HILLGROVE
RESOURCES

ASX RELEASE

Wednesday, 28 February 2018

ASX Market Announcement
Australian Securities Exchange
Level 4 Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir or Madam

LODGEMENT OF APPENDIX 4E – YEAR ENDED 31 DECEMBER 2017

Please find attached the Preliminary Unaudited Final Report – 31 December 2017 (Appendix 4E) under Listing Rule 4.3A relating to Hillgrove Resources Limited's results for the 12 month period 1 January 2017 to 31 December 2017 – CY 17.

The full annual report together with the financial report of Hillgrove Resources Limited ("the Company") and the consolidated entity, being the Company and its controlled entities, for the year ended 31 December 2017 and the auditors' report will be released by 31 March 2018 per ASX Guidelines.

Yours Faithfully

Paul Kiley
Company Secretary

ASX Preliminary Final Report – 31 December 2017

Lodged with the ASX under Listing Rule 4.3A

HILLGROVE RESOURCES LIMITED
ABN 73 004 297 116

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Appendix 4E: Preliminary final report for period ending 31 December 2017

Name of entity	Hillgrove Resources Limited
ABN	73 004 297 116
Financial year ended	12 Months to 31 December 2017 (CY17)
Previous corresponding reporting period	12 Months to 31 December 2016 (CY16)

Results for announcement to the market (unaudited)

Revenue from ordinary activities	**$127.1m**	CY16: $113.1m
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	**($14.1m)**	CY16: ($109.2m) *restated**
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	**($14.1m)**	CY16: ($109.2m) *restated**

Overview of preliminary consolidated financial results

Hillgrove Resources Limited is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on its flagship Kanmantoo Copper Mine, located less than 55km from Adelaide in South Australia, and associated regional exploration targets.

For the year ended 31 December 2017, the net loss after tax was $14.1 million compared to a net loss after tax of $109.2 million for the year ended 31 December 2016 which included non-cash asset impairment charges from the first half of 2016. At 30 June 2016 there was an impairment charge of $68.5 million after tax reducing the carrying value of the Kanmantoo mine assets and which is shown as a non-underlying item. The underlying net loss after tax during the year was $8.4 million compared with $40.7 million loss in 2016.

During 2017, a non-underlying expense of $5.5 million was recorded to reflect the increase in the fair value of the convertible notes by the time they were converted to shares. All convertible notes were converted into equity or redeemed by year end. Further, the Company books a tax expense at present because it does not record the full tax benefit of carried forward tax losses.

Before the non-underlying items, the operating result for 2017 was a profit before interest and tax (EBIT) of $4.4 million compared to a loss before interest and tax of $22.5 million in 2016. Depreciation expense in CY17 was $32.9 million lower than the previous year due mainly to lower charges following the impairment write downs of depreciating assets in the previous year. With non-cash depreciation and amortisation added back, underlying EBITDA in 2017 decreased by $6.0 million from $22.2 million to $16.2 million with lower mining costs being capitalised during 2017 for the pre-strip.

* *Restatement: the financial statements for CY16 have been restated to include adjustments relating to rehabilitation provision and depreciation. Further details are in note 4 to the preliminary consolidated financial statements.*

Review of operations for the CY17 year and outlook

In CY17, Hillgrove completed the investment phase of the Giant Pit cutback and has now entered a cash generative phase as higher grade ore can now be selectively processed. By late 2018, this should enable creditors who have supported the Company through the 2016 to 2017 period to be returned to normal trading terms, employees to be repaid their salary deferments and debt to be repaid.

A number of measures were undertaken in CY16 to deal with the projected cashflow challenge from depressed copper prices and deferred copper production. These included negotiation of lower charges (and deferred payment terms) with the main contractors, introduction of a 10% wages deferment (now being repaid) for the workforce, deferring price participation with the offtake buyer, completing an infill drilling programme and targeting gold production during a high price period. An important financing initiative was the unwinding of the forward sold copper hedges to realise substantial cash surpluses. This enabled the Company to fully repay the USD debt early without breaching covenants or defaulting on that debt.

Other financing initiatives included obtaining a $4m loan from the South Australian Government and securing the South Australian Government environmental performance bond, with owned assets. Swiss Re provided a bond to Electranet thus removing the cash backing requirement. A debt for equity swap and copper price linked deferment was also negotiated with the drilling contractor, and a PetroBond was secured to provide credit for the supply of fuel to the mine, improving the company's cash position. These initiatives were supplemented in late 2016 by the funds raised via a fully underwritten convertible note issue and associated issue of short-dated options.

During 2017 the Company faced operational challenges that delayed the timing of positive cashflows until December 2017. These included remedial geotechnical measures predominantly associated with the east wall slippage, availability challenges with contracted mining equipment, adverse weather and high workforce turnover.

The exercise of the options issued with the Convertible Notes contributed funds to the Company and the early redemption of those Convertible Notes, virtually all of which were converted to equity, reduced debt and improved the balance sheet by the end of 2017. In early 2018 the Company has repaid the $4 million South Australian Government Loan along with accumulated interest of $0.3 million and also successfully negotiated a copper pre-pay facility that has provided a further $4 million for working capital and allowed Hillgrove to fix the pricing of an additional 5,000 tonnes of copper to be sold in 2018 at an Australian Dollar price of $8,885 per tonne. As at 28 February 2018, there is fixed pricing for 13,400 tonnes of copper production over the next 12 months at an average price of $8,896/tonne after margins.

