



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 31 March 2018

HIGHLIGHTS

Operations – pleasing quarter, with:

- Mining progress is decreasing the strip ratio markedly since completion of the Giant Pit cutback;
- Copper production for the quarter of 5,122 tonnes, the highest quarterly output since Q2 2014;
- Quarterly gold production of 1,770 ounces, with 2018 production likely to be at the top end of the guidance range of 2,500 to 3,500 ounces;
- Build-up of ore stockpiles to 1.25 m tonnes at quarter end (1.4m tonnes at the time of writing); and
- This build up in stockpiles has enabled the preferential treatment of higher grade ore.

Growth Opportunities – continue to be advanced, with preliminary design work for the Nugent and Kavanagh underground, electrical geophysical survey conducted for Kanappa, and application has been accepted and awaiting granting for exploration licences in the south eastern region of South Australia.

Loan Repayment – repayment of the \$4.3 million SA Government loan was completed during the quarter.

Copper prepay facility – the Company established a fully secured copper pre pay facility, enabling it to capitalise on the robust copper prices, buy back future liabilities at a discount, and to continue the advancement of the growth projects.

Fixed Pricing – the Company continues to manage its Australian Dollar copper price risk, with fixed pricing in place for 12,000 tonnes at quarter end, at an average price of \$8,913 per tonne after margins. Subsequent to quarter end, the Company capitalised on the recent rise in copper prices by fixing the price for an additional 3,950 tonnes of copper at an average price of \$9,110 per tonne after margins.

LOOKING FORWARD

Guidance – improved production is anticipated to be sustained, no change to 2018 published guidance.

Growth Opportunities – work on each of the growth opportunities will continue, including:

- Optimising the plan for the Nugent Underground;
- Electrical geophysical survey currently being undertaken in order to identify drill targets at both Kanappa and Mt Rhine; and
- PEPR applications in progress in order to initiate exploration drilling in the next six months.

The Company has continued discussions with various parties to further progress the Pumped Hydro project. Key Pacific Advisory Partners have been appointed to help the Company to conduct a formal evaluation process.

Cashflow – with the increased levels of copper production, cashflows are expected to increase considerably: allowing the Company to continue to meet repayment plans and significantly reduce amounts owing to creditors, to repay deferred salaries to employees, to repay the copper prepay facility, and to build-up cash balances by the end of the year.



MANAGING DIRECTOR'S STATEMENT

Safety materially improved during the quarter, with a significant improvement to pit floor working surfaces, associated with modified drill and blast practices proving effective. This work continues and is a key focus in continually improving the on-site working environment and ensuring the safety of our valued employees.

The mining rate achieved during the quarter was pleasing given both the shrinking footprint and considerable effort required to simultaneously construct many geotechnical projects. These geotechnical projects provide future protection against rock falls for mining lower areas as the pit progresses. Two excavators will continue to operate in the interim but will be progressively constrained as the pit deepens, leading to a significantly reduced working area. Hence, we will transition from two to one continuously operating excavator in the coming months and then anticipate ceasing the vast majority of mining by mid-2019.

The pit progression has led to a significant decrease in stripping ratio, which has meant that ore stockpiles for future processing are now rapidly accumulating. At the time of writing, the stockpiles have grown considerably to 1.4 million tonnes, and is rapidly approaching five months processing. These stockpiles are anticipated to continue to grow, allowing processing to continue at full capacity until approximately the third quarter of 2020.

With a significant increase in the ore mined and the ability to preferentially treat higher grades, revenue has increased substantially. This is anticipated to continue through to the middle of 2019. With costs declining as mining reduces then ceasing, the cash generation will be utilised to return creditors to normal terms and also repay existing debt in 2018. The period from 2019 to 2020 is anticipated to be a period of cash accumulation.

This higher production is supported by the sustained higher copper prices experienced in recent months. The Company has capitalised on these higher prices by fixing the price of 3,950 tonnes at an average price of \$9,110 after margins subsequent to quarter end.

The future use of cash and the balance of growth versus return to shareholders in the form of fully franked dividends will be carefully assessed by the Board. In making these decisions, the Board is accelerating the rate at which the growth opportunities are being evaluated and then able to be assessed. This increased understanding will enable the Board to consider and clarify the anticipated approach on or before the end of 2018.

