7,803**	6,052
Exploration and feasibility costs	**106**	-
Net (gain)/loss on sale of assets	**-**	20
Net realised foreign exchange (gains)/losses	**(148)**	143
Net unrealised foreign exchange (gains)/losses	**-**	446
Total expenses per Profit or Loss	**72,369**	54,099
5. Interest and finance charges		
Discount on unwind of rehabilitation provision	**181**	458
Bank fees and other borrowing costs	**88**	577
Interest on borrowings	**180**	895
Interest on financial liabilities	**436**	263
Total interest and finance charges	**885**	2,193

Notes to the Financial Statements

For the half year ended 30 June 2018 (continued)

6. Current assets – Inventories

	30 Jun 2018 $'000	31 Dec 2017 $'000
Concentrates	**1,474**	2,662
Ore stockpiles	**5,783**	7,020
Stores and consumables	**3,156**	3,052
	10,413	12,734

7. Non-current assets – Inventories

	30 Jun 2018 $'000	31 Dec 2017 $'000
Ore stockpiles (at net realisable value)	**16,264**	-

Notes to the Financial Statements
For the half year ended 30 June 2018 (continued)

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

	30 Jun 2018 $'000	31 Dec 2017 $'000
Land and buildings		
At cost	**5,524**	5,524
Accumulated depreciation	**(379)**	(379)
	5,145	5,145
Plant & equipment		
At cost	**73,262**	73,068
Accumulated depreciation	**(57,160)**	(56,314)
	16,102	16,754
Motor vehicles		
At cost	**1,255**	1,253
Accumulated depreciation	**(786)**	(711)
	469	542
Mine development		
At cost	**161,034**	158,770
Accumulated depreciation	**(137,660)**	(130,778)
	23,374	27,992
Deferred mining costs – at cost	**19,923**	27,258
Total property, plant and equipment	**65,013**	77,691

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 2018 relate to the Giant Pit and remain classified as non-current for consistency even though allocation to operating costs is expected to occur within the next 12 months.

Notes to the Financial Statements
For the half year ended 30 June 2018 (continued)

9. Current liabilities – Borrowings

	30 Jun 2018 $'000	31 Dec 2017 $'000
Secured		
Loan - South Australian Government (i)	**-**	4,259
Loan – Freepoint Metals & Concentrates LLC (i)	**4,106**	-
	4,106	4,259
Unsecured		
Lease liabilities	**473**	544
Promissory note (ii)	**2,226**	1,417
Deferred payment (iii)	**-**	1,931
	2,699	3,892
Total current borrowings	**6,805**	8,151

(i) The loan from the South Australian Government Financing Authority which was secured over Company-owned property was replaced in February 2018 by an advance from Freepoint which has since converted to a copper prepayment of $800 per tonne on 5,000 tonnes of future copper sales. Repayments are scheduled from July 2018 to December 2018.

(ii) A contractor creditor of the Company agreed to convert a portion of the amount owed for past services into an unsecured interest-bearing liability. Repayments have commenced and the liability is due to be fully repaid by March 2019.

(iii) A contractor creditor of the Company agreed to receive a deferred payment in lieu of a portion of an amount owed for past services. This liability was repaid in February 2018.

Notes to the Financial Statements
For the half year ended 30 June 2018 (continued)

10. Non-current liabilities – Borrowings

	30 Jun 2018 $'000	31 Dec 2017 $'000
Unsecured		
Lease liabilities	**61**	128
Promissory note (refer note 9)	**-**	1,260
Total non-current borrowings	**61**	1,388

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 2018						
Trade and other payables	**38,456**		**-**	**-**	**-**	**38,456**
Borrowings and interest	**6,805**	**61**		**-**	**-**	**6,866**
	45,261	**61**	**-**	**-**	**-**	**45,322**
At 31 December 2017						
Trade and other payables	48,317	-	-	-	-	48,317
Borrowings and interest	8,151	1,388	-	-	-	9,539
	56,468	1,388	-	-	-	57,856

Financing arrangements

The Group had no undrawn borrowing facilities as at 30 June 2018.

Notes to the Financial Statements

For the half year ended 30 June 2018 (continued)

11. Contributed equity

	30 Jun 2018 $'000	31 Dec 2017 $'000
Share capital		
Issued and paid up capital 577,092,118 shares (2017: 568,929,118) fully paid	**234,329**	234,334
Ordinary Shares - movements during the year		
Balance as at beginning of year	**234,334**	217,538
Shares Issued		
Shares issued to creditor	**-**	658
Exercise of options	**-**	5,634
Notes converted into shares	**-**	10,508
Transaction costs arising from share issues	**(5)**	(4)
Balance at end of year	**234,329**	234,334

12. 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.

13. Contingent liabilities

	30 Jun 2018 $'000	31 Dec 2017 $'000
Guarantees		
Electranet performance bond for installation of transmission infrastructure at the Kanmantoo site (provided by Swiss Re)	**620**	1,162
Security bonds on rental properties and tenements (provided by Westpac)	**16**	16
	636	1,178

The consolidated entity has obligations to restore land disturbed under exploration and mining licences for which a rehabilitation provision is already on the balance sheet. The maximum obligation to the South Australian Government in respect of the Kanmantoo copper mine has been assessed at a value of $9.2 million and is secured by the SA Government on a first ranking basis against the assets of the consolidated entity. The Consolidated Entity had no other contingent liabilities at 30 June 2018.

14. 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 2018 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 23rd day of August 2018

Mr John Gooding
Chairman

Mr Steven McClare
Managing Director

Independent auditor's review report to the members 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 consolidated statement of financial position as at 30 June 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration. 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 2018 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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Independent auditor's review report to the members of Hillgrove Resources Limited (continued)

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 2018 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*.

PricewaterhouseCoopers

PricewaterhouseCoopers

AG Forman
Partner

Adelaide
23 August 2018

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. 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 31 December 2017

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo Copper Mine, all deposits	Measured	9.5	0.6	0.1	1.2	59
	Indicated	10.1	0.6	0.1	1.5	62
	Inferred	12.3	0.6	0.1	1.0	67
	Total	**31.8**	**0.6**	**0.1**	**1.2**	**188**

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

Kanmantoo Global Ore Reserve Estimate at 31 December 2017

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo Copper Mine	Proved	4.9	0.6	0.1	1.2	31
	Probable	1.1	0.5	0.1	0.9	6
	Total	**6.1**	**0.6**	**0.1**	**1.1**	**37**

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.