Many of the initiatives that have assisted the company through 2016 and 2017 calendar years have led to liabilities on the balance sheet that will become payable in 2018. They have therefore been recognised as current liabilities, causing current liabilities to significantly outweigh current assets at the end of 2017. Management remains confident however that, with the step-up in copper production from December 2017, the company can generate sufficient cashflow from operations to meet its obligations throughout 2018 and beyond.

The underlying EBITDA (refer page 8) for 2017 was $16.2 million. When coupled with the funding initiatives outlined above, this allowed the Company to complete the Giant Pit cutback by the end of 2017, an investment of $70 million over the last three years. With the sustainable step-up in monthly copper production occurring before the end of 2017, EBITDA is projected to improve significantly in 2018 with production of 22,000-24,000 tonnes of copper and approximately 3,000 ounces of gold anticipated.

After stripping out the fair value adjustment (loss) on redemption of the convertible notes (due to the share price rising after the notes were issued), the underlying net profit before tax for 2017 was near break-even. The Company books a tax expense at present mainly because it does not record the tax benefit of carried forward tax losses.

Review of operations for the CY17 year and outlook continued

KANMANTOO COPPER MINE PRODUCTION STATISTICS

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

During 2017, Hillgrove achieved production of 67,265 tonnes of dry concentrate containing 14,802 tonnes of copper and 6,785 oz of gold from the Kanmantoo Copper Mine.

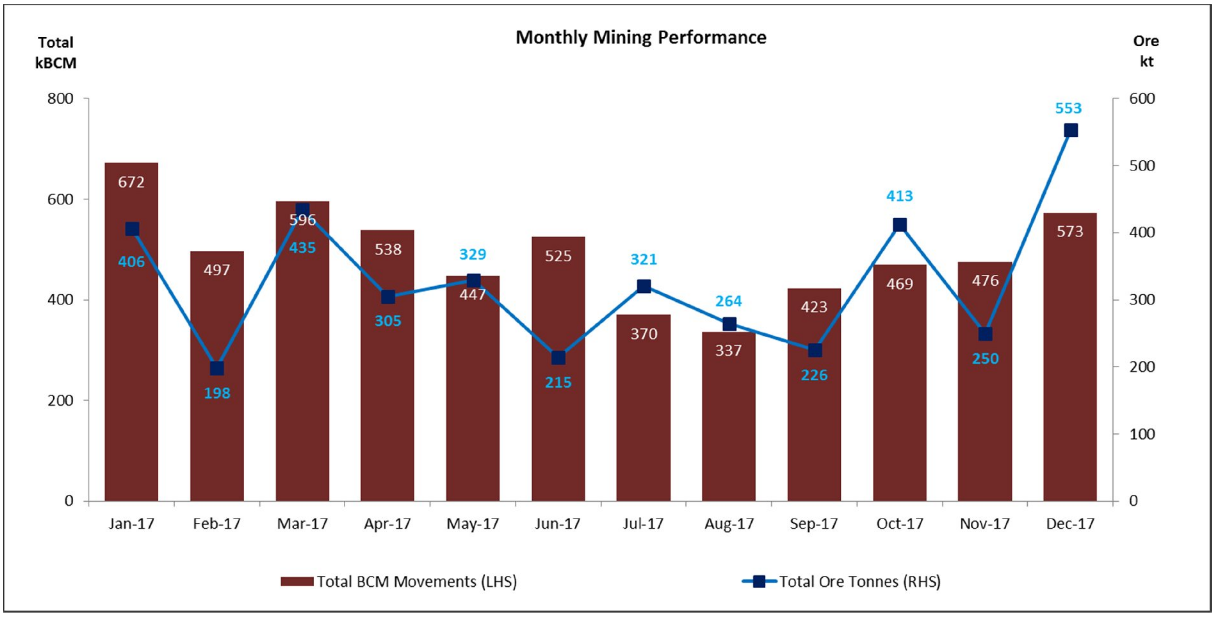
The funds from the convertible note issue in December 2016 enabled the pit to flatten out, creating larger working areas which improved mining efficiency, and contributed to a 20% increase in mining production in CY17. Backfilling of the Emily Pit was completed in CY17, finishing the environmental commitments made to backfill all satellites pits after mining. Rehabilitation of a further 18ha commenced in early CY17 and shaping of the final waste rock landforms continued ahead of further planned seasonal planting in CY18. The processing plant crushed and milled 3.4M tonnes, 7% above the previous year.

Mining costs were $13.15/BCM, and processing costs $7.41/tonne milled. The unit mining costs decreased from the prior year (CY16 $14.01/BCM) due to the increased production efficiency afforded by the wider working areas.