The growth project acceleration update includes:

1. The Pumped Hydro Energy Storage (PHES) potential was presented at a two day conference in Sydney. This concept has attracted material interest and the Company has therefore decided to enter a formal evaluation process being led by Key Pacific Advisory Partners.
2. The underground concept has further progressed with two options being evaluated. The first is as previously reported as a standalone project. The second is in conjunction with a PHES, which may lead to additional infrastructure costs and partial sterilisation of some of the previously announced Exploration Target.
3. Kanappa has continued to progress with completion of an electrical geophysical survey programme, reinforcing both the magnetic and soil sampling results identified previously. This work is now being used to finalise drill locations, finalise access requirements and accelerate permitting and approvals. This is envisaged to enable drilling in the third quarter.
4. Mt Rhine will commence an electrical geophysical survey programme in a similar manner as Kanappa. The intent is to test the consistency of the achieved results against the magnetic and soil sampling results identified previously.
5. Extensive knowledge has been gathered whilst mining Kanmantoo and this has led to a significant acquisition of knowledge regarding both the near Kanmantoo and regional exploration potential. This work has enabled us to identify an area of interest covering four exploration tenements collectively referred to as Coonalpyn. The application for these tenements have been accepted and are awaiting granting of the exploration licence.



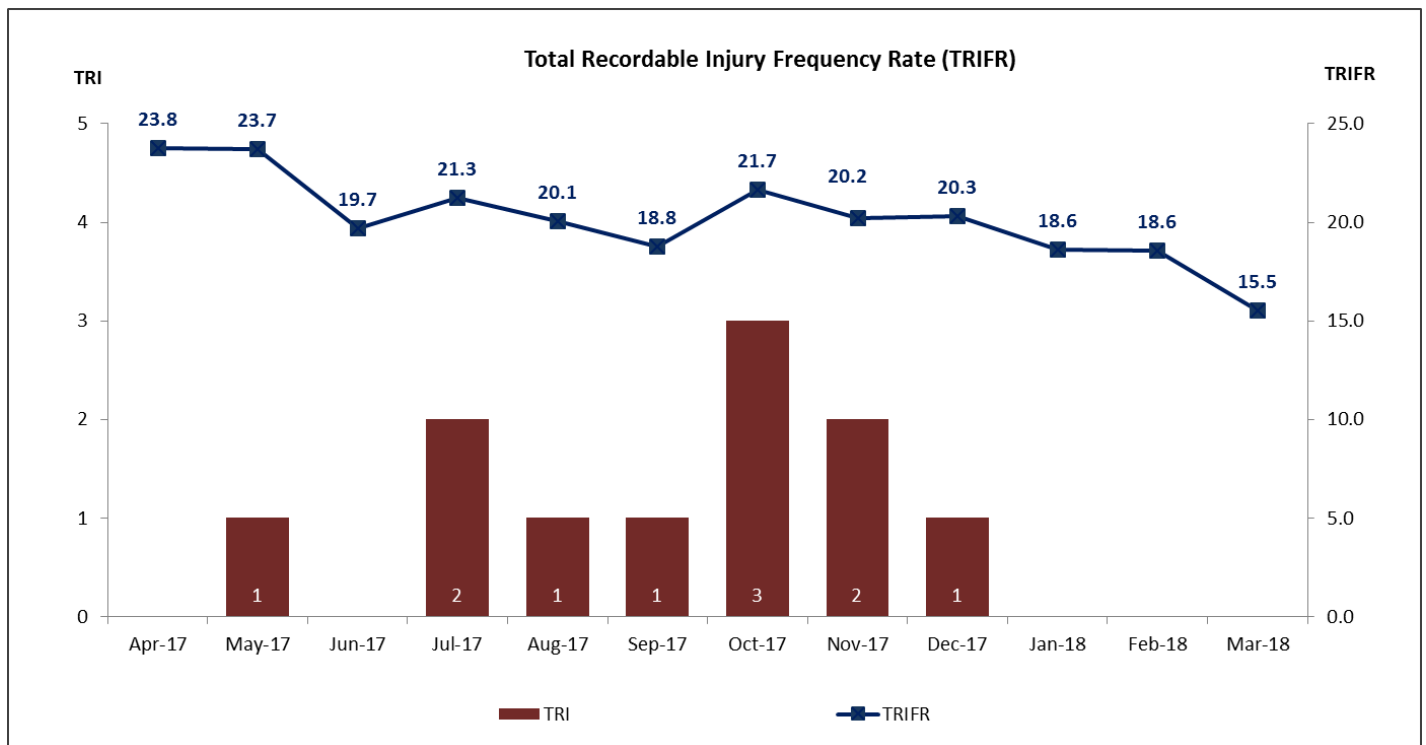
KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

Safety

There were no incidents recorded in the quarter, which has meant that the Company has continued its improvement in the 12 month TRIFR – from 23.8 in April 2017 to 15.5 at the end of the March 2018 quarter.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



Operations Overview

Mining production was 1.36M BCM in the quarter, down 10% on the prior quarter, predominantly due to the increasingly tight working area as the pit approaches the final year of mining. Following completion of the Giant Pit cutback, the strip ratio has fallen to the lowest since operations began, at 1.6 tonnes of waste for every tonne of ore, which increased ore stockpiles to over 1.25M tonnes at the close of the quarter. The increasing ore inventory reduces business exposure which may arise due to unplanned events in the pit and enables high grade to be selectively processed.

