HILLGROVE RESOURCES

ASX RELEASE

Thursday, 31 March 2016

CHANGES TO MINING PLAN

The Board of Hillgrove Resources Limited (the Company) wishes to advise that the Annual Report of the Company, which we expect to lodge later today, will contain some significant comments in the Events Subsequent to Reporting a Date and Going Concern note. Those comments are reflected below.

Since February 2016, Hillgrove has not achieved the budgeted production levels at its Kanmantoo copper / gold mine for the following reasons:

- As advised in late 2015, the independent evaluation of the orebody led to the deferral of revenue;
- To address this deferral the previous life of mine plan was amended, which intensified mining in a smaller footprint;
- Following detailed implementation, planning and analysis of recent actual performance, it has been determined that the planned mining sequence was too aggressive; and

as a result of this, the life of mine (LOM) plan has been revised to one which has a simpler sequence and is based upon currently achieved mining rates, but which brings forward waste removal and in consequence defers copper production.

In February 2016, as a consequence of this lower production, current liabilities increased during the month and Hillgrove was in breach of its month end, $25,000,000 trade creditor financial covenant. Subsequent to the end of February, Hillgrove obtained a waiver from its financiers that removed the $25,000,000 month end limit for February 2016.

The waiver required the Group to achieve 95% (formerly 85%) of its payable copper production target, as set out in its LOM plan, for the three month period from March to May 2016. During March 2016 Hillgrove determined that, for the reasons outlined above, the LOM plan was too aggressive and the 95% of its payable copper production target would not be achieved.

As a consequence Hillgrove revised its LOM plan to lower targets in line with recent performance. While this revised LOM plan still shows Kanmantoo will generate significant value and has exploration potential, the anticipated near term production levels coupled with the need to continue the pre-strip and cut-back of the Giant pit are likely to result in a cash shortfall in 2016 and 2017 at current performance levels and commodity prices unless cost-reduction measures are implemented to improve cashflow from operations.

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The Board has agreed a process to address the anticipated cashflow shortfall. As part of this, an independent review of the Company's revised plans and forecasts is to be undertaken and a range of measures are being implemented to reduce costs and generate proceeds from asset sales. Hillgrove has begun discussions with its key stakeholders including employees, major contractors, suppliers and service providers, financiers and the South Australian Government to seek their assistance with this process to ensure the Company can bridge any cashflow gaps this year and into 2017.

If Hillgrove can successfully implement the package of measures with these stakeholder groups, it should be able to generate sufficient cashflow from operations to continue operating the Kanmantoo Mine. Considerable progress had been made in these stakeholder discussions. The Company's financiers are generally supportive of the pre-emptive action being taken.

The directors remain confident that there is significant value in the mine and believe that the best outcome for the company as a whole is achieved by implementing the revised LOM plan and reducing costs with the cooperation and support of all stakeholders.

In considering the impact of the above outlined changes in the mine plan, the Board has determined that no adjustments are needed to carrying values of non-current assets as at 31 December 2015. Further, there are no changes to the previously reported unaudited financial results for 2015.

Outlook for 2016

As a result of the revision to the mine and financial plan (referred to above), the CY16 guidance issued on 26 February for the Kanmantoo Copper Mine is revised as follows:

Guidance	Previous	Updated
Ore Mined	2,900kt to 3,100kt	2,500kt to 2,700kt
Ore Processed	3,350kt to 3,550kt	2,850kt to 3,050kt
Copper contained in concentrates produced	16,500t to 18,500t	14,500t to 16,500t
Gold contained in concentrates produced	11,000oz to 13,500oz	8,000oz to 10,000oz
C1 Costs (at a 0.75 exchange rate)	US$1.75 to US$2.05 per lb	US$1.85 to US$2.15 per lb
Capital expenditure (excludes pre-strip but see comments on pre-strip below)	$1.0 million to $1.4 million	No change

For the reasons outlined above, the tonnes mined and processed have been revised downwards.

As a result of the lower ore tonnes to be mined and processed, copper and gold production is now forecast to be lower in CY16, as some of the previous forecast CY16 copper and gold metal production is deferred to later years (i.e. there is no change to the expected total LOM copper and gold production, but there is deferral to later years).

While lower than the previous guidance, gold production is forecast to be significantly higher this financial year relative to prior years (by approximately 2,000 ounces or 500 tonnes of copper equivalent based on existing spot prices).

In addition to the above forecast capital expenditure, Hillgrove will continue to undertake capital development in pre-strip operations for the Giant Pit ($20.5 million in CY16). Deferred mining is forecast to be $10.8 million in CY16.

As previously reported, following the closure of the Sydney corporate office and placing the Indonesian projects on care and maintenance, the company's focus is on the Kanmantoo operation and advancing the Giant Pit cutback to provide a solid footing for building production rates and improving cash flow beyond this year. As part of this year's plan, Hillgrove aims to assess the potential for resource expansion with evaluation of targets on the Kanmantoo mining lease and the surrounding regional tenement.

The Company will provide updates to the market on the progress in implementing the revised mine plan and aims to get feedback from key stakeholders by mid-April 2016.

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