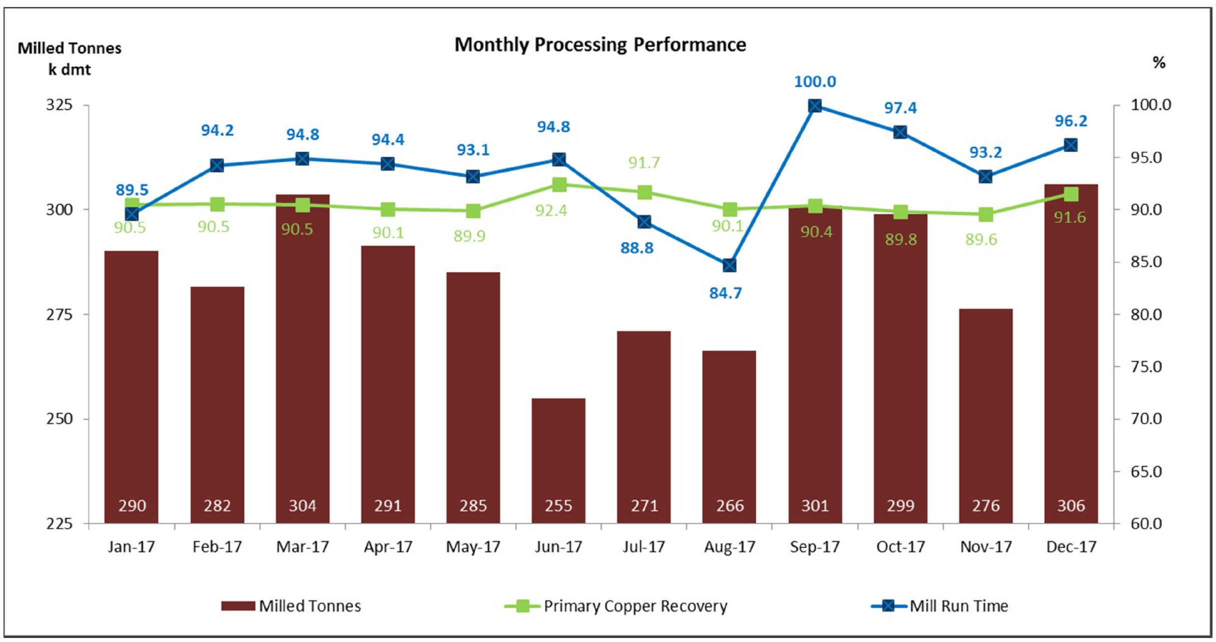
The CY17 C1 cost of US$2.33/lb of copper produced was within guidance of US$2.25/lb to US$2.35/lb.

Review of operations for the CY17 year and outlook continued

KANMANTOO COPPER MINE PERFORMANCE



KANMANTOO MILLED TONNES, COPPER RECOVERY (%) AND MILL RUN TIME (%)



Exploration Programme

Exploration activities during the year were focused on delineating drill targets to convert the significant underground Exploration Target at the Kanmantoo Copper Mine, and to test the regional copper-gold projects at Kanappa and Mt Rhine.

The Company has demonstrated the extension of several high grade copper-gold zones beyond the final open pit design. This has resulted in the announcement (25 May 2017) of an underground Exploration Target[1] of 5-10Mt @ 1.7-2.2% Cu, 0.4-1.0g/t Au.

The most advanced of these underground targets is the Nugent underground zone where the Company has identified a high copper-gold area (12m @ 2.2% Cu, 7.9g/t Au) at the south-east end of the Giant open pit. The plan is to complete a short development drive of 180m from the existing Giant open pit ramp to establish underground exploration drilling platforms and stoping configurations to test the Nugent Exploration Target of 0.8-2.0Mt @ 1.5-2.0% Cu, 1.5-2.5 g/t Au.

Planning is in progress and tenders are being evaluated for various stages of the Nugent underground activities.

In general, the successful delineation of the underground targets beneath and within the wall of the existing final Kanmantoo pit wall may result in a significant increase in mine life at Kanmantoo, made possible only by the utilisation of the substantial assets of the Company, the open pit Haul Road and the efficient processing plant.

At Kanappa a soil sampling program has identified a copper-gold mineralised zone over 4.8km long with rock chips to 34.8% Cu and 4g/t Au (different samples)[2]. The soil sample results are up to 2,300ppm Cu and mapping has identified over 120 sites of outcropping mineralisation along the trend. This is an exciting discovery and one that the Company intend to vigorously explore in 2018.

At Mt Rhine, two significant zones of copper-gold mineralisation have been identified by soil and rock chip sampling. Zone A has been channel sampled with results of 6m @ 15.9g/t Au. Zone B is over 1km long and has rock samples of 13.1% Cu and 49.8g/t Au[3]. Both zones are open along strike.

Kanappa and Mt Rhine are approximately 60kms and 80kms respectively by road from the Kanmantoo infrastructure and offer significant opportunities to discover new copper-gold resources on wholly owned Company assets. Various geophysical programs are underway with a view to developing drill targets in 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.*
[2] *ASX Releases 25 May 2017 and 20 October 2017*
[3] *ASX Release 25 October 2017*

Review of operations for the CY17 year and outlook continued

Statement of profit or loss

$ million	12 months to 31 Dec 2017	12 months to 31 Dec 2016 restated	Change
TOTAL REVENUE	**127.1**	**113.1**	**14.0**
Cash costs of production			
Mining	(73.8)	(73.6)	(0.2)
Pre-strip and deferral	15.9	32.8	(16.9)
Processing	(27.7)	(22.3)	(5.4)
Transport and shipping	(6.0)	(5.0)	(1.0)
Treatment and refining	(12.9)	(12.4)	(0.5)
Other direct costs	(5.1)	(5.8)	0.7
Inventory movements	7.8	(1.0)	8.8
Royalties	(4.6)	(1.3)	(3.3)
Corporate costs	(4.4)	(4.1)	(0.3)
Gain/(loss) on disposal of assets	(0.1)	0.1	(0.2)
Other income	0.2	0.5	0.3
Net foreign exchange gain/(loss) realised	(0.2)	1.2	(1.4)
TOTAL CASH COSTS OF PRODUCTION	**(110.9)**	**(90.9)**	**(20.0)**
UNDERLYING EBITDA	**16.2**	**22.2**	**(6.0)**
Depreciation and amortisation	(11.8)	(44.7)	32.9
UNDERLYING EBIT	**4.4**	**(22.5)**	**26.9**
Net interest and financing charges	(4.6)	(4.3)	(0.3)
Income tax (expense)/benefit	(8.2)	(13.9)	5.7
UNDERLYING NPAT	**(8.4)**	**(40.7)**	**32.3**
Non-underlying items, net of tax	(5.7)	(68.5)	62.8
Reported net profit / (loss) after tax	**(14.1)**	**(109.2)**	**95.1**
Non-underlying Items			
Fair value movement – Convertible Notes	(5.5)	-	(5.5)
Impairment - Australian exploration write down	(0.2)	-	(0.2)
Impairment - Kanmantoo assets write down	-	(68.5)	68.5
Total Non-underlying Items	**(5.7)**	**(68.5)**	**62.8**