Mill throughput for the quarter was 876k tonnes and a run time at 93.5%, consistent with planned throughput. The copper recovery rate for the quarter was 91.4%, which was an increase relative to the previous quarter, in line with the increase in the ore feed grade processed.

Total production for the quarter was 21,653 DMT of concentrate, containing 5,122 tonnes of copper metal and 1,770 ounces of gold. Copper production experienced its highest quarterly production since Q2 2014, a reflection of the completion of the Giant Pit cutback and the availability of higher grade material.

Rehabilitation continued during the quarter with the completion of the landform above the back filled Nugent pit, in preparation for vegetation (Figure 2). Over the next 12 months, the majority of the earthworks associated with the rehabilitation obligations will be completed to reduce the Company's exposure.



FIGURE 2. NUGENT PIT REHABILITATION



TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		MAR-17 QTR	JUN-17 QTR	SEP-17 QTR	DEC-17 QTR	MAR-18 QTR	CY18 YTD
Ore to ROM from Pit	kt	1,040	849	811	1,216	1,636	1,636
Mined Waste	kt	4,413	3,821	2,679	3,475	2,571	2,571
Total Tonnes Mined	kt	5,453	4,669	3,490	4,691	4,207	4,207
Closing Ore Stocks	kt	205	242	183	524	1,257	1,257
Mining Grade	%	0.45	0.44	0.54	0.48	0.47	0.47
Ore Milled	kt	875	831	838	882	876	876
Milled Grade - Cu	%	0.47	0.45	0.47	0.52	0.64	0.64
- Au	g/t	0.08	0.08	0.13	0.19	0.12	0.12
Recovery - Cu	%	90.5	90.8	90.8	90.5	91.4	91.4
- Au	%	48.7	51.7	54.6	51.2	54.3	54.3
Cu Concentrate Produced	Dry mt	16,223	15,203	16,170	19,669	21,653	21,653
Concentrate Grade - Cu	%	23.0	22.3	21.9	21.0	23.7	23.7
- Au	g/t	2.0	2.3	3.7	4.3	2.5	2.5
Contained Metal in Con. - Cu	t	3,727	3,392	3,548	4,135	5,122	5,122
- Au	oz	1,060	1,100	1,900	2,725	1,770	1,770
- Ag	oz	27,254	25,986	26,448	30,862	36,996	36,996
Total Concentrate Sold	Dry mt	15,939	15,865	15,786	17,571	23,395	23,395

FIGURE 3. KANMANTOO MONTHLY COPPER MINE PERFORMANCE

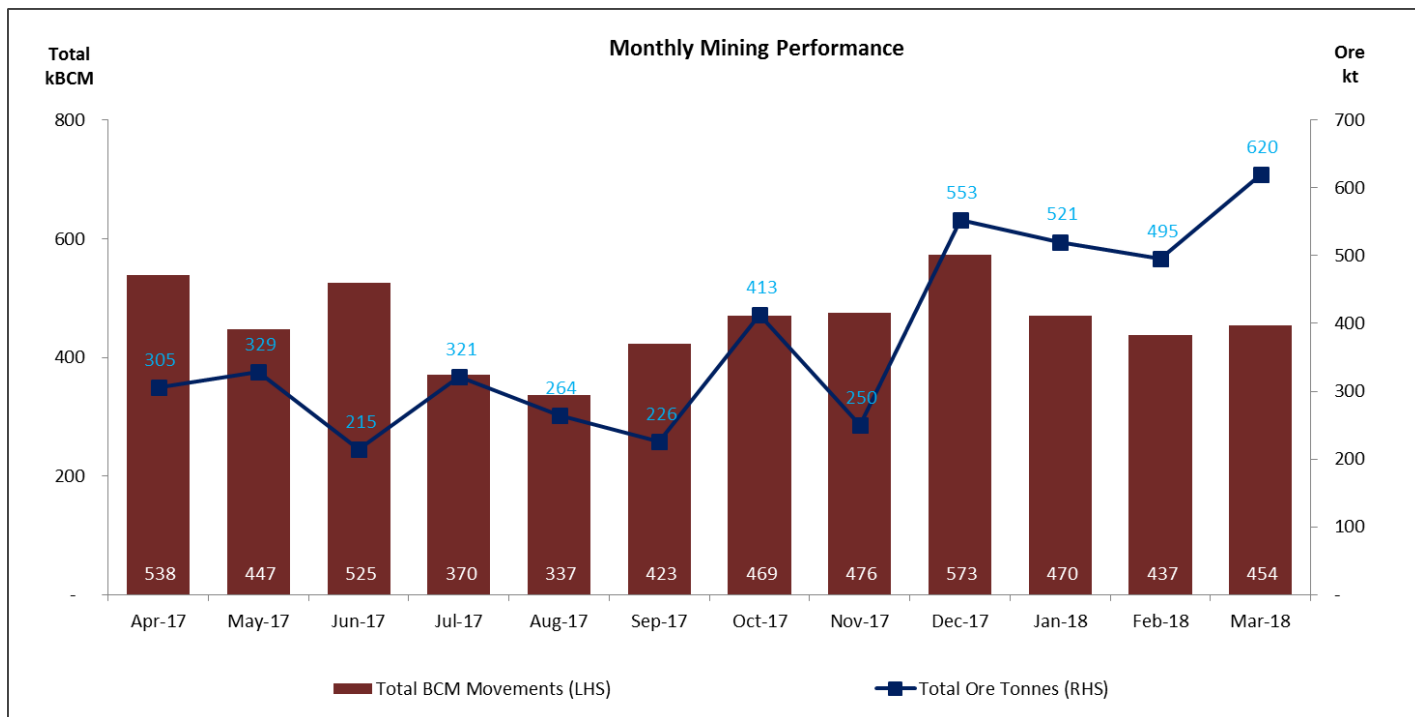


FIGURE 4. KANMANTOO MONTHLY PROCESSING PERFORMANCE

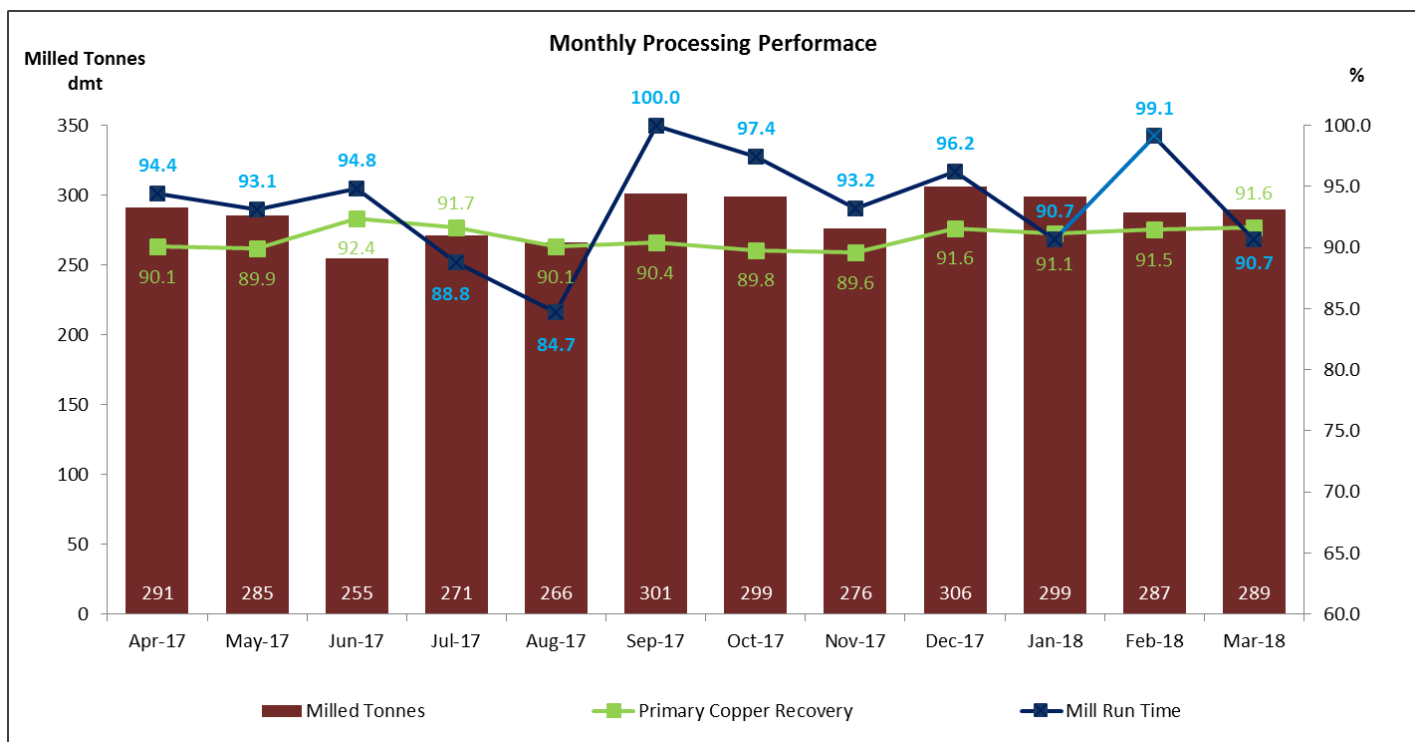
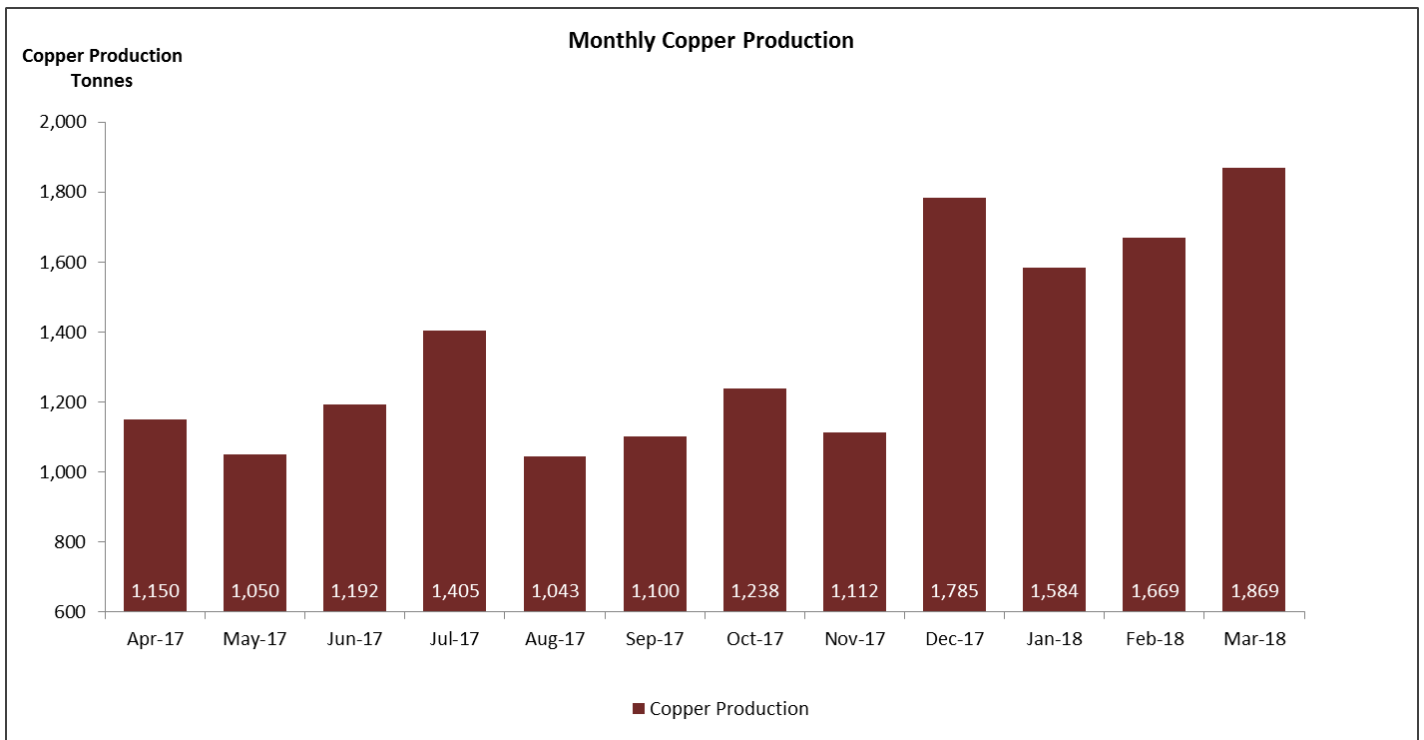