Review of operations for the CY17 year and outlook continued

Revenue from the sale of concentrate (including the recognition of deferred hedging gains from the previous year) increased from $113.1 million in 2016 to $127.1 million in 2017. Total concentrate sold in 2017 was 65,161 dry tonnes (CY16: 60,213 tonnes) at an average realised price of $7,700 per tonne of payable copper (CY16: $7,327 per tonne). The value of gold sold in concentrate was $10.0 million (CY16: $15.7 million). The volume of concentrate produced increased in 2017 due to the completion of the Giant Pit cut-back at the end of the year, but still a few months later than originally expected due to delays with bad weather and equipment availability particularly during the third quarter.

Cash costs of production were also higher in 2017 rising from $90.9 million to $110.9 million in 2017. Even though gross mining costs stayed level, the proportion of mining costs capitalised to the balance sheet for pre-strip and deferred mining costs decreased by $16.9 million as waste removal ratios declined as expected toward the end of the cut-back. In addition, processing costs increased by $5.4 million due to higher volume and electricity prices. Royalties increased by $3.3 million to $4.6 million in 2017 reflecting the change in royalty rate to 5% early in the year following the 5th anniversary of production.

Cash flow Overview

Operating activities cash flow

$ million	12 months to 31 Dec 2017	12 months to 31 Dec 2016	Change
Receipts from customers	101.5	97.3	4.2
Payment to suppliers, employees and contractors	(100.5)	(76.3)	(24.2)
Net cash inflows from operating activities	**1.0**	**21.0**	**(20.0)**

Net cash inflows from operating activities for the 12 months ended 31 December 2017 were $1.0m reflecting that monthly copper metal production for most of the year was at or around the cash breakeven level until the step-up in copper production which occurred in December 2017. This includes the expenditure on deferred mining costs of $14.5 million (2016: $9.1 million).

The $24.2 million increase in payments to suppliers, employees and contractors is exacerbated by the classification of capitalised pre-strip costs as investing in PPE. In 2016 the investment in pre-strip was $23.7 million, whereas in 2017 it reduced to $4.5 million. On a combined basis, total cash payments for all mining activity in 2017 increased by only $2.7 million or about 2.6%.

Investing activities cash flow

$ million	12 months to 31 Dec 2017	12 months to 31 Dec 2016	Change
Payments for exploration activities	(0.5)	(0.4)	(0.1)
Payments for property, plant and equipment	(6.8)	(28.3)	21.5
Proceeds on sale of plant and equipment	-	0.6	(0.6)
Net cash (outflows) from investing activities	**(7.3)**	**(28.1)**	**(20.8)**

Investing activities were limited to sustaining capex at Kanmantoo, pre-strip expenditure and modest exploration work in order to preserve cash during 2017. With the completion of the Giant Pit cut back, the amount of capitalised pre-strip expenditure decreased in 2017 following completion of the last bench with a strip ratio greater than ten to one.

Review of operations for the CY17 year and outlook continued

Financing activities cash flow

$ million	12 months to 31 Dec 2017	12 months to 31 Dec 2016	Change
Proceeds from early termination of derivatives	-	14.4	(14.4)
Proceeds from issue of shares	5.6	-	5.6
Repayment of borrowings	(0.3)	(18.4)	18.1
Net proceeds from new borrowings	0.3	8.5	(8.2)
Net interest paid (incl. transaction costs)	(0.9)	(1.6)	0.7
Net cash inflows from financing activities	**4.7**	**2.9**	**1.8**

In 2017, the only significant financing activity in the cashflow was $5.6 million in proceeds from the exercise of options attached to the convertible note issue. The conversion of convertible notes into shares was a non-cash transfer from debt to equity.

In 2016, the early close out of the hedge book generated $14.4 million which, along with the cash on hand, was used to fully repay the USD debt from Freepoint subsidiary Ventures Australia LLC. The $4.0 million loan from the South Australian Government was drawn down in June 2016 and in December 2016 $5.0 million of convertible notes were issued to shareholders.