FIGURE 5. KANMANTOO MONTHLY COPPER PRODUCTION



Costs

Mining unit costs increased from \$13.38 per BCM in the December 2017 quarter to \$15.77 per BCM in the March 2018 quarter. This was driven by the lower mining movements, as a result of the tighter working conditions.

Processing unit costs have remained relatively consistent, with a slight decrease for the quarter from \$7.57 per tonne milled in December 2017 quarter to \$7.41 per tonne milled in the March 2018 quarter.

C1 unit cost for the December quarter was US\$1.86/lb, with the reduction reflecting the benefit of higher production, as well as the ore inventory adjustment credit (as a result of mined ore being added to long term stockpiles). This is expected to continue as a result of the continual decline in strip ratios leading to further additions to the long term stockpiles. Deferred mining however, is expected to increase as the pit is now at a bench level whereby mining costs will no longer be deferred to the balance sheet and will now be allocated to operating costs.



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

US cents per lb	CY17	MAR-18 QTR	CY18 YTD
	12 MTHS	3 MTHS	3 MTHS
Total Mining Cost	195	165	165
Deferred Mining	-36	6	6
Pre-strip	-3	-	-
Ore Inventory Adjustment	-13	-66	-66
Mining Costs	143	105	105
Processing Costs	62	47	47
Other Direct Cash Costs	12	9	9
Total Onsite Costs	217	161	161
Transport & Shipping	13	13	13
Treatment, Refining & Smelter Charges	34	37	37
Total Offsite Costs	47	50	50
Precious Metals Credits	-31	-25	-25
Total Direct Operating Costs (C1 Cash Costs)	233	186	186
Royalties	11	15	15
D&A	32	26	26
TOTAL COSTS	276	227	227

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 6. KANMANTOO QUARTERLY MINING UNIT COSTS

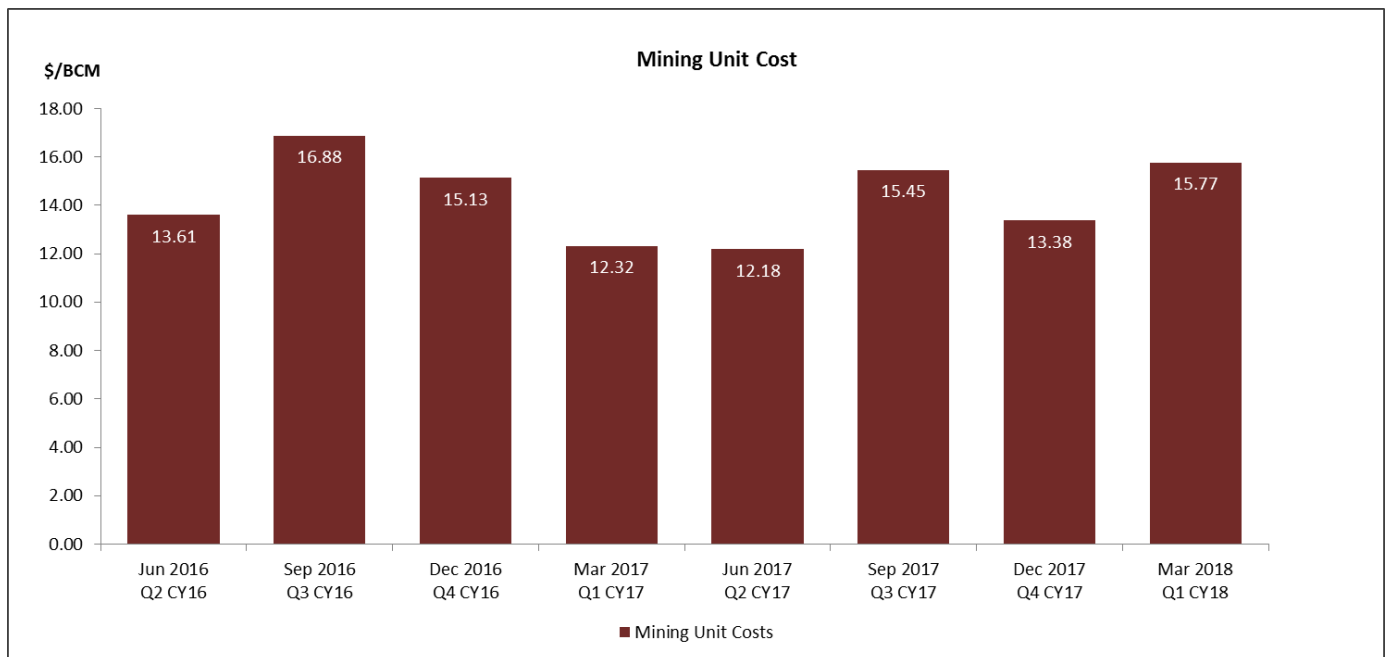
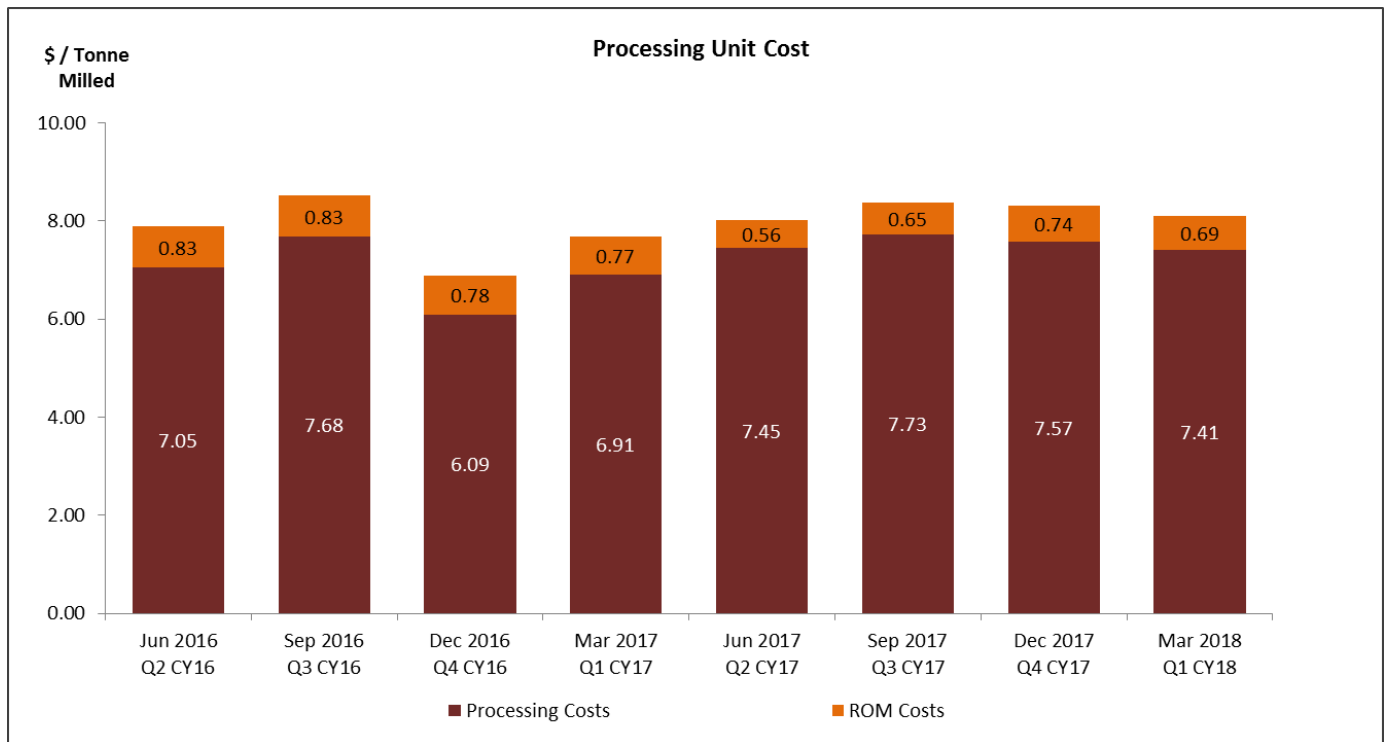