Summary Balance Sheet

$ million	31 Dec 2017	31 Dec 2016 restated	Change
Cash	0.5	1.9	(1.4)
Receivables	4.4	4.0	0.4
Inventories	12.7	5.0	7.7
Property, Plant & Equipment	77.7	68.7	9.0
Exploration	0.9	0.8	0.1
Deferred Tax Assets	-	4.9	(4.9)
Total Assets	**96.2**	**85.3**	**10.9**
Payables	48.3	36.4	(11.9)
Provisions	16.8	13.3	(3.5)
Borrowings	9.5	13.0	3.5
Employee Benefits	7.3	3.7	(3.6)
Deferred Income	0.5	0.7	0.2
Total Liabilities	**82.4**	**67.1**	**(15.3)**
Net Assets / Equity	**13.8**	**18.2**	**(4.4)**

Review of operations for the CY17 year and outlook continued

Cash and cash equivalents at 31 December 2017 were $0.5 million. The long-awaited step change in copper production occurred in December 2017 following completion of the cut-back of the Giant pit. This has been sustained to the date of this report and is expected to be maintained during 2018. See below for details of production guidance for 2018. This means that the Kanmantoo copper mine is now generating significantly higher net cash inflows from operations each month than has been the case for the past few years.

Inventories were historically high at 31 December 2017 at $12.7 million. Most of the $7.7 million increase during 2017 was due to the build-up in run-of-mine (ROM) ore stocks which occurred because the mine was producing ore at rates faster than the mill could process at full capacity. Stocks of finished concentrates were also higher than normal due to strong production in late December and sales delayed by public holidays.

Property, plant and equipment increased by $9.0 million to $77.7 million. Taking into account depreciation of $11.8 million, this implies additions to PP&E of about $21 million during 2017. Of this, $14.5 million was mining expenditure added to deferred mining costs under the accounting policy which normalises costs in the Giant Pit for the impacts of variable waste ratios and copper grades. As noted above, December 2017 marked the turning point for mine production which means deferred costs will reduce in future and be charged to costs of production. Sustaining capital expenditure in 2017 was $1.9 million comprising mainly geotechnical controls in the pit and ongoing tailing storage facility (TSF) construction. Along with the increase in rehabilitation provision, the corresponding rehabilitation asset in mine development was increased by $2.4 million.

Deferred tax assets have moved to a net nil position on the balance sheet as the Group has recognised deferred tax assets only to the extent that they offset deferred tax expense and liabilities arising from temporary differences. The tax benefit of carried forward tax losses of approximately $154.4 million is yet to be brought to account.

Payables increased by $11.9 million to $48.3 million at 31 December 2017, mainly reflecting the planned payment deferral agreements reached with the three largest mining contractors. With the forecast free cash flow generation in 2018, this balance is expected to be more than halved in the upcoming year.

Provisions increased by $3.5 million mainly as a result of a revision of the final cost estimate to close the Kanmantoo mine upon depletion and fully rehabilitate all affected areas, including use of a lower discount rate which increases the present value of projected closure costs.

Total borrowings of $9.5 million at 31 December 2017 comprise the loan from the South Australian Government ($4.0 million plus accumulated interest of $0.3 million, which was repaid in February 2018), promissory note from contractor ($2.7 million – repayments commencing April 2018), deferred payment to contractor creditor ($1.9 million – repaid in February 2018) and $0.7 million in finance lease liabilities.

Employee benefits increased by $3.6 million which included salaries deferred by employees to assist with cash management plus unpaid liabilities for payroll related on costs. The salary deferrals peaked in November 2017 and are now being repaid as planned.

For the year ended 31 December 2017, total equity decreased by $4.4 million reflecting the loss for the year of $14.1 million and a $7.1 million decrease in reserves mainly relating to the recycling through profit and loss of deferred hedging gains offset by a $16.8 million increase in share capital from conversion of the convertible notes and exercise of related options. As was the case at 31 December 2016, by applying impairment testing methodology consistent with that used in previous years, the calculated recoverable amount as at 31 December 2017 exceeds the carrying value. However, past impairment charges have not been written back until such time as the Group has demonstrated a sustained period of positive cashflows following the completion of the Giant Pit cutback in late 2017.

Guidance

Hillgrove provided guidance in March 2017 with the release of its Annual Report. Due to the delay in the completion of the Giant Pit cutback, the guidance for copper production was revised in August 2017 (2017 Half Year Financial Report) and the guidance for copper production and C1 cost was revised in October 2017 (30 September 2017 Quarterly Report). The Company's actual performance against its revised 2017 guidance is summarised in the table below.

CY17	Guidance	Actuals achieved
Copper contained in concentrates	**14,800kt – 15,800t**	14,802t
Gold contained in concentrates	**5,500oz – 7,500oz**	6,785oz
C1 Costs	**US$2.25 - $2.35 per lb (1)**	US$2.33 per lb
Capital Projects (excludes pre-strip) (2)	**$1.8M - $2.5M**	$1.9M

(1) At 0.75 US$ exchange rate
(2) In addition to the capital projects, $15.9 million of pre-strip was completed.

Copper produced, gold produced, C1 cost and capital expenditure were all within the revised guidance.

Life of mine plan and outlook for 2018

The 2018 financial year will be one of step change, with the Giant Pit cutback complete and copper production is forecast to be significantly higher than the previous year as higher grade ore is made available for processing which through stockpiles can be selectively treated, leading to significantly higher cash generation. In addition to this, with improvements in both mining and processing performance, a robust geological model, and a favourable outlook for commodity prices, there is potential to create significant value for shareholders from the remaining life of mine.