FIGURE 7. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



Revenue

Revenue for the quarter (including precious metals credits and amortised hedge gains) was \$47.3 million. The average realised price for copper metal sold was \$8,501 per tonne (up from \$8,005 last quarter), equivalent to US\$2.99 per lb. This average realised price was lower than the prevailing spot prices in the first quarter of 2018 as a result of the fixed pricing which was put in place in 2017 to manage the copper price risk of the business.

Kanmantoo Underground Copper Mine Growth Opportunity

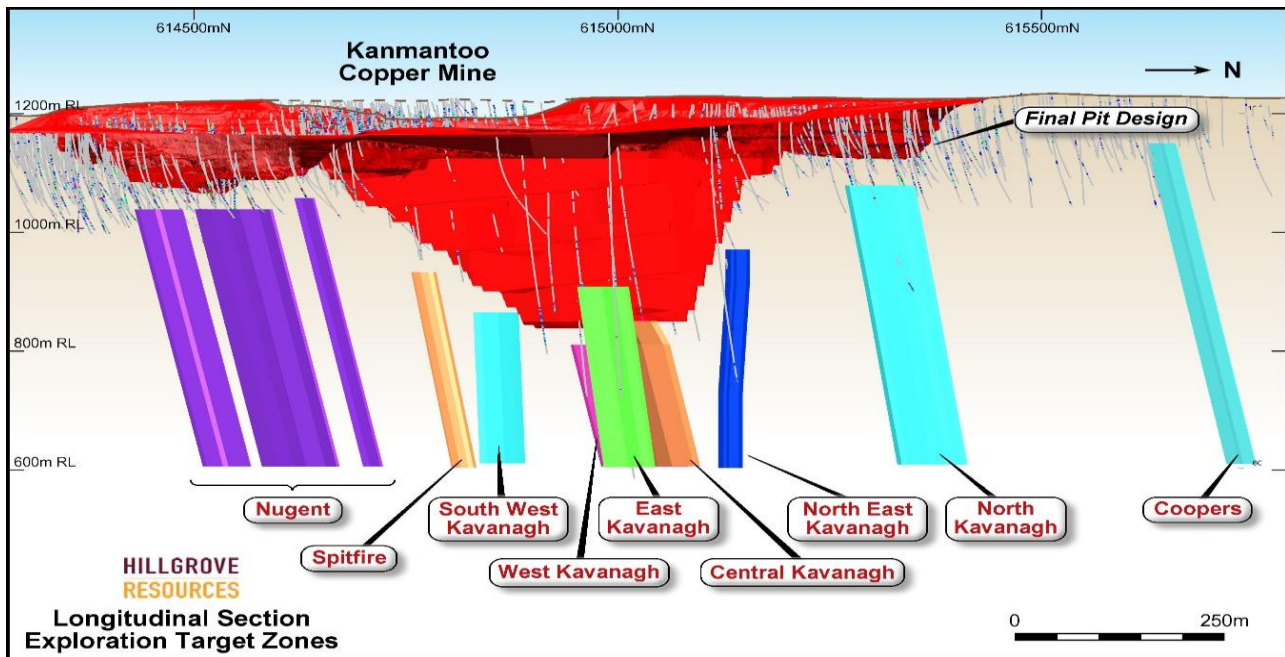
The Company has previously announced an Exploration Target¹ at the Kanmantoo Copper Mine of between five and ten million tonnes, with a target grade of between 1.7% and 2.2% Cu and 0.4g/t to 1.0g/t Au, containing approximately 80,000 tonnes to 160,000 tonnes of copper metal and 60,000 ounces to 120,000 ounces of gold. The Exploration Target comprises nine different underground opportunities (see Figure 8 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. Preliminary design work on integrating the Nugent underground with the longer term Kavanagh underground is in progress.