The Company provides the following guidance for the current Financial Year ending 31 December 2018 (CY18) for the Kanmantoo Copper Mine:

- Copper produced — 22,000t to 24,000t copper contained in concentrates
- Gold produced — 2,500oz to 3,500oz gold contained in concentrates
- C1 Costs — US$2.00 to US$2.25 per lb (at a 0.78 exchange rate)
- Exploration capex — $1.8 million to $2.5 million
- Capital projects — $2.6 million to $3.0 million

Despite the higher production, C1 costs remain relatively high, driven by the deferred mining costs which will now be reallocated from the balance sheet to operating costs. Excluding the reallocation of the deferred mining costs, the C1 cost would be in the order of US$1.65 to US$1.80 (at a 0.78 exchange rate) and this would be more reflective of cash costs.

Statement of Mineral Resource and Ore Reserve Estimates and Exploration Targets as at 31 December 2017

On 18 October 2016 a Mineral Resource Estimate and Ore Reserve Estimate was announced for the Kanmantoo Copper Mine. The 2016 Mineral Resource Estimate for the Giant Pit only was updated in 2017 with 1,617m of in-pit RC drilling (<0.01% increase in drill metres) to provide more certainty for the production schedules. The in-pit drilling has not resulted in a material change to the total Mineral Resource Estimate.

The 2017 Mineral Resource Estimate for the Kanmantoo District has been reported at the 31 December 2017 mined surface and is therefore depleted for production from 1 October 2016 to 31 December 2017. As production has only been from the Giant Pit, only the Giant Pit has been depleted. The Mineral Resource estimate is tabulated below at 0.2% Cu cut-off grade. All search parameters, variography, estimation algorithm, model extents, panel dimensions, are identical to the previously reported 2016 Mineral Resource Estimate (18 October 2016). The Mineral Resource Estimate is inclusive of the Ore Reserve Estimate also tabulated below for the same surface and cut-off grade for the Giant Pit.

KANMANTOO GLOBAL MINERAL RESOURCE ESTIMATE AT 31 DECEMBER 2017

Mine	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.

GIANT OPEN PIT MINERAL RESOURCE ESTIMATE AT 31 DECEMBER 2017

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

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

KANMANTOO OPEN PIT ORE RESERVE ESTIMATE AT 31 DECEMBER 2017

Mine	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.

Statement of Mineral Resource and Ore Reserve Estimates and Exploration Targets as at 31 December 2017 continued.

The resource estimate is validated as an ongoing practice by the mine staff by reconciling production against the estimates. This reconciliation process has highlighted the importance of drill hole data density as the pit progresses to depth.

Reconciliation for the last 3 months and for the last 6 months of 2017 shows the Mineral Resource Estimate to reconcile conservatively by 2% in copper metal against mill reconciled open pit production.

Kanmantoo Underground Copper-Gold Exploration Target

The Kanmantoo Exploration Target in this report is based on currently available data and was reported on 25 May 2017. 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 in addition to the Mineral Resource Estimates tabulated above.

	Exploration Target				
	DH Width Range (m)	Tonnage Range (Mt)	Grade Range Cu%	Grade Range Au g/t	Grade Range CuEq%
Coopers	6 - 10	0.1 - 0.3	1.5 - 2.0	0.4 - 0.8	1.8 - 2.5
North Kavanagh	6 - 10	0.1 - 0.7	1.5 - 2.0	0.4 - 0.8	1.8 - 2.5
North East Zone	12 - 33	0.4 - 0.7	2.0 - 2.5	0.4 - 0.8	2.2 - 3
East Kavanagh	10 - 24	0.4 - 0.8	2.0 - 2.5	0.05 - 0.2	2.0 - 2.6
Central Kavanagh	13 - 30	1.2 - 2.2	1.5 - 2.0	0.1 - 0.4	1.6 - 2.2
West Kavanagh	11 - 28	0.8 - 1.6	2.0 - 2.5	0.01 - 0.05	2.0 - 2.5
South West Kavanagh	7 - 22	0.8 - 1.0	1.8 - 2.2	0.1 - 0.4	1.8 - 2.4
Spitfire	16 - 37	0.4 - 0.7	1.5 - 2.0	1.5 - 3.0	2.5 - 4.0
Nugent	8 - 15	0.8 - 2.0	1.5 - 2.0	1.5 - 2.5	2.5 - 3.5
Totals	**6 - 37**	**5 - 10**	**1.7 - 2.2**	**0.4 - 1.0**	**2.0 - 2.8**

Competent Persons

The information in this release that relates to 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 apart from mining depletion. Peter Rolley, Michaela Wright and Lachlan Wallace consent to the inclusion in this report of the matters based on their information in the form and context in which they appear.

Preliminary consolidated statement of profit or loss and other comprehensive income for the 12 months ended 31 December 2017

		2017 $'000	2016 $'000 restated
Revenue		**127,078**	113,127
Other income		**212**	565
Expenses		**(122,914)**	(136,201)
Impairment charges		**(153)**	(68,475)
Interest and finance charges		**(4,561)**	(4,354)
Fair value movement in convertible notes		**(5,569)**	-
Profit / (Loss) before income tax		**(5,907)**	(95,338)
Income tax (expense) / benefit	Note 1	**(8,167)**	(13,859)
Profit / (Loss) for the year attributable to owners		**(14,074)**	(109,197)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Recycle of cash flow hedge reserve		**(10,946)**	(10,550)
Income tax relating to components of other comprehensive income		**3,284**	3,165
Other comprehensive income for the period (net of income tax)		**(7,662)**	(7,385)
Total comprehensive income for the period		**(21,736)**	(116,582)
Total comprehensive income for the period is attributed to:			
Equity holders of Hillgrove Resources Limited		**(21,736)**	(116,582)
Non-controlling interests		**-**	-
Total comprehensive income		**(21,736)**	(116,582)

Preliminary consolidated statement of financial position as at 31 December 2017

	31 Dec 2017	31 Dec 2016
	$'000	$'000
		restated
Current assets		
Cash and cash equivalents	**471**	1,942
Trade and other receivables	**4,367**	3,994
Inventories	**12,734**	4,991
Total current assets	**17,572**	10,927
Non-current assets		
Property, plant and equipment	**77,691**	68,660
Exploration and evaluation expenditure	**889**	803
Deferred tax assets	**-**	4,883
Total non-current assets	**78,580**	74,346
Total assets	**96,152**	85,273
Current liabilities		
Trade and other payables	**48,317**	36,425
Provisions	**2,896**	3,027
Borrowings	**8,151**	2,834
Employee benefits payable	**6,716**	2,768
Deferred income	**306**	229
Total current liabilities	**66,386**	45,283
Non-current liabilities		
Provisions	**13,826**	10,219
Borrowings	**1,388**	10,193
Employee benefits payable	**609**	927
Deferred income	**190**	468
Total non-current liabilities	**16,013**	21,807
Total liabilities	**82,399**	67,090
Net assets	**13,753**	18,183
Equity		
Contributed equity	**234,334**	217,538
Reserves	**3,128**	10,280
Retained earnings / (accumulated losses)	**(223,709)**	(209,635)
Total equity	**13,753**	18,183

Preliminary consolidated statement of cash flows for the 12 months ended 31 December 2017

		2017	2016
		$'000	**$'000**
Cash flows from operating activities			
Cash receipts in the course of operations		**101,547**	97,302
Cash payments in the course of operations		**(100,905)**	(76,270)
Net cash generated by operating activities	Note 2	**642**	21,032
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		**(107)**	(383)
Payments for property, plant and equipment		**(6,788)**	(28,319)
Proceeds on disposal of plant and equipment		**1**	611
Net cash used in investing activities		**(6,894)**	(28,091)
Cash flows from financing activities			
Proceeds from early termination of derivatives		**-**	14,434
Proceeds from issue of shares		**5,635**	-
Proceeds from borrowings		**300**	8,930
Transaction costs of borrowings / convertible notes		**(276)**	(526)
Repayment of borrowings		**(300)**	(18,354)
Interest received		**5**	80
Interest paid		**(583)**	(1,663)
Net cash from / (used) in financing activities		**4,781**	2,901
Net decrease in cash and cash equivalents		**(1,471)**	(4,158)
Cash and cash equivalents at the beginning of financial period		**1,942**	6,100
Cash and cash equivalents at the end of the financial period		**471**	1,942

Preliminary consolidated statement of changes in equity for the 12 months ended 31 December 2017

	Contributed equity	Reserves	Retained earnings	Total equity
	$'000	$'000	$'000	$'000
Balance 31 December 2015	216,272	16,122	(99,200)	133,194
Loss for the period	-	-	(109,197)	(109,197)
Other comprehensive income	-	(7,385)	-	(7,385)
Transactions with owners:				
Shares issued to creditors	1,266	-	-	1,266
Transfer	-	1,238	(1,238)	-
Share based compensation	-	305	-	305
Balance 31 December 2016	217,538	10,280	(209,635)	18,183
Loss for the period	-	-	(14,074)	(14,074)
Other comprehensive income	-	(7,662)	-	(7,662)
Transactions with owners:				
Contributions of equity	16,796	-	-	16,796
Share based compensation	-	510	-	510
Balance 31 December 2017	**234,334**	**3,128**	**(223,709)**	**13,753**

Notes to the preliminary consolidated financial statements and supplementary 4E information for the 12 months ended 31 December 2017

1. Reconciliation of income tax expense

	2017 $'000	2016 $'000 restated
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense/(benefit)	**(5,907)**	(95,338)
Tax at the Australian tax rate of 30%	**(1,772)**	(28,601)
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	**153**	91
- Non-assessable income	**-**	(242)
- Non-deductible expenses	**45**	3
- Losses from non-resident foreign operations	**261**	246
- Tax temporary differences not recognised	**7,809**	42,362
- Fair value movement in convertible notes	**1,671**	-
Income tax (benefit)/expense	**8,167**	13,859

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2017 continued

2. Reconciliation of operating profit after income tax to net cash provided by operating activities

	2017 $'000	2016 $'000 restated
Operating profit (loss) after income tax	**(14,074)**	(109,197)
Add / (less) items classified as investing/financing activities		
Net (gain)/loss on sale of fixed assets	**18**	(32)
Net Interest expense	**1,817**	3,174
Add/(less) non-cash items		
Depreciation and amortisation	**11,814**	44,694
Impairment asset write downs	**153**	68,475
Fair value adjustment – convertible notes	**5,569**	-
Employee share options	**511**	305
Unrealised FX (gains)/losses	**-**	(808)
Recycle of cash flow hedge reserve	**(7,662)**	(3,648)
Discount on unwind of rehabilitation provision	**1,189**	1,180
Movement in deferred liability to contractor	**905**	(324)
Shares in lieu of interest	**654**	-
Deferred income amortisation	**(201)**	(152)
Net cash generated by operating activities before change in assets and liabilities	**693**	3,667
Changes in operating assets and liabilities		
(Increase) / decrease in receivables, prepayments and inventories	**(8,116)**	1,045
Increase / (decrease) in trade creditors and accruals	**14,484**	11,736
(Increase) / decrease in net deferred tax assets	**4,883**	10,748
Increase / (decrease) in provisions and employee benefits	**3,285**	2,927
(Increase) / decrease in deferred mining costs	**(14,587)**	(9,091)
Net cash generated by operating activities	**642**	21,032

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2017 continued

3. Going Concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business. At 31 December 2017, the Group's current liabilities exceeded its current assets by $48.9 million.