A deep drilling programme has 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 received and drilling should commence in Q3 2018.

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

FIGURE 8. EXPLORATION TARGETS


Regional Growth Opportunities Including Kanappa and Mt Rhine

Exploration activities during the quarter continue to progress the Company's regional growth opportunities. As previously reported, soil sampling and ground magnetics at Kanappa have been completed and an electrical geophysical survey is now in progress. The integrated results will be released in Q2 2018 and drill targets identified.

At Mt Rhine, the soil sampling and ground magnetics have also been completed and an electrical geophysical survey will follow after Kanappa. These results should also be available for drill hole planning in Q2 2018.

The Company continues to review its near-mine exploration database and has identified a number of copper-gold targets to be explored to enhance the pipeline of growth opportunities for continued utilisation of the Company's assets at Kanmantoo.

Pumped Hydro Potential

The end of mine 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.

During the quarter, the Company presented at the Pumped Hydro Energy Storage conference in Sydney (refer to the presentation as released on 21 March). Subsequent to the presentation, there has been strong interest from a number of parties in the project. As a result of this strong interest, the Company has appointed an energy market advisor with extensive experience in the sector to conduct a formal evaluation process.



HILLGROVE CORPORATE

Repayment of SA Government Loan

Full repayment of the \$4.3 million SA Government Loan (inclusive of capitalised interest) was completed in February 2018. This loan was one of a number of initiatives from key stakeholders to assist the Company overcome a forecast cash shortfall during a major cutback at the Kanmantoo Copper mine during a significant downturn in the copper market (refer market release 28 June 2016).

\$4.0M Copper Prepay Facility

In February 2018, the Company agreed to a fully secured \$4.0M copper pre-pay Facility with Freepoint Metals & Concentrates LLC. The Facility provided the Company with funds for general working capital, enabling it to:

- Reduce its copper price risk exposure during 2018 by fixing the price of an additional 5,000 tonnes of copper at \$8,885/tonne, and
- Take advantage of transactions such as buying back future liabilities at a discount and to continue to advance growth projects.

The key terms of the Facility were:

- Freepoint advanced Hillgrove \$4.0m through to 30 June 2018, which will then convert to a prepayment of \$800 per tonne on 5,000 tonnes of future copper sales;
- Hillgrove will repay the Facility from the sale of these 5,000 tonnes during the period from July 2018 to December 2018;
- The Facility is secured by a security package which includes the mortgages over the real property which was previously used to secure the SA Government Loan; and
- The Facility will incur interest at 7% pa.

Fixed Pricing

The Company continues to place and consume the fixed pricing available to it as part of the active management of the copper price exposure. As at the end of the quarter, it had circa 12,000 tonnes of fixed pricing available at an average copper price of \$8,913 per tonne after margins.

Buyout of Mining Contractor Deferred Liability

On 16 November 2016, the Company announced it had reached agreement with a mining contractor to defer payment of \$1.35 million of its outstanding creditor balance until after 1 July 2017, when the Company would pay an amount based on a sliding scale copper price. Based on the sustained higher copper prices, this liability had the potential to increase significantly, so on 27 February 2018, the Company paid \$1.93 million in full settlement of this future liability.

INDONESIAN GOLD AND GOLD/COPPER ASSETS

In February 2018, Hillgrove received notices from the Indonesian Department of Mines, which stated the tenements for its two Indonesian assets at Bird's Head in West Papua and Sumba Island have been terminated due to the non-performance of obligations including the non-payment of dead rents.

Hillgrove has elected not to appeal the decision and will commence the process of withdrawing from Indonesia.

The projects had been on care and maintenance since 2013 and the carrying value of both projects were fully impaired in 2015.

**CORPORATE INFORMATION****Issued Share Capital at 31 March 2018**

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

Share price activity for the Quarter

High	0.105
Low	0.081
Last (30 March 2018)	0.089

SHARE REGISTRY

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**Mineral Resource Estimate for All Deposits at 31 December 2017**

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

Mineral Resource Estimate for Giant Pit Only at 31 December 2017

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Measured	7.5	0.6	0.1	1.2	44
Copper Mine,	Indicated	4.5	0.5	0.1	1.0	23
Giant Pit Only	Inferred	9.6	0.6	0.1	0.9	53
	Total	21.6	0.6	0.1	1.0	120

Ore Reserve Estimate at 31 December 2017

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

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. Mr Rolley and Mr Wallace are employees of Hillgrove Resources and Ms Wright is a former employee.

For more information contact:

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