It should be noted that many of the initiatives that assisted the Company through the 2016 and 2017 calendar years have led to liabilities that have become payable in 2018. These liabilities have therefore been recognised as current liabilities, causing current liabilities to significantly outweigh current assets at the end of 2017.

The Group continues to manage its cash balance and liquidity position through the continuation of existing creditor deferred payment agreements with its main suppliers and service providers. The repayment of these deferred amounts commenced in November 2017 and all of the scheduled deferment payments to the main suppliers have been made, along with the repayment of the South Australian Government loan of $4.3 million (including accumulated interest). In February 2018, the Company's improved credit standing saw the establishment of a new debt facility to provide working capital throughout 2018.

In addition to continuing creditor support, in 2017 the Group executed a number of initiatives to manage its cash flows, including raising $5.6 million through the exercise of options attached to the convertible notes, negotiating a $2.7 million PetroBond allowing it to return to normal creditor terms with its fuel supplier instead of paying cash up front and replacing the $1.64 million Electranet security bond with a bond which did not require cash backing.

To minimise short term downside copper price risk on the expected copper output, as at 28 February 2018, the Group has fixed pricing of 13,400 tonnes of copper production over the next 12 months at an average price of $8,896 per tonne after margins.

Following the completion of the Giant Pit cutback, the operating performance of the Kanmantoo mine improved significantly in December 2017, with increases in mining movements, copper output, and reduced unit costs. These improvements were sustained in January and February 2018 and are expected to continue through the remainder of 2018.

The Board remains confident that the Company can generate sufficient cashflow from operations to meet its obligations throughout 2018 and beyond. The most recent cash flow forecast to February 2019 shows positive cash flows from operations will enable the Group to meet its obligations, build cash reserves and improve upon the current working capital balance. This cash flow forecast is dependent on achieving planned yet attainable levels of mine production and mill throughput.

However, based on the net current liability position and continued reliance on creditors, there remains a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. To address this uncertainty the Group has a number of measures in place with major creditors and is confident that the forecast production and cash flows will enable the Group to realise its assets and discharge its liabilities in the normal course of business and therefore the financial report has been prepared on a going concern basis.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2017 continued

4. 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. An error was also identified within the financial model used to estimate the rehabilitation provision. Both errors, whilst not considered material, impacted the prior year financial statements. The errors have been corrected by restating each of the affected financial statement line items for the 2016 financial year as presented (note there is no impact on prior year cashflows):

Balance Sheet (extract)	31 Dec 2016	Increase/(decrease)	31 Dec 2016 restated
	$'000s	$'000s	$'000s
Property, Plant & equipment	67,105	1,555	68,660
Provision for rehabilitation	8,574	1,645	10,219
Deferred tax assets	4,856	27	4,883
Net assets	18,246	(63)	18,183
Retained earnings	(209,572)	(63)	(209,635)
Total equity	18,246	(63)	18,183

Statement of profit or loss (extract)	2016	Profit Increase/(decrease)	2016 restated
	$'000s	$'000s	$'000s
Expenses	(137,614)	1,413	(136,201)
Impairment charges	(67,117)	(1,358)	(68,475)
Interest & finance charges	(4,209)	(145)	(4,354)
Income tax expense	(13,886)	27	(13,859)
Net profit/loss for year	(109,134)	(63)	(109,197)

Notes to the preliminary consolidated financial statements for the 12 months ended 31 December 2017 continued

5. Events occurring after the balance sheet date

Since the Balance Date the Company has successfully completed the following initiatives:

(a) $4m Copper Pre-pay Facility

On 16 February 2018, the Company agreed a fully secured $4m 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 $4.0 million 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.

(b) Repayment of SAG $4m Loan

On 16 February 2018, the Company repaid to the South Australian Government an amount of $4.3m for a loan and accumulated interest. The $4m loan was one of a number of initiatives from key stakeholders to assist Hillgrove overcome a cash shortfall during a major pit cutback at the Kanmantoo Copper Mine during a significant downturn in the copper market (refer market release 28 June 2016).

(c) Buy out of Roc-Drill deferred liability

On 16 November 2016, the Company announced it had reached agreement with Roc-Drill 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 current 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.

Supplementary 4E Information

Dividends

No dividends were paid or proposed to members during the 12 month period ended 31 December 2017 or in the previous period.

Report based on unaudited accounts

This report has been based on accounts which are currently being audited.

Net tangible assets per security

NTA backing	Current period	Previous period restated
Net tangible asset backing per ordinary security (undiluted)	$0.02	$0.09

Subsidiaries

The consolidated results incorporate the assets, liabilities and results of the following subsidiaries. The proportion of ownership interest is equal to the proportion of voting power held. International Accounting standards have been used in consolidating foreign entities. There are no associates or joint venture entities.

Name of entity	Country of incorporation	Class of Share	Equity Holding 31 Dec 2017	Equity Holding 31 Dec 2016
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

Control gained or lost during the period

There were no transactions entered into by the group during the period ended 31 December 2017 that resulted in control being gained or control being lost over any